CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 5, 2001

S. 1731
Agriculture, Conservation and Rural Enhancement Act of 2001

As reported by the Senate Committee on Agriculture, Nutrition and Forestry on November 27, 2001

SUMMARY

S. 1731 would amend and extend the major farm income support, land conservation, credit assistance, food assistance, trade promotion, marketing assistance, and rural development programs administered by the U.S. Department of Agriculture (USDA). Enacting this legislation would increase direct spending for these programs by $6.3 billion in 2002, $38.4 billion over the 2002-2006 period, and $71.6 billion over the 2002-2011 period. Increased spending would continue beyond 2011 for a total estimated cost of $73.4 billion. When combined with estimated spending under current law, enactment of S. 1731 would bring total spending to $39.5 billion in 2002, $208.1 billion over the 2002-2006 period, and $411.9 billion over the 2002-2011 period. Because enactment of the bill would affect direct spending, pay-as-you-go procedures would apply.

The bill also would authorize discretionary appropriations for existing and new programs for research and education, nutrition, trade promotion, rural development, credit assistance, and forestry initiatives. CBO has not completed an estimate of the costs of these provisions.

S. 1731 contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA); those mandates include preemptions of state laws and extensions of intergovernmental mandates already in current law. The preemptions of state law would impose minimal, if any, costs on state governments. However, CBO cannot determine whether the total costs of other intergovernmental mandates in the bill would exceed the threshold established in UMRA ($56 million in 2001, adjusted annually for inflation) because UMRA is unclear about how the costs of extending an existing mandate should be estimated.

State, local, and tribal governments would receive funds through some of the programs reauthorized by this bill and probably would receive additional funds from newly authorized programs. The bill would also give states additional flexibility in determining eligibility for

federal programs, particularly food stamps. Any costs those governments might incur as a result of participating in grant programs or changing program options would be voluntary and would be more than offset by the overall funding provided by the grants.

S. 1731 contains several private-sector mandates as defined by UMRA. The bill would impose mandates on handlers of fluid milk, importers of dairy products, retailers and suppliers of certain commodities, and breeders of certain live animals. The two most costly mandates would require some handlers of fluid milk to pay certain producers higher prices for milk, and retailers and suppliers of certain commodities to inform their customers of the country of origin of those commodities. CBO estimates that the direct costs of the mandate on milk handlers would amount to about $1.5 billion a year starting in fiscal year 2002, declining slightly in later years. CBO cannot estimate independently the direct cost of the mandate requiring country-of-origin labeling. Industry sources estimate that such labeling could cost as much as $1 billion annually. The aggregate direct costs of all the mandates in the bill would be well in excess of the annual threshold established by UMRA ($113 million in 2001, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of the bill on direct spending is shown in Table 1. Implementing S. 1731 also would affect spending subject to appropriation action, but CBO has not completed an estimate of those discretionary costs. The costs of this legislation fall within budget functions 270 (energy), 300 (natural resources and environment), 350 (agriculture), 450 (community and regional development), and 600 (income security).

BASIS OF ESTIMATE

The bill would make several changes to direct spending programs. For this estimate, CBO assumes that S. 1731 will be enacted by the end of 2001, and thus would affect farm programs for 2002 crops.

TABLE 1. ESTIMATED IMPACT OF S. 1731 ON DIRECT SPENDING [a]

	By Fiscal Year, in Millions of Dollars				
	2002	2003	2004	2005	2006
DIRECT SPENDING					
Spending Under Current Law [b]					
Estimated Budget Authority	33,520	34,014	34,273	34,333	34,027
Estimated Outlays	33,219	33,991	34,347	34,161	34,014
Proposed Changes					
Estimated Budget Authority	7,349	9,913	6,487	9,586	7,530
Estimated Outlays	6,276	9,239	6,040	9,394	7,469
Spending Under S. 1731					
Estimated Budget Authority	40,869	43,927	40,760	43,919	41,557
Estimated Outlays	39,495	43,230	40,387	43,555	41,483

a. The bill also would increase spending subject to appropriation, but CBO has not completed an estimate of those costs.

b. The amounts shown as direct spending for 2002 are CBO's estimates of farm income support and related spending under current law. The 2003-2006 amounts are CBO's current-law baseline levels, which assume that assistance under the Federal Agricultural Improvement and Reform Act of 1996 (Public Law 104-127) is continued under the terms of that law when it expires at the end of 2002.

Direct Spending

The bill would amend existing programs and establish new programs to be administered by USDA. Under current law, spending for the existing programs is governed, in large part, by provisions of the Federal Agricultural Improvement and Reform Act of 1996 (FAIR Act, Public Law 104-127). The Congress has supplemented that spending with additional farm income support payments over the last four years. For example, Public Law 107-25, enacted in early August, provided $5.5 billion of additional payments to farmers, resulting in total direct spending for agriculture programs in fiscal year 2001 of about $44 billion. CBO estimates that spending under S. 1731 would be much higher than projected under a simple (baseline) extension of the FAIR Act, but that such spending would fall slightly below the total spending in 2001—averaging about $41.6 billion over the 2002-2006 period.

Relative to CBO's current-law baseline projections for direct spending, we estimate that enacting this legislation would cost $38.4 billion over the 2002-2006 period and $71.6 billion over the 2002-2011 period. The following paragraphs detail those proposed changes, which are detailed in Table 2.

TABLE 2. ESTIMATED CHANGES IN DIRECT SPENDING FOR S. 1731, BY TITLE

	By Fiscal Year, in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Title I–Commodity Programs										
Fixed, Decoupled Payments	3,471	3,441	-248	-248	-2,079	-2,079	-2,079	-2,079	-2,079	-2,079
Counter-Cyclical Payments	0	0	0	2,789	2,655	3,891	3,493	2,968	2,628	2,298
Market Assistance Loans	1,251	2,656	2,508	2,415	2,437	2,264	1,929	1,540	1,208	1,103
Wool, Mohair, Honey, Lentils	39	46	46	46	46	45	44	43	42	41
Milk Price Support Program	24	90	89	86	85	11	0	0	0	0
National Dairy Program	300	300	300	300	300	300	300	300	300	300
Sugar Program	50	140	21	17	26	32	52	59	50	83
Peanut Program	299	583	579	574	569	336	333	328	324	320
Commodity Purchase Program	130	130	150	170	200	0	0	0	0	0
Hard white wheat payments	0	0	13	13	14	0	0	0	0	0
Payment Limitations	60	60	60	60	60	60	60	60	60	60
Subtotal–Title I	5,624	7,446	3,518	6,222	4,313	4,860	4,132	3,219	2,533	2,126
Title II–Conservation										
Conservation Security Program	0	11	46	114	216	359	516	674	820	946
Conservation Reserve Program	50	158	185	246	291	294	304	316	290	283
Wetlands Reserve Program	151	260	297	306	250	101	18	0	0	0
Environmental Quality Incentives	92	373	599	760	861	915	954	993	1,018	1,030
Wildlife Habitat Incentives Program	13	41	80	106	113	125	125	125	125	125
Farmland Protection Program	7	42	118	172	203	224	240	248	250	250
Grassland Reserve Program	0	1	5	13	25	38	46	46	40	36
Subtotal–Title II	313	886	1,330	1,717	1,959	2,056	2,203	2,402	2,543	2,670
Title III–Trade	81	130	167	191	215	243	249	249	249	249
Title IV–Nutrition	51	380	425	602	641	655	735	816	861	1,018
Title V–Credit	66	0	0	0	0	0	0	0	0	0
Title VI–Rural Development	30	225	352	379	323	249	133	45	0	0
Title VII–Research and Related Items	6	25	87	122	149	99	73	35	15	0
Title VIII–Forestry Initiatives	50	50	51	51	52	3	5	7	11	16
Title IX–Energy	53	95	110	110	110	57	15	0	0	0
Title X–Miscellaneous Provisions	2	2	0	0	-292	-302	-313	-322	-331	-341
Total Changes	6,276	9,239	6,040	9,394	7,469	7,920	7,232	6,451	5,881	5,738

