



Environmental Quality Incentives Program (EQIP): Status and Issues

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Summary

The Environmental Quality Incentives Program (EQIP) is a voluntary program that provides farmers with financial and technical assistance to plan and implement soil and water conservation practices. EQIP is the largest agriculture conservation financial assistance program for working lands. EQIP was first authorized in 1996 and was most recently revised by Section 2501 of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246, the 2008 farm bill). It is a mandatory spending program (i.e., not subject to annual appropriations) and is administered by the U.S. Department of Agriculture's (USDA's) Natural Resources Conservation Service (NRCS). Funding is currently authorized to grow to \$1.75 billion in FY2012. Eligible land includes cropland, rangeland, pasture, non-industrial private forestland, and other land on which resource concerns related to agricultural production could be addressed through an EQIP contract.

With the 111th Congress facing tighter budget constraints, EQIP could face similar challenges with a potential reduction in mandatory funding levels and a continuing backlog of unfunded applications. A change in income limitations along with a new waiver created in the 2008 farm bill could also raise issues for the program. EQIP will also continue to face challenges in measuring environmental and program accomplishments.

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Program Overview

The Environmental Quality Incentives Program (EQIP) is a voluntary program that provides technical and financial assistance to eligible agricultural producers who wish to implement soil and water conservation practices. The purpose of EQIP is to promote agriculture production, forestry management, and environmental quality as compatible goals, and to optimize environmental benefits. EQIP was originally authorized in the 1996 farm bill¹ as an amendment to the 1985 farm bill.² EQIP replaced four conservation programs repealed in the same law. These were the Great Plains Conservation Program, the Agricultural Conservation Program, the Water Quality Incentives Program, and the Colorado River Basin Salinity Control Program.

EQIP is the largest agriculture conservation program for working lands.³ The program encourages farmers and ranchers to participate in conservation efforts by paying a portion of the cost of installing or constructing approved conservation practices. Eligible producers enter into EQIP contracts to receive payment for implementing conservation practices. Approved activities are carried out according to an EQIP plan developed in conjunction with the producer that identifies the appropriate conservation practice or practices to address resource concerns on the land.

EQIP was amended and reauthorized in both the 2002 and 2008 farm bills.⁴ The U.S. Department of Agriculture's Natural Resources Conservation Service (NRCS) administers EQIP under a final rule.⁵ NRCS implemented EQIP by establishing national priorities to reflect the most pressing natural resource needs and emphasize offsite benefits to the environment. The current national priorities, set in 2008 by NRCS, are as follows:

- reduction of nonpoint source pollutants in impaired watersheds (consistent with total maximum daily loads, or TMDLs);⁶
- conservation of ground and surface water resources;
- reduction of emissions that contribute to air quality impairment violations of National Ambient Air Quality Standards;
- reduction of soil erosion and sedimentation from unacceptable levels on agricultural land; and
- promotion of at-risk species habitat conservation.

¹ Section 334 of the Federal Agriculture Improvement and Reform Act of 1996, P.L. 104-127, 16 U.S.C. 3839aa.

² Sections 1240-1240I of the Food Security Act of 1985, P.L. 99-198.

³ Working lands conservation programs are typically classified as programs that allow private land to remain in production, while implementing various conservation practices to address natural resource concerns specific to the area. Other conservation programs retire land from production or place restrictive easements on the land.

⁴ Section 2301 of the Farm Security and Rural Investment Act of 2002, P.L. 107-171, and Section 2501 of the Food, Conservation, and Energy Act of 2008, P.L. 110-246.

⁵ USDA, NRCS, "Environmental Quality Incentives Program," 74 *Federal Register* 2293, January 15, 2009.

⁶ For more information on TMDLs, see CRS Report 97-831, *Clean Water Act and Total Maximum Daily Loads (TMDLs) of Pollutants*, by Claudia Copeland.

Eligibility and Program Requirements

Producers with eligible land⁷ can submit an EQIP plan that describes the conservation and environmental purposes that will be achieved using one or more USDA-approved conservation practices. USDA-approved conservation practices may involve structures, vegetation, or land management. Structural practices include the establishment, construction, or installation of measures designed for specific sites, such as animal waste management facilities, livestock water developments, and capping abandoned wells. Vegetative practices involve introduction or modification of plantings, such as filter strips or trees. Land management practices require site-specific management techniques and methods, such as nutrient management, irrigation water management, or grazing management.