Title I: Commodity Programs. This title would reauthorize and amend the current commodity support programs administered by USDA, and also would implement new programs. CBO estimates that enactment of title I would increase direct spending by $27.1 billion over the 2002-2006 period, and by $44.0 billion over the 2002-2011 period.

Fixed, Decoupled Payments for Covered Commodities. The bill would continue, at declining levels, USDA's fixed payments to producers of grains and cotton, and would allow producers of soybeans and other oilseeds to receive them. Under the bill, farmers would have a one-time opportunity to update their program acreage and yields—the historical averages used to determine their level of program benefits. CBO estimates that program costs would increase by $4.3 billion over the 2002-2006 period because of the cost of adding soybeans and oilseeds to the program and allowing producers to update program acreage and yields. After the first several years, however, declining payment rates would outweigh these initial higher costs and result in a savings relative to the baseline of $6.1 billion over the 2002-2011 period.

Counter-Cyclical Payments for Covered Commodities. The bill would authorize USDA to make automatic payments to producers to offset low prices—known as counter-cyclical payments. Payments under the program would begin in 2005. These payments would be based in part on a farm's production history. The payment rate would be the target price established in the bill less the direct payment rate (also specified in the bill) and less the crop price or the price-support loan rate if it is higher than the crop price. CBO estimates this provision would cost $5.4 billion over the 2002-2006 period and $20.7 billion over the 2002-2011 period.

Marketing Assistance Loans for Covered Commodities. S. 1731 would authorize USDA to continue crop loans and marketing loan programs for major row crops (grains, oilseeds, and cotton). Loan rates would be higher than under current law for most of these crops, but maximum loan rates for soybeans and other oilseeds would decline. CBO estimates these provisions would increase spending by $11.3 billion over the 2002-2006 period and by $19.3 billion over the 2002-2011 period. Income and incentives to grow oilseeds would decline under reduced loan rates, resulting in lower spending for oilseed loans, loan deficiency payments, and marketing loan gains. These lower costs would be offset by increased costs for similar programs for corn and other crops, as growers switched their planting preferences away from soybeans and other oilseeds.

Marketing Assistance Loans for Wool, Mohair, Honey, and Lentils. S. 1731 would establish a nonrecourse marketing assistance loan program for producers of wool, mohair, honey, dry peas, lentils, and chickpeas. Marketing loan gains and loan deficiency payment provisions would apply to these commodities and would be subject to a separate $75,000 payment limitation. Over the 2002-2006 period CBO estimates that these new provisions would cost

$87 million for wool and mohair, $61 million for honey, and $75 million for dry peas, lentils, and chickpeas. Over 10 years, those totals would rise to $187 million for wool and mohair, $101 million for honey, and $150 million for dry peas, lentils, and chick peas.

Milk Price Support Program. S. 1731 would extend the current milk price support program through December 31, 2006, at the current purchase price of $9.90 per hundredweight. Under the bill, the recourse loan program for dairy processors would be repealed. CBO estimates this provision would save $65 million over the next five years. CBO estimates that continuing the dairy price support through 2006—when it expires—would cost $439 million over the 2002-2006 period. Under the bill, we estimate that the net cost of the milk price support program would be $374 million over the next five years, and $385 million over the 10-year period.

National Milk Program. Section 132 would authorize the Secretary of Agriculture to make counter-cyclical payments to dairy producers. Payments would be based on a payment rate equal to 25 percent of the difference between $14.25 and the average price of class III milk (milk used for cheese). The payment would be made on total monthly production of milk (excluding milk for fluid use). Payments would be limited to $300 million a year. CBO estimates that this limitation would be binding each year, for a total cost of $1.5 billion over five years and $3.0 billion over 10 years.

Section 132 also would require USDA to amend existing federal regulations, known as milk marketing orders, to require the use of a minimum target price for class I milk (that is milk sold for fluid use) when calculating payments due to producers. For the purpose of calculating payments due to producers from milk handlers, this minimum target price for class I milk would be $14.25 per hundredweight. Handlers that are regulated by a milk marketing order could have to pay a higher price (for fluid milk) that reflects a national average difference between $14.25 and the prices that would otherwise be paid each month under current law. In other words, the prices received by milk producers would still vary by region, but each region's price would be raised by an amount calculated by USDA using the weighted average of milk prices across the regions that are regulated by federal milk marketing orders. (About 80 percent of fluid milk sold in the United States is currently regulated by such orders. California, a handful of other states, and portions of some other states are not currently subject to such federal regulation.) The transactions between milk handlers and producers that occur under milk marketing orders are part of a regulatory program and are thus not accounted for in the budget.

Sugar Program. The bill would extend and amend USDA's sugar program by removing the marketing assessment currently paid by growers, lowering the interest rate charged on price-support loans, and adding a storage facility loan. In addition, the bill would require the Secretary to pay producers loan benefits in cases where a processor cannot provide producers with loan benefits because of bankruptcy or is otherwise insolvent. We estimate these amendments would increase program costs by about $600 million over the next 10 years. Moreover, the bill would provide new authority to pay farmers with government-owned stocks of sugar (payment-in-kind) for idling acreage, and the authority to use marketing allotments to control supply if sugar imports decline in the future. We estimate these new, additional authorities would reduce the cost of the sugar program relative to current law, but that net spending for the sugar program would increase by $254 million over the 2002-2006 period and $530 million over the 2002-2011 period.

Peanuts. S. 1731 would make substantial changes to USDA's peanut program. Under the bill, CBO estimates that the peanut program would cost $2.6 billion over the 2002-2006 period and $4.2 billion over the 2002-2011 period. Peanut marketing quotas and support rates for peanuts produced within the marketing quotas would be eliminated. Instead, peanut producers would become eligible for direct payments, counter-cyclical payments, and marketing assistance loan benefits. Under the legislation, a single, nonrecourse marketing assistance loan rate would apply to all peanut production that is lower than the current rate. The bill would compensate some peanut growers for the loss of asset value due to the elimination of marketing quotas.

Over the next five years, CBO estimates that the new peanut provisions would cost $315 million for direct payments, $578 million for counter-cyclical payments, $531 million for marketing assistance loans, and $1,180 million for compensation to peanut quota holders. Over the next 10 years, CBO estimates that these provisions would cost $625 million for direct payments, $1,277 million for counter-cyclical payments, and $1,163 million for marketing assistance loans, with no additional compensation to peanut quota holders after 2006.

Commodity Purchases. Section 163 provides $780 million over the 2002-2006 period to purchase certain speciality crops. Purchases would be made on the open market in an effort to support the prices of those commodities.

Hard White Wheat Payments. Section 164 would provide funding of $40 million over crop years 2003 through 2005 to establish an incentive payment program to encourage production of hard white winter wheat. CBO estimates the provision would increase spending by $40 million over the 2002-2006 period, with no additional cost after 2006.

Payment Limits. Section 165 would establish a combined payment limit of $100,000 for direct and counter-cyclical payments. The current payment limit is $40,000 for direct payments. Because counter-cyclical payments would be a new provision no payment limitation currently applies. Based on information from USDA, CBO estimates that a $100,000 payment limit would increase payments to producers by $60 million per year, or $300 million over the 2002-2006 period and $600 million over the 2002-2011 period.

Title II: Conservation Programs. This title would reauthorize and expand land conservation programs administered by USDA. CBO estimates these provisions would cost $6.2 billion over the 2002-2006 period, and $18.1 billion over the 2002-2011 period. (Spending would continue for a number of years after 2011, for a total estimated cost of $20.5 billion.)

Changes to Existing Programs. The bill would increase the maximum acreage enrollment in the Conservation Reserve Program to 40 million acres from the current cap of 36.4 million acres, and would authorize incentive payments for enrollment of acres under the continuous enrollment provisions and under the Conservation Reserve Enhancement Program. We estimate that these changes would cost $930 million over the next five years and $2.4 billion over the 2002-2011 period.

Acreage enrollment in the Wetlands Reserve Program (WRP) would expand by up to 250,000 acres per fiscal year under the bill, for a total acreage enrollment of 2.325 million acres by 2011. We estimate that the WRP provisions would cost $1.3 billion over the next five years and $1.4 billion over the 2002-2011 period.

Funding for the Environmental Quality Incentives Program (EQIP) would be increased by $300 million in 2002 and would rise to an increase of $1.05 billion by 2011. Under the bill, CBO estimates EQIP would cost $2.7 billion over the next five years and $7.6 billion over the 2002-2011 period. (Additional spending would occur after 2011.) Included in the EQIP total is $100 million per year for conservation innovation grants. The bill also would accelerate the timing of EQIP payments to increase outlays by $165 million over the 10-year period.

In addition, the bill would increase funding for the Wildlife Habitat Incentives Program by an average of $98 million a year, and for the Farmland Protection Program by an average of $175 million a year. CBO estimates that the total cost for these amendments would be $895 million over the 2002-2006 period and $2.7 billion over the 2002-2011 period.

New Conservation Program. S. 1731 would establish a conservation security program for producers to receive payments from the Commodity Credit Corporation for implementing certain conservation practices. Payments would be based on a percentage of the average rental rate for farmland in their county, depending on the level of conservation practice implemented. The program establishes three tiers of payments, with higher payments under each successive tier to compensate for higher requirements for conservation practices. Eligible producers would have to develop a conservation security contract describing conservation practices on their land, and have the contract approved by the Secretary before annual incentive payments were paid.

CBO estimates that participation in such a new and potentially wide-ranging program would likely be slow in the beginning as producers obtained information about the program and developed their conservation plans. Hence, we expect that outlays under the new Farmland Protection program would be relatively low in the first five years, but would rise sharply in later years as more acres are enrolled. CBO estimates this program would cost $387 million over the 2002-2006 period and $3.7 billion over the 2002-2011 period.

S. 1731 would also establish the Grasslands Reserve program. This program would authorize the Secretary of Agriculture to enroll up to two million acres in permanent and 30-year easements. CBO estimates that the program would cost $44 million over the 2002-2006 period and $250 million over the 2002-2011 period.

Title III: Trade Programs. Title III would extend USDA's authority to administer programs to promote trade through 2006, and would increase funding for the Market Access Program, the Foreign Market Development Program, and the Food for Progress Program. The bill also would authorize the establishment within the Food for Progress Program of an International Food for Education and Child Nutrition Program. Title III would specify funding levels for most of these trade programs through 2006. CBO estimates that enacting title III would cost $784 million over the next five years and $2.0 billion over the 2002-2011 period.

The bill would gradually increase annual funding for the Market Access Program from $90 million to $190 million, and would increase annual funding for the Foreign Market Development Cooperator Program from $27.5 million to $42.5 million. The bill would cap non-commodity expenditures under the Food for Progress Program at $80 million a year. Those provisions account for most of the cost of title III.

Title III also would authorize the establishment of the International Food for Education and Child Nutrition Program. Annual funding for the new program would be capped at the overall funding level provided for the Food for Progress Program. Finally, title III would provide annual funding for five years to carry out an export assistance program for products developed through biotechnology. We estimate this provision would cost $145 million over the next 10 years.

Title IV: Nutrition Programs. Title IV would reauthorize the Food Stamp and related nutrition programs through fiscal year 2006. In addition, it would make several changes in those nutrition programs. Most of these changes would be effective September 1, 2002, although states could opt to delay implementation until October 1, 2002. CBO estimates that the bill would increase direct spending by $51 million in 2002 and by $6.2 billion over the 2002-2011 period (see Table 3).

TABLE 3. ESTIMATED CHANGES IN DIRECT SPENDING FOR FOOD STAMPS AND OTHER NUTRITION PROGRAMS (Title IV)

	By Fiscal Year, in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CHANGES IN DIRECT SPENDING										
Section 412, Definition of income										
Estimated Budget Authority	*	3	6	6	6	7	7	7	7	8
Estimated Outlays	*	3	6	6	6	7	7	7	7	8
Section 413, Standard deduction										
Estimated Budget Authority	*	55	70	85	100	110	180	250	275	420
Estimated Outlays	*	55	70	85	100	110	180	250	275	420
Section 415, Standard utility allowance										
Estimated Budget Authority	2	50	50	55	55	60	60	60	65	65
Estimated Outlays	2	50	50	55	55	60	60	60	65	65
Section 417, Determination of deductions										
Estimated Budget Authority	a	a	a	a	a	a	a	a	a	a
Estimated Outlays	a	a	a	a	a	a	a	a	a	a
Section 418, Definition of resources										
Estimated Budget Authority	*	5	15	20	20	20	25	25	25	25
Estimated Outlays	*	5	15	20	20	20	25	25	25	25
Section 420, State option for reporting requirements										
Estimated Budget Authority	2	25	30	35	35	35	35	35	40	40
Estimated Outlays	2	25	30	35	35	35	35	35	40	40
Section 421, Time limit for adults without dependents										
Estimated Budget Authority	*	55	60	90	90	90	95	95	100	100
Estimated Outlays	*	55	60	90	90	90	95	95	100	100
Section 422, Access to electronic benefits										
Estimated Budget Authority	*	*	1	*	*	*	*	*	*	*
Estimated Outlays	*	*	1	*	*	*	*	*	*	*
Section 423, Cost neutrality of electronic benefit systems										
Estimated Budget Authority	*	1	1	1	1	1	1	1	1	1
Estimated Outlays	*	1	1	1	1	1	1	1	1	1