Producers can receive technical assistance to develop an EQIP plan and, after approval, to implement the plan. Decisions about which plans to fund are made by USDA at the state level, with local input. Applications are accepted and ranked throughout the year within each state. Applications are grouped with similar crop, forestry, and livestock operation applications and evaluated within the groups. Additional funding groups may be created to rank applications based on similar resource objectives, geographic area, or type of agricultural operation. After an application is selected and approved, USDA provides payments to help the producer offset the cost of each practice, as well as income forgone relating to that practice implementation. Participants are eligible to receive payments for both constructing structures and implementing land management practices. Of the total annual EQIP spending, 60% is allocated to livestock practices.

Under an EQIP contract, USDA pays up to 75% of the projected costs associated with planning, design, materials, equipment, installation, labor, management, maintenance, or training, or up to 100% of the estimated income forgone to implement certain conservation practices. This payment rate can be higher for limited-resource, socially disadvantaged, or beginning farmers and ranchers,⁸ provided this increase does not exceed 90% of practice costs. Initial payments are made in the year in which the contract is signed, but most payments are made after the practices are completed.

Contracts have a term of one to ten years and payments are limited by direct attribution to individuals or entities.⁹ Total payments a person or entity can receive over any six-year period are limited to \$300,000, except for projects having special environmental significance, which are limited to \$450,000 over any six-year period. Individuals or entities with an average annual non-

⁷ Eligible land includes cropland, rangeland, pasture, non-industrial private forestland, and other land on which resource concerns related to agricultural production could be addressed through an EQIP contract.

⁸ USDA combines these three groups and refers to them as “historically underserved producers.” A limited resource producer or rancher is defined as having direct or indirect gross farm sales of less than \$155,200 in each of the previous two years (adjusted for inflation) and a total household income at or below the national poverty level, or less than 50% of county median household income in the previous two years. A beginning farmer or rancher is defined as having farmed for less than 10 consecutive years. Socially disadvantaged farmers or ranchers are defined as having been subjected to racial or ethnic prejudice because of their identity as members of a group without regard to their individual qualities. Previously, USDA included gender prejudice in the definition of a socially disadvantaged farmer or rancher; however, changes in the 2008 farm bill removed gender from the definition, as it applies to conservation programs.

⁹ Direct attribution means that payments must be directly attributed to a living person. If the person is part of a larger business entity then payments must be directly attributed to that person based on ownership shares in the entity. Individual people may receive EQIP payments through any number of contracts or ownership arrangement of farms, but the total amount of payments attributed to each living person may not exceed the statutory limits.

farm adjusted gross income (AGI) of \$1 million or more for the three years prior to the contract period are ineligible unless they received at least two-thirds of their AGI from farming, ranching, or forestry. The 2008 farm bill created a case-by-case waiver to the AGI limitation for conservation programs (discussed in more detail in the “Adjusted Gross Income (AGI) Waiver” section below).

Program Funding

The 1996 farm bill authorized EQIP funding of \$130 million in FY1996 and \$200 million annually from FY1997 through FY2002. The 2002 farm bill significantly increased the annual authorized funding level incrementally from \$400 million in FY2002 to \$1.3 billion in FY2007. EQIP funding levels were revised in Section 1203 of the Deficit Reduction Act of 2005 (P.L. 109-171) to limit funding to \$1.27 billion in FY2007, while extending the authorization through FY2010 and providing \$1.27 billion in each of FY2008 and FY2009, and \$1.3 billion in FY2010.

The 2008 farm bill further increased the annual authorized funding levels incrementally from \$1.34 billion in FY2009 to \$1.75 billion in FY2012. Funding under EQIP is mandatory (not subject to annual appropriations), and the program receives authorized amounts each year under the borrowing authority of USDA’s Commodity Credit Corporation (CCC).¹⁰ Congress, however, has limited EQIP funding below authorized levels in every year since FY2005, through annual appropriations bills. **Figure 1** identifies the authorized and actual funding levels for EQIP. The Senate-reported FY2009 agriculture appropriations bill (S. 3289, S.Rept. 110-426) would limit EQIP to \$1.05 billion for FY2009—a reduction of \$285 million from the authorized level of \$1.34 billion in the 2008 farm bill.¹¹ Final action on FY2009 agriculture appropriations is pending.