(Continued)

TABLE 3. Continued

	By Fiscal Year, in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Section 426, Determination of continuing eligibility										
Estimated Budget Authority	*	5	5	5	5	5	5	5	5	5
Estimated Outlays	*	5	5	5	5	5	5	5	5	5
Section 428, Transitional food stamps										
Estimated Budget Authority	5	90	120	190	195	200	205	210	215	225
Estimated Outlays	5	90	120	190	195	200	205	210	215	225
Section 430, Quality control systems										
Estimated Budget Authority	-28	-58	-59	-61	-62	-63	-65	-66	-67	-69
Estimated Outlays	-28	-58	-59	-61	-62	-63	-65	-66	-67	-69
Section 432, Bonus payments										
Estimated Budget Authority	0	30	30	30	30	30	30	30	30	30
Estimated Outlays	0	30	30	30	30	30	30	30	30	30
Section 433, Employment and training										
Estimated Budget Authority	-197	-187	-45	-42	-40	-38	-37	-35	-33	-32
Estimated Outlays	4	3	-1	-4	-8	-12	-16	-20	-24	-29
Section 437, Access and outreach pilot projects										
Estimated Budget Authority	0	3	*	*	*	*	0	0	0	0
Estimated Outlays	0	*	1	1	1	*	0	0	0	0
Section 438, Consolidated block grants										
Estimated Budget Authority	0	6	6	6	6	6	6	6	7	7
Estimated Outlays	0	5	6	6	6	6	6	6	7	7
Section 439, Community food projects										
Estimated Budget Authority	0	3	3	3	3	0	0	0	0	0
Estimated Outlays	0	2	3	3	3	1	0	0	0	0
Section 440, TEFAP commodities										
Estimated Budget Authority	10	10	10	10	10	10	10	10	10	10
Estimated Outlays	6	12	10	10	10	10	10	10	10	10

(Continued)

TABLE 3. Continued

	By Fiscal Year, in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Section 443, Vitamin and mineral supplements										
Estimated Budget Authority	*	3	*	*	*	*	*	*	*	*
Estimated Outlays	*	1	1	1	*	*	*	*	*	*
Section 452										
Restoration of benefits to certain aliens										
Estimated Budget Authority	*	25	65	110	135	145	150	160	165	170
Estimated Outlays	*	25	65	110	135	145	150	160	165	170
Effect in TANF program										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	*	-5	1	1	1	1	1	0	0
Section 453, Commodity purchases										
Estimated Budget Authority	50	50	0	0	0	0	0	0	0	0
Estimated Outlays	50	50	0	0	0	0	0	0	0	0
Section 456, Senior farmers' market nutrition program										
Estimated Budget Authority	15	15	15	15	15	0	0	0	0	0
Estimated Outlays	10	15	15	15	15	5	0	0	0	0
Section 457, Fruit and vegetable pilot program										
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	*	5	*	0	0	0	0	0	0	0
Interactions										
Estimated Budget Authority	*	1	1	3	3	4	6	7	7	10
Estimated Outlays	*	1	1	3	3	4	6	7	7	10
Total Changes in Direct Spending, Title IV										
Estimated Budget Authority	-141	190	384	561	607	622	713	800	852	1,015
Estimated Outlays	51	380	425	602	641	655	735	816	861	1,018

Notes: Details may not sum to totals because of rounding.

* = Less than $500,000.

a = CBO cannot estimate, but we expect the annual costs to be small.

TEFAP = The Emergency Food Assistance Program.

TANF = Temporary Assistance for Needy Families.

Reauthorization of the Food Stamp Program. Section 434 would reauthorize the Food Stamp program through fiscal year 2006. Because it is assumed to continue in CBO's baseline after it expires at the end of 2002, CBO would not estimate this reauthorization to result in additional federal costs.

Income Definition. Section 412 would allow a state to exclude from gross income in the Food Stamp program any educational loans or other educational assistance that the state is required to exclude in Medicaid. It would also allow a state to exclude the types of income that it excludes in Medicaid or Temporary Assistance for Needy Families (TANF). CBO estimates that this provision would increase spending by $57 million over the next 10 years. CBO used Food Stamp Quality Control (QC) data to estimate the change in benefits if educational assistance that is counted under current law were to be excluded from income in determining benefits. CBO estimates about 5,000 households would be affected with an average benefit increase of $68 per month.

CBO also added costs for excluding a small portion of unearned income. States have flexibility to determine what is excluded from the definition of income in Medicaid and TANF, so the rules vary by state, but most differences are minor. CBO assumes that 90 percent of states would exercise the option to exclude income as allowed under this section.

Standard Deduction. Section 413 would set the amount of the standard deduction as a percentage of the net income threshold in each fiscal year. Under current law, all households receive the same standard deduction from gross income: $134 in the 48 states and the District of Columbia. (Alaska, Hawaii, Guam, and the U.S. Virgin Islands have different standard deductions.) This bill would set the standard at 8 percent of the net income threshold by household size for fiscal years 2002 through 2007, and then incrementally increase the percentage up to 9 percent by 2011. Smaller households would be guaranteed the current-law standard deduction, and no household could receive a standard deduction that is higher than the applicable percentage of the net income threshold for a household of six people.

Under this section, some households would receive higher Food Stamp benefits than under current law, because less of these households' income would be considered available for purchasing food. Most households of 5 people or more would receive higher benefits when the standard is set at 8 percent of the net income threshold. Using QC data, CBO estimates over 700,000 households would receive an average increase in benefits of more than $6 per month for total costs of $55 million in 2003. The 10-year costs would total about $1.5 billion. These costs and the number of affected households would increase over time as a result of subsequent increases in the standard deduction and the projected growth in the eligible population.

Standard Utility Allowance. Section 415 would allow states that choose to make the use of a standard utility allowance (SUA) mandatory to use the full SUA for households that share utility expenses with individuals not in the Food Stamp unit and for public housing residents with central meters who pay for excess utility expenses. The SUA is used along with rent or mortgage payments to determine the amount of the deduction from gross income of excess shelter expenses. Under current law, states can choose to make the use of the SUA mandatory for most households with utility expenses. States accounting for almost 25 percent of total benefits have chosen the mandatory SUA. In other states, households can choose to use either the SUA or actual utility costs.

CBO estimates this provision would cost $50 million in 2003 and $522 million over the 10-year period. The costs to end proration of shared utility expenses would be $45 million in 2003, which CBO estimated using QC data on households living with non-food stamp unit members and administrative data on the value of states' SUAs. This cost also includes savings from about half the remaining states adopting a mandatory SUA. A mandatory SUA would result in some savings because those households with actual utility costs that are higher than the SUA would have lower benefits when required to take the SUA. Finally, CBO estimates a cost of $5 million a year for using the full SUA for households residing in public housing and charged for excess utility expenses.

Resource Definition. Section 418 would allow states to exclude from the definition of resources those types of resources they do not consider when determining eligibility for cash assistance under TANF or for Medicaid, although states would not be allowed to exclude resources that are readily accessible to the household, such as cash or assets in certain financial accounts, or licensed vehicles. Under section 1931 of the Social Security Act (which is the section with which states would be allowed to conform their Food Stamp resources rules), states accounting for about 17 percent of Food Stamp benefits have chosen to disregard all assets in determining eligibility for Medicaid. CBO assumed that most of these states would choose to exclude the types of resources this section allows them to exclude. Using data from the Survey of Income and Program Participation (SIPP), CBO estimates an additional 10,000 households would participate once the provision is fully phased in by 2005 with an average monthly benefit of $150. This section would increase costs by $20 million in 2005 and $180 million over the 10-year period.

Reporting Requirements. Section 420 would provide states with additional options for how households report changes in their circumstances. Under final regulations released in November 2000, states have the option to allow households with earned income to report every six months, unless the household's income exceeds the gross income threshold for eligibility. This section would allow states to implement this option for all households.

CBO estimates this reporting option would result in states missing a net decrease of about one-half of one percent of total benefits. Using data from the SIPP, CBO examined changes in Food Stamp households' income over a six-month period to estimate changes that households would not be required to report under the new option. These changes were adjusted for households' reporting behavior, the number of households that would exceed the gross income limit and become ineligible, and the costs of the reporting option under current regulations. CBO assumes that states with 45 percent of benefits would eventually take this option, given other reporting options that are available such as quarterly reporting, for costs of $25 million in 2003 and $312 million over the 2002-2011 period.

A related provision—Section 417—would allow states to disregard certain changes in deductions from gross income during a household's certification period. Under current law, a state is required to adjust benefits in response to a household's report of changes in spending that affect the amount of deductions. CBO cannot estimate the costs of this option because there are not sufficient data to assess how the spending of Food Stamp recipients on items such as child care, medical care, and child support payments fluctuates over the course of several months. However, CBO expects that the costs of this provision could be several million dollars a year, but such costs should be significantly lower than the annual $30 million to $40 million costs of section 420.

Time Limit for Adults without Dependents. Section 421 would extend the time limit for participation by able-bodied adults without dependents (ABAWDs) in the Food Stamp program. Under current law, individuals between the ages of 18 and 50 who are not disabled and do not have dependents can participate in the program for only three months out of 36 months, unless they are working or participating in a suitable work activity. The bill would change the time limit for this group to six out of 24 months when not engaged in work or a work activity. CBO estimates an additional 55,000 individuals, on average, eventually would participate with average monthly benefits of $130, for costs of $775 million over the 10-year period. This estimate is based on SIPP data on the work participation of this group prior to enactment of the time limit in Public Law 104-193, the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA). We adjusted the results from the SIPP data for individuals who would be eligible due to waivers, discretionary exemptions, or participation in employment and training programs under current law.

Cost Neutrality for Electronic Benefit Transfer Systems. Section 423 would eliminate the requirement that a state's electronic benefit transfer (EBT) system be cost neutral relative to the costs of the state's coupon issuance system. Based on information from USDA on actual cost overruns and contract negotiations for states, CBO estimates annual costs of $1 million beginning in fiscal year 2003.

Determinations of Continuing Eligibility. Section 426 would allow states to redetermine the eligibility of current participants on a case-by-case basis, instead of setting specific certification periods. States would be required to determine eligibility no less than every 12 months (or 24 months for households in which all adult members are elderly or disabled), which are the same limits for current-law certification periods. Some households may receive benefits for a longer time period than under current law, if a state failed to conduct a review.

Using information from the Food and Nutrition Service (FNS) on cases in which a state fails to act on a recertification and those cases in which the household is no longer eligible for benefits, CBO estimates that fewer than 500 households each month would receive benefits for an additional 4.5 months, on average, resulting in costs of $5 million each year.

Transitional Food Stamps. Section 428 would allow states to provide up to six months of Food Stamp benefits to households leaving the TANF program. These benefits would be set at the level received in the month prior to leaving welfare, adjusted for the loss of cash assistance. Under final regulations released in November 2000, states have the option to provide transitional benefits to these households for up to three months. This section would allow states to provide transitional benefits for an additional three months, even if the transitional benefit period extends beyond the household's Food Stamp certification period.

Based on the number of active cases and TANF cases closed in 1999, CBO estimates there will be about 1.6 million closed cases annually. We adjusted this number for households who would continue to be Food Stamp recipients under current law, for households who would return to TANF during the transitional period, and for households who would not be eligible because of sanctions or noncooperation with welfare rules. These adjustments are based on various studies of people who leave welfare. CBO estimates about 35,000 TANF households, on average, could potentially be eligible for transitional benefits, and that states accounting for about half these cases would choose this option by 2005. These households would receive an additional three months of benefits relative to current law with average benefits of about $270 per month in 2003, for costs of $90 million in 2003 and about $1.7 billion over the 10-year period.

Quality Control System and Bonus Payments. Section 430 would revise the system under which USDA measures payment accuracy and section 432 would set up a new system of bonus payments for performance. Under current law, USDA measures the accuracy of benefit determinations and computes payment error rates for every state. States that have payment error rates higher than the national performance measure are subject to sanctions. Most states subject to sanction enter into agreements with USDA to reinvest these liabilities into program improvements. The bill would revise the QC system to sanction states that have error rates with a 95 percent statistical probability of being one percentage point greater than the national average for three years in a row. Based on information from USDA, CBO assumes that USDA would continue to work with states to reinvest liabilities into program improvements so there would be no change in collections from sanctions.

The current system also provides enhanced administrative funding for states with a payment error rate below 6 percent. The bill would eliminate this system beginning with fiscal year 2002 error rates, and cut the payments in half for enhanced payments made in 2002 for fiscal year 2001 errors. Based on actual enhanced funding payments for fiscal year 2000 error rates, CBO estimates savings of $28 million in fiscal year 2002 and total savings of $598 million over the 10-year period.

Section 432 would create a new system of performance measures and bonus payments beginning in fiscal year 2003. Five new performance measures would be created and payments of $6 million for each measure would be given out to states with the best or most improved performance, increasing spending by $30 million each year.