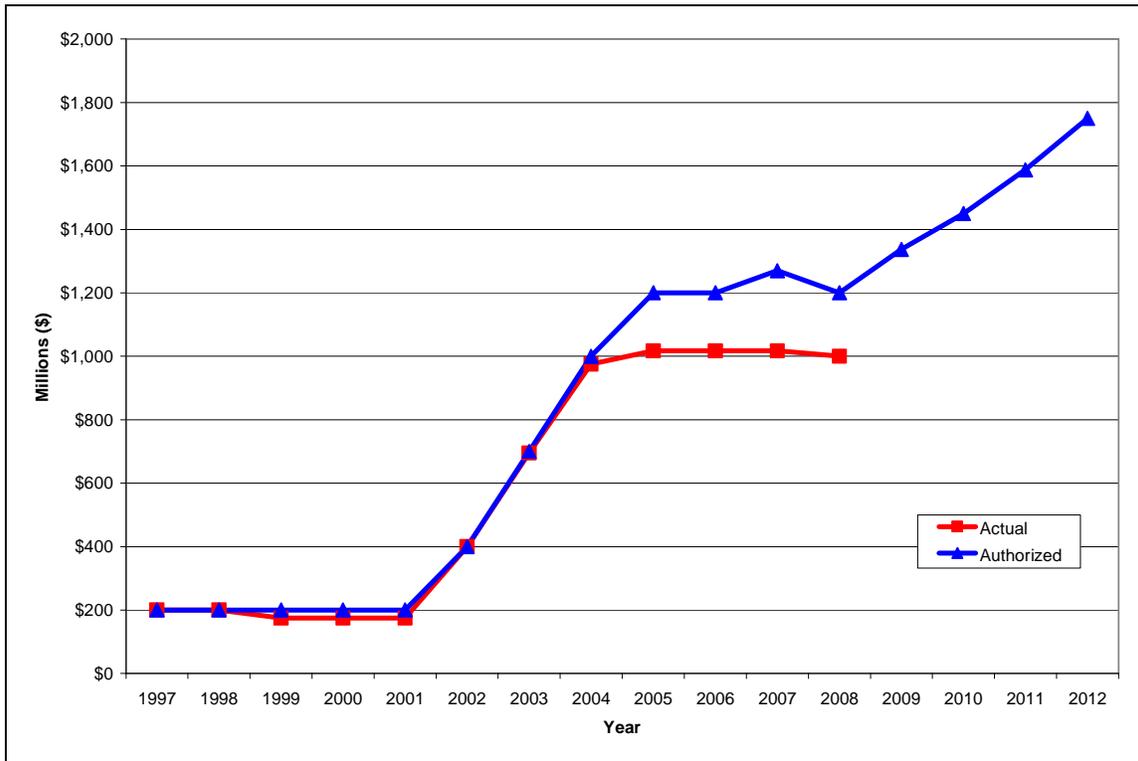
Annual funding received for EQIP is allocated to the states by NRCS using a formula based on national priorities, natural resource need, efficiency and performance measures, and regional equity.¹² The EQIP allocation formula uses 20 weighted factors based on the characteristics of agriculture and land use and resource considerations. Factors with the largest weights within the FY2009 formula include irrigated cropland, non-irrigated cropland, non-federal grazing land, livestock animal units, cropland eroding above the tolerance level, and impaired rivers and streams. States that receive the largest EQIP allocations have remained consistent from year to year, with Texas, California, and Colorado receiving the highest levels of funding annually between FY2003 and FY2007 (see **Table 1**).

¹⁰ The CCC is the funding mechanism for the mandatory payments that are administered by various agencies of USDA. For EQIP, NRCS provides the staff.

¹¹ For more information, see CRS Report R40000, *Agriculture and Related Agencies: FY2009 Appropriations*, coordinated by Jim Monke.