Funding for Employment and Training Program. Under current law, states receive funding for employment and training programs that are 100 percent federally financed—$165 million in fiscal year 2002. States are required to spend 80 percent of these funds on able-bodied adults without dependents, with maximum per slot reimbursement rates and a maintenance of effort (MOE) requirement for state spending. Section 433 would reduce budget authority to $115 million each year and rescind all unobligated funds carried over from pre-2002 budget authority. It also would end the MOE requirement, the limits on slot reimbursement rates, and the requirement to spend at least 80 percent of funds on able-bodied adults. Of the $115 million each year, $90 million would be allocated among all states, and the additional $25 million would be available to states that spend all of their initial allocation and pledge to serve all ABAWDs who would otherwise lose eligibility for the Food Stamp program.

CBO examined the pattern of spending by states in the employment and training program. For states likely to spend less than their estimated allocation of the base funding amount ($90 million), CBO assumed these states would increase spending of the 100 percent federal funds because of the easing of restrictions for spending of those funds, and shift spending from matched funding to full federal funding. For states likely to spend more than their allocation, CBO assumed these states would make up about half of the cut in resources by increasing their use of the 50 percent matched funding. These assumptions result in net savings of $210 million over the 10-year period.

This section would also raise the limit on reimbursement of participant expenses to $50 per month from the current $25 limit. Based on the amount spent in 2000 on these expenses, CBO estimates the federal share of the higher reimbursement limit would total about

$10 million annually for costs of $103 million over the 2002-2011 period. This leads to a net cost of $4 million in 2002 and net savings of $107 million over the 2002-2011 period for section 433.

Other Changes in the Food Stamp Program. This title would make several other changes in the Food Stamp program. Section 422 would require states to keep electronic benefits accessible for at least six months after a household last accessed its account. Section 437 would provide $3 million over the 2003-2005 period for grants to states for pilot programs on improving access to and outreach for the Food Stamp program. Finally, section 443 would allow Food Stamp benefits to be used to purchase vitamin and mineral supplements and would authorize $3 million for an evaluation of this new use of benefits. CBO estimates the costs of these provisions would total $10 million over the 2002-2011 period.

Related Nutrition Programs in the Food Stamp Act. Title IV would reauthorize and amend several other nutrition programs included in the Food Stamp Act. Section 438 would combine the nutrition assistance programs for Puerto Rico and American Samoa into one block grant that would be adjusted each year by the change in the Thrifty Food Plan. Under current law, the nutrition assistance program for American Samoa is authorized at $5.3 million each year through 2002. Section 439 would reauthorize assistance for community food projects at $2.5 million each year through 2006. Section 440 would authorize $110 million each year for the purchase of commodities for the Emergency Food Assistance program, with $10 million set aside for the costs associated with distributing such commodities. Under current law, $100 million is authorized each year through 2006. These sections would increase spending by $6 million in 2002 and by a total of $163 million over the 10-year period.

Restoration of Eligibility for Certain Legal Aliens. Section 452 would restore Food Stamp eligibility for certain categories of qualified aliens. PRWORA made most aliens ineligible for food stamps until naturalization, except for refugees or asylees during their first five years in the United States, aliens who have 40 quarters of employment covered by Social Security, or aliens who are veterans or active duty military personnel. Public Law 105-185, the Agricultural Research, Extension, and Education Reform Act of 1998, restored eligibility to refugees and asylees in their first seven years in the country, and children, elderly, or disabled aliens who resided in the United States as of August 22, 1996.

The bill would restore eligibility to all qualified alien children under 18, change the work requirement from 40 quarters to 16 quarters of covered employment, lift the time restriction for refugees and asylees, and restore eligibility to all qualified disabled aliens. This section would be effective September 1, 2002, (or at state option October 1, 2002), except the provision to restore eligibility to children would be effective beginning in fiscal year 2004. Based on fiscal year 1996 QC data, adjusted for current Food Stamp rules, CBO estimates that this section, when fully phased in, would increase participation by 150,000 participants in fiscal year 2006 and cost $25 million in 2003 and $1.1 billion over the 2002-2011 period.

Minimum Commodity Assistance in the School Lunch Program. USDA provides both cash reimbursement and commodity assistance for each meal served under the National School Lunch program, and a minimum of 12 percent of the total assistance must be in the form of commodities. Section 453 would reverse a requirement that the value of bonus commodities (those purchased by USDA to remove surpluses or support prices, and then donated to the school lunch program) be included in calculating this minimum value for fiscal years 2002 and 2003. CBO expects that $50 million of bonus commodities would be provided and would be counted toward the requirement each year under current law. Therefore, the Secretary of Agriculture would have to purchase an additional $50 million to meet the requirement each year, for total costs of $100 million over the two-year period.

Other Nutrition Programs. Section 456 would establish a senior farmers' market nutrition program, funded at $15 million each year over the 2002-2006 period. This program would continue a pilot program established in 2001 to provide access to local produce for low-income seniors. This section would increase spending by $10 million in 2002 and by $75 million over the 10-year period.

Section 457 would require the Secretary to use funds available under section 32 (funds for strengthening markets, income, and supply) to operate a pilot program to provide free fresh fruits and vegetables in schools in four states and on one Indian reservation for the 2003 school year. Using information from FNS and the Bureau of Labor Statistics on the prices of fruits and vegetables that are likely to appeal to children and on average school enrollment from the National Center for Education Statistics, CBO estimates this program would increase spending by $5 million.

Title V: Credit Programs. Under current law, USDA may provide certain loan-servicing benefits to delinquent farm credit borrowers, including deferral and writeoff of scheduled payments. Borrowers whose debt is reduced under these servicing procedures are subject to shared appreciation agreements that require a portion of the reduced debt be repaid to USDA from appreciation in the value of the property over a 10-year period. Under procedures established by the Federal Credit Reform Act of 1990, the subsidy cost of a direct loan is the estimated long-term cost to the government, calculated on a net present value basis. If legislation modifies the cost of outstanding loans, the change in subsidy cost is recorded the year the legislation is enacted. Section 531 would allow the borrower to agree to a conservation easement on the property in lieu of repayment obligations under the shared appreciation agreement. CBO estimates that implementing the new program would reduce receipts under the shared appreciation agreements. CBO estimates the cost of the provision—the present value of reduced receipts—would total $66 million, which would be recorded as a loan modification in fiscal year 2002.

Title VI: Rural Development Programs. CBO estimates that enacting title VI of S. 1731 would result in direct spending of $1.7 billion over the 2002-2011 period, with most of that spending to occur over the next five years. Section 602 would establish the Rural Business Investment Program (RBIP) to provide federal loan guarantees on debentures to qualified venture capital corporations that invest in small enterprises in rural communities. The bill would authorize USDA to issue up to $350 million of loan guarantees. Based on the experience of similar loan guarantee programs administered by the Small Business Administration, CBO estimates that the subsidy cost to guarantee $350 million in loans under the RBIP program would be about $70 million over the 2002-2006 period.

Section 602 also would provide $50 million for grants to Rural Business Investment Companies to provide assistance to small enterprises financed by these entities. CBO estimates the cost of the grants would be $50 million over the 2002-2006 period.

Section 603 would provide funding for all pending applications for rural water treatment grant and loan programs under the Rural Community Advancement Program that cannot be funded through the fiscal year 2002 appropriations for such programs. Based on information from USDA, CBO estimates that this provision would cost $454 million over the 2002-2007 period.

In addition, title VI would provide funding for several rural development initiatives, including $377 million for value-added agricultural product market development grants, $500 million for grants to enhance broadband access in rural areas, $130 million for grants to rural firefighters and emergency personnel for training, $50 million for assistance to rural entrepreneurs and micro enterprises, and $113 million for the Rural Endowment Program established under this title.

Title VII: Research and Related Items. This title would increase research spending for the Initiative for Future Agriculture and Food Systems by $284 million over the 2002-2006 period and $460 million over the 2002-2011 period. This initiative would award funding to research projects that address critical emerging issues related to future food production, environmental protection, farm income, or alternative uses of agricultural products.

S. 1731 also would establish two new research programs. The bill would provide both the Beginning Farmer and Rancher Development Program and the Rural Policy Research Program with $15 million a year for five years. CBO estimates these two new research programs would cost $106 million over the 2002-2006 period and $150 million over the 2002-2011 period.

Finally, section 723 would authorize the Secretary to use any proceeds from the sale of federal research facilities and equipment for infrastructure security. Since such proceeds would, in general, be deposited in the Treasury, this new authority for the Secretary to use these funds would increase direct spending. Based on information from USDA, however, CBO estimates that additional spending under this provision would be less than $500,000 a year.

Title VIII: Forestry Initiatives. This title would provide $48 million a year over the 2002-2006 period for a new program to provide assistance to owners of private nonindustrial forest lands. Based on information from USDA, we estimate that the proposed program would cost $240 million over the 2002-2011 period. Title VIII also would establish a new competitive grant program to support forestry practices of nonprofit organizations. The bill would provide $2 million a year for that program, for a cost of $10 million over the 2002-2006 period.

This title also would allow USDA and the Department of the Interior to use long-term stewardship contracts to implement projects to remove hazardous fuels (overly dense forest vegetation) from certain federal lands. Under such contracts, the agencies could retain and spend any receipts generated from such contracts to implement additional projects. Based on information from the Forest Service, we estimate that the net increase in direct spending from this provision would total $46 million over the 2002-2011 period. That estimate assumes that, in some cases, the agency would use stewardship contracts to implement projects that otherwise would have been completed using the agency's existing authorities.

Title IX: Energy Programs. This title would provide funding for several renewable energy programs. Specifically, the title would provide $165 million over the next 10 years for loans and grants to encourage small businesses and farmers to develop and use renewable energy. In addition, it would provide $25 million to study hydrogen and fuel cell technology and $75 million for research and development into the use of biomass products for fuel. It would provide an additional $45 million for rural electrification loans. Overall, CBO estimates that enacting title IX would cost $478 million over the 2002-2006 period, and $550 million over the 2002-2011 period.

Title X: Miscellaneous Provisions. Currently, crop insurance coverage is available in 5 percent increments (50, 55, 60, 65, 70, 75, 80, and 85 percent of expected yields). Beginning in 2006, producers will be able to select coverage levels in 1 percent increments. The availability of coverage in 1 percent increments, known as continuous coverage, will increase the cost of the crop insurance program because in some cases a slight reduction in the coverage level can result in a substantial increase in the subsidy rate. For example, reducing the coverage level from 85 to 84 percent of expected yields would allow producers to increase the subsidy rate from 38 to 48 percent of total premium. Section 1011 would prohibit implementing continuous coverage until after 2011. CBO estimates this provision would save $292 million in 2006 and $1.9 billion over the 2002-2011 period. Finally, section 1030 would provide $4 million in 2002 for the National Organic Certification Cost-Share Program.

Spending Subject to Appropriation

The bill also would authorize discretionary appropriations for existing and new programs for research and education, nutrition, trade promotion, rural development, credit assistance, and forestry initiatives. CBO has not completed an estimate of the cost of these provisions.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in Table 4. For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

TABLE 4. ESTIMATED EFFECTS OF S. 1731 ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	6,276	9,239	6,040	9,394	7,469	7,920	7,232	6,451	5,881	5,738
Changes in receipts	Not applicable									

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 1731 contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act; those mandates include preemptions of state laws and extensions of intergovernmental mandates already in current law. The preemptions of state law would impose minimal, if any, costs on state governments. However, CBO cannot determine whether the total costs of other intergovernmental mandates in the bill would exceed the threshold established in UMRA ($56 million in 2001, adjusted annually for inflation) because UMRA is unclear about how the costs of extending an existing mandate should be estimated.

Intergovernmental Mandates

The Rural Development title of S. 1731 contains a number of preemptions of state law. These preemptions would be intergovernmental mandates as defined in UMRA because they would prevent the exercise of state or local authority. Specifically, the bill would preempt any state limitations on interest rates with regard to the newly established National Rural Cooperative and Business Equity Fund. It also would preempt any state or local limitations on federal ownership of debentures issued as part of the Rural Business Investment Program, and it would preempt any state laws limiting the investment of banks, associations and other institutions in a Rural Business Investment Company. Although each of these preemptions would limit the application of state or local laws, CBO estimates that they would not affect the budgets of state, local, or tribal governments because they would impose no duties on states that would result in additional spending.

The bill would require that reductions in federal reimbursements for administrative costs in the Food Stamp program continue beyond the scheduled expiration date in current law (2002) through 2006. In 1997, the Congress enacted a cap on administrative costs that could be charged to the Food Stamp program (Public Law 105-185). CBO identified that cap as an intergovernmental mandate because it would reduce federal reimbursement for food stamp administrative costs and because states have only limited authority to make programmatic or financial changes to offset those costs. At that time, CBO estimated annual costs of between $190 million and $280 million, but the costs have decreased to the lower end of that range.

By extending the reductions in federal reimbursements to states through 2006, the bill would extend an intergovernmental mandate. UMRA is unclear, however, about how to measure costs associated with extending an existing mandate that has not yet expired. On the one hand, if the reductions were allowed to expire, states might adjust their cost allocation procedures and claim larger amounts of federal reimbursement through the Food Stamp program. On the other hand, states have already altered their budgets to accommodate the initial reduction in federal reimbursements, and it is not clear that any state has made budget plans for future budget years that assume such reductions would end. UMRA is unclear about whether the mandate costs should be measured based on current levels of spending or on spending in the absence of the intergovernmental mandate (or reductions). Consequently, CBO cannot determine whether the costs to state governments would exceed the threshold established in UMRA.