¹² The regional equity provision was first instituted in the 2002 farm bill (P.L. 107-171, Sec. 2701) and reauthorized in the 2008 farm bill (P.L. 110-246, Sec. 2703). The provision mandates that each state receive annually a minimum aggregate amount of funding for specified conservation programs. Regional equity affects not only EQIP but also the Wildlife Habitat Incentives Program, the Farmland Protection Program, and the Grassland Reserve Program. The 2008 farm bill increased the minimum level of funding to each state for these combined four conservation programs from \$12 million to \$15 million.

Figure I. EQIP Funding and Reductions, FY1997-FY2012
(\$ in millions)



Source: CRS, based on historical Agriculture Appropriations Reports.

Note: Final action on FY2009 agriculture appropriations is pending.

Table I. Four Largest EQIP Allocation Recipient States, FY2003-FY2007
(\$ in thousands)

Fiscal Year	Highest Allocation	2 nd Highest Allocation	3 rd Highest Allocation	4 th Highest Allocation	Total Allocations
2003	Texas \$57,717	California \$48,582	Colorado \$25,560	Nebraska \$20,442	\$626,701
2004	Texas \$78,566	California \$62,114	Colorado \$36,932	Nebraska \$29,600	\$908,280
2005	Texas \$90,007	California \$62,114	Colorado \$39,186	Minnesota \$32,924	\$991,879
2006	Texas \$91,290	California \$62,902	Colorado \$41,200	Minnesota \$32,000	\$1,013,277
2007	Texas \$89,124	California \$62,090	Colorado \$40,216	Minnesota \$32,907	\$1,004,926

Source: USDA, NRCS, *EQIP Program Information by Fiscal Year*, <http://www.nrcs.usda.gov/programs/eqip/>.

Notes: Allocations in this table represent financial assistance allocated to states only. Technical assistance, administrative, and technology costs are not included.

Subprograms

Agricultural Water Enhancement Program

One of two subprograms under EQIP is the Agricultural Water Enhancement Program (AWEP). The 2008 farm bill (Sec. 2510, P.L. 110-246) created AWEP to promote ground and surface water conservation and to improve water quality on agricultural lands. The program replaces two previous water conservation programs: the Ground and Surface Water Conservation Program and the Klamath Basin Program.

Eligible partners or groups¹³ submit project proposals to conserve ground and surface water or improve water quality in a specified area. NRCS selects projects based on requirements established in a *Federal Register* notice¹⁴ and enters into agreements with selected partners. Once proposals for specific areas are selected, there are two methods for producers to sign up for an AWEP contract. Producers may either (1) apply directly to NRCS for approved agricultural water enhancement activities or (2) apply through the partner or group who submits applications on the producer's behalf. Funding is authorized as a separate amount from the general EQIP, at \$73 million for each of FY2009 and FY2010, \$74 million in FY2011, and \$60 million in FY2012 and each fiscal year thereafter.

Conservation Innovation Grants

The second subprogram under EQIP is the Conservation Innovation Grants (CIG) program, which was created in the 2002 farm bill. The program is implemented through EQIP and is intended to leverage federal investment, stimulate innovative approaches to conservation, and accelerate technology transfer in environmental protection, agricultural production, and forest management. Examples of CIG projects include developing market-based approaches in conservation, demonstrating precision agriculture, capturing nutrients through a community anaerobic digester, and establishing a tribal partnership for regional habitat conservation.¹⁵ The program was reauthorized in the 2008 farm bill through FY2012 at an unspecified funding level of general EQIP dollars. NRCS utilizes this discretion to determine the level of general EQIP funds used for CIG and allocates approximately \$15 million for a national competition and up to \$5 million for a Chesapeake Bay watershed competition annually. In addition, 32 states conduct, or have conducted, a state-level CIG competition, which has awarded over \$17 million since FY2005. CIG awarded a total of \$12.6 million (35 projects) in FY2004, \$22.0 million (105 projects) in FY2005, \$25.3 million (161 projects) in FY2006, \$26 million (176 projects) in FY2007, and \$21 million (95 projects) in FY2008. A recent announcement of program funding for CIG indicates that approximately \$20 million is available in FY2009.¹⁶

The 2008 farm bill made some modifications to the CIG program. Previously, grants could not exceed 50% of the project cost, with nonfederal matching funds provided by the grantee. The 2008 farm bill removed this requirement, though USDA still requires a 50% match of nonfederal

¹³ An eligible partner or group may be a federally recognized tribe, state, unit of local government, agricultural or silvicultural association, or other such group of agricultural producers.

¹⁴ USDA, NRCS, "Agricultural Water Enhancement Program," 74 *Federal Register* 2040, January 14, 2009.

¹⁵ For additional examples of CIG projects, see <http://www.nrcs.usda.gov/programs/cig/>.

¹⁶ USDA, NRCS, *Conservation Innovation Grants Fiscal Year (FY) 2009 Announcement for Program Funding*, Catalog of Federal Domestic Assistance (CFDA) Number: 10.912, January 16, 2009, http://www.nrcs.usda.gov/programs/cig/pdf_files/Fiscal_Year_2009_Announcement_for_Program_Funding.pdf.

funds.¹⁷ Also, the farm bill added an air quality component requiring that payments be made through CIG to producers to implement practices to address air quality concerns from agricultural operations and to meet federal, state, and local regulatory requirements. This air quality component is authorized at \$37.5 million annually. The highest level of funding for all of CIG was in FY2006 (\$26 million), making the \$37.5 million requirement for air quality a potentially difficult target for the program.

Selected Issues

EQIP continues to receive widespread support in the farm community and in Congress, as it remains the major source of financial and technical assistance to help producers implement conservation practices that address specific resource and environmental problems. During the 111th Congress, several issues may attract congressional interest, including budgetary pressures, a continuing backlog of unfunded applications, adjusted gross income waivers, and measuring program accomplishments.

Mandatory Funding Levels

The 2008 farm bill reauthorized EQIP through September 30, 2012, with annual authorized funding levels of \$1.2 billion in FY2008, \$1.34 billion in FY2009, \$1.45 billion in FY2010, \$1.59 billion in FY2011, and \$1.75 billion in FY2012. As shown in **Figure 1**, the authorized funding level has continued to increase since the 2002 farm bill; however, annual appropriations acts have reduced the actual funding levels by a total of nearly \$820 million from FY2005 through FY2008.¹⁸ With the 111th Congress facing tighter budget constraints, similar cuts to EQIP could be considered either in the appropriations process or if budget reconciliation is required.¹⁹

Unfunded Application Backlog

A main justification for the large funding increase in the 2002 farm bill was to respond to a large backlog of producer demand that had been documented during the farm bill debate. Despite this increase in funding, the number of pending applications continues to exceed the amount of available funding (see **Table 2**). Although this gap now constitutes a smaller portion of applications, it is still an issue for many producers who seek environmental assistance and are continuously denied funding due to budgetary constraints.²⁰ Many conservation groups worry that this could deter producers from applying and enrolling in the program. This issue will likely intensify if annual appropriations continue to reduce actual funding for EQIP.

¹⁷ USDA, NRCS, *Conservation Innovation Grants Fiscal Year (FY) 2009 Announcement for Program Funding*, Catalog of Federal Domestic Assistance (CFDA) Number: 10.912, January 16, 2009, http://www.nrcs.usda.gov/programs/cig/pdf_files/Fiscal_Year_2009_Announcement_for_Program_Funding.pdf, p. 8.

¹⁸ Annual appropriations reduce funding for several other agriculture mandatory programs as a means of meeting overall budget targets. The Senate-reported agriculture appropriations bill (S. 3289, S.Rept. 110-426) proposes an additional reduction of \$285 million below authorized levels for FY2009.

¹⁹ For more information on the budget reconciliation progress, see CRS Report RL30458, *The Budget Reconciliation Process: Timing of Legislative Action*, by Robert Keith.

²⁰ At the conclusion of FY2007 (most recent data available), states with the highest total of unfunded applications were Oklahoma (3,772), Texas (3,078), Missouri (2,813), Mississippi (2,163), and Montana (1,811).

Table 2. EQIP Funded and Unfunded Applications and Funds Obligated

Fiscal Year	Total Applications Funded	Total Applications Unfunded	Percentage of Applications Funded	Funds Obligated (Financial Assistance, \$ in millions)
2000	16,249	37,712	30%	\$139,606
2001	17,648	29,777	37%	\$160,123
2002	19,817	70,495	22%	\$322,193
2003	30,251	174,062	15%	\$483,484
2004	46,413	135,394	26%	\$718,150
2005	49,406	32,708	60%	\$794,261
2006	41,190	32,633	56%	\$787,968
2007	41,700	40,535	51%	\$784,186

Source: USDA, NRCS, *EQIP Contract and Funding Information*, <http://www.nrcs.usda.gov/programs/eqip/>.

One reason why higher funding has not resulted in the elimination of the backlog is that the average contract size has grown since the 2002 farm bill. The average cost of an EQIP contract has more than doubled from almost \$7,800 per contract prior to 2002 to over \$16,000 per contract since 2002.²¹ One reason for this increase could be the higher funding cap established in the 2002 farm bill that allowed large-scale livestock operations to fund waste management facilities and allowed the installation of more expensive conservation practices. According to NRCS, between 1997 and 2007, the top practice by cumulative cost-share dollars was waste storage facilities, which totaled \$486 million over the ten-year period.²² Though the 2008 farm bill lowered the payment limitation to \$300,000 over any six-year period, the average contract is still considerably less (\$16,000) than the limit. This will continue to be an issue as it is widely believed that the lower payment limitation will not greatly reduce the number of unfunded applications.

Adjusted Gross Income (AGI) Waiver

Another issue that the 111th Congress will likely monitor is the new waiver of the AGI limitation for conservation programs created in the 2008 farm bill. The AGI provision sets a maximum amount of income that an individual can earn and still remain eligible for program benefits, but USDA is allowed to waive the limit in certain cases. USDA administers the AGI limitation through an interim rule issued on December 29, 2008.²³

²¹ Contracts can vary from one to ten years; however, most are between two and five years in length and include between two and five practices. Data compiled by Soil and Water Conservation Society and Environmental Defense, *Environmental Quality Incentives Program (EQIP)—Program Assessment*, March 2007, http://www.swcs.org/documents/filelibrary/EQIP_assessment.pdf.

²² Other top practices between FY1997 and FY2007, by cumulative cost-share dollar, were irrigation systems (\$337 million), fence (\$329 million), brush management (\$190 million), pipeline (\$187 million), irrigation pipeline (\$168 million), and nutrient management (\$164 million). The term cost-share describes the percentage of the cost to install conservation practices paid by USDA. This term does not represent incentive payments and was removed from the program in the 2008 farm bill.

²³ USDA, CCC, "Farm Program Payment Limitation and Payment Eligibility for 2009 and Subsequent Crop, Program, or Fiscal Years," *73 Federal Register* 79267-79284, December 29, 2008.

Income limitations on conservation programs have been somewhat controversial. The 2008 farm bill made the AGI limitation for conservation programs higher than the AGI limitation for commodity programs to encourage environmental stewardship on farms and ranches, particularly larger operations that may have greater natural resource concerns. Supporters of AGI limits believe that tighter limits benefit small producers and gain additional public support for all agricultural programs through fiscal responsibility. Opponents of AGI limits on conservation programs believe that conservation benefits the general public, and thus any producer's enrollment, irrespective of wealth, is good for the general public.

The AGI waiver can be granted on a case-by-case basis by USDA if it is determined that environmentally sensitive land of special significance would be protected through the conservation program.²⁴ Under this rule, USDA can waive the AGI limitation through a written request that documents that the land contains critical resources, for example, endangered, threatened, or at-risk species; historical or cultural resources; unique wetlands; or critical groundwater recharge areas. The waiver must also show that the producer's participation is critical for the success of the project and will benefit multiple producers in the community, geographic region, or watershed. The number and frequency of AGI waivers granted is not limited, is at USDA's sole discretion, and remains to be determined.

Measuring EQIP Accomplishments

From available records, NRCS can provide considerable information about EQIP contracts, including which conservation practices are being installed, and their design and maintenance standards. However, until recently, relatively little was known about what is actually being accomplished through EQIP contracts. To begin