Other Impacts

Under current law, states receive an enhanced federal match for administrative funding if they have payment error rates below 6 percent in the Food Stamp program. This bill would cut in half the formula for determining the amount of the increase and then eliminate the system of enhanced funding. Consequently, states that otherwise would have received the enhanced match would receive lesser amounts. CBO estimates that those losses would total between $58 million and $69 million annually over the 2003-2011 period. The bill also would create a new system of performance measures and bonuses in the Food Stamp program; CBO estimates that those bonus payments to states would total $30 million annually.

State, local, and tribal governments receive funds through some of the other programs reauthorized by this bill and probably would receive additional funds from newly authorized programs. Some of these programs—both new and existing—include matching requirements and other conditions of assistance. Any costs these governments might incur to comply with conditions of this assistance would be voluntary. Such costs, however, would be more than offset by the grant funds those governments receive.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 1731 contains several private-sector mandates as defined by UMRA. CBO estimates that the aggregate direct costs of those mandates would be well in excess of the annual threshold established by UMRA ($113 million in 2001, adjusted annually for inflation) in each of the first five years the mandates are in effect.

The bill would impose mandates on certain handlers of fluid milk, importers of dairy products, retailers and suppliers of certain commodities, and breeders of certain live animals. Handlers of fluid milk that are subject to milk marketing orders could be required to pay higher prices, based on the bill's minimum target price of $14.25 per hundredweight. Importers of dairy products would have to pay a new assessment fee. Suppliers of certain commodities would have to inform retailers of the country of origin of those commodities and retailers would be required to inform consumers of that same information. Breeders would be prohibited from exporting live animals with the intent to fight, or engaging in interstate transport of live birds with the intent to fight.

Dairy Sector Requirements

Section 132 would set new minimum prices, by region, that handlers of class I milk (that is, milk sold for fluid use) would be required to pay to producers under the federal milk marketing order regulations. Federal milk marketing orders, administered by the Agricultural Marketing Service of the U.S. Department of Agriculture, set minimum prices for milk purchased from producers within areas governed by the orders. Federal marketing orders regulate pricing in major milk production areas in the United States, except for California, a handful of other states, and portions of some other states. California operates under state marketing order regulations, which would be unaffected by this change in the law.

CBO estimates that the new minimum class I prices would cause handlers to pay more for milk than they would pay under current law, with the aggregate increase in their costs totaling about $1.5 billion in each of 2002 and 2003, $1.4 billion in 2004 and 2005, and $1.3 billion in 2006. Most or all of those increased costs faced by milk handlers would be passed on to consumers of milk and milk products through higher retail prices.

Section 136 would impose a mandate on importers of dairy products by expanding a dairy promotion assessment to cover imports of dairy products. Under current law, USDA collects an assessment from domestic dairy producers to fund activities of the National Dairy Promotion and Research Board. The bill would require the assessment rate on imported dairy products to be determined in the same manner as the assessment rate per hundredweight or the equivalent of domestic milk. The funds collected from importers of dairy products would be combined with collections from domestic producers. Using an assessment rate equivalent to the current rate paid by domestic producers of dairy products, CBO estimates the cost of the assessment on importers would total about $11 million annually.

In addition, section 135 would amend the Agriculture Marketing Act to allow the Secretary of Agriculture to expand the reporting requirement now placed on manufacturers and persons who store dairy products. That is, the bill would give the Secretary the authority to expand the list of products for which producers must report on inventories and make records available to the government. The provisions would impose a new mandate if the Secretary used the authority to make additional products subject to current requirements. USDA could not indicate which products, if any, would be added to the list. Nonetheless, since producers already keep extensive records on inventories at storage facilities, the incremental cost of complying with such requirements would be small.

Country-of-Origin Labeling Requirements

Section 1001 would require retailers to inform consumers, at the final point of sale, of the country of origin of beef, lamb, pork, farm-raised fish, fresh fruits and vegetables, and peanuts. Suppliers of those commodities would be required to provide the same information to retailers. The major costs associated with the new country-of-origin labeling requirements are related to the cost to segregate and preserve commodity identity, to label the commodity, and to maintain records.

The incremental cost of this mandate is uncertain. Although rare, some grocers, meat packers, and farmers voluntarily use labels to identify U.S. products. Also, data to estimate compliance costs are not available for some commodities. Moreover, compliance costs depend on the specific standards to be established by the Secretary. According to information from representatives of the industry, the costs to retailers and suppliers to provide country-of-origin information on some of the commodities covered in this bill could be as high as $1 billion annually.

Ban on Commerce in Live Animals with the Intent to Fight

Under current law, any person is prohibited from transporting or delivering a dog or other animal—with the exception of live birds—between states to participate in an animal fighting venture. Section 1025 would amend the Animal Welfare Act to remove that exception and to ban the interstate movement of live birds for the purpose of fighting. The bill would not prohibit breeders from transporting animals for reasons other than to fight. In addition, section 1024 would prohibit the export of live animals with the intent to fight. CBO cannot estimate the direct cost because sufficient information about the export of such live animals is not available.

PREVIOUS CBO ESTIMATES

On November 28, 2001, CBO transmitted a summary of the estimated effects of S. 1731. The numbers included in this more-detailed cost estimate are unchanged from those provided on November 28.

On August 23, 2001, CBO transmitted a cost estimate for H.R. 2646, the Farm Security Act of 2001, as reported by the House Committee on Agriculture on August 2, 2001. That bill would have a similar impact on total direct spending for agricultural programs over the 2002-2011 period: an increase of $69.5 billion (as compared to $71.6 billion over the same period for S. 1731). The bills differ significantly, however, in the composition of such spending. In addition, S. 1731 would increase direct spending more than H.R. 2646 in 2002 ($6.3 billion verses $1.9 billion) and over the 2002-2006 period ($38.4 billion verses $33.4 billion).

H.R. 2646 would impose private-sector mandates by charging new assessments on importers of dairy products and U.S. producers of caneberries. The House bill also would allow the Secretary of Agriculture to expand the reporting requirement now placed on manufacturers and persons who store dairy products. While most of the mandates in H.R. 2646 are also contained in S. 1731, the House bill did not include a minimum price restriction on handlers of fluid milk, a country-of-origin labeling requirement on retailers and suppliers, or a prohibition on the interstate transport or exportation of live animals with the intent to fight. CBO found that the aggregate cost of mandates in H.R. 2646 would fall below the annual threshold for private-sector mandates established in UMRA.

ESTIMATE PREPARED BY:

Federal Costs: Jim Langley, Greg Hitz, Dave Hull, Lanette Walker, Megan Carroll, Lisa Cash Driskill, Mark Hadley, Joseph Whitehill, and Valerie Baxter Womer

Impact on State, Local, and Tribal Governments: Marjorie Miller and Leo Lex

Impact on the Private Sector: Roger Hitchner, Jean Talarico, Cecil McPherson and Ralph Smith

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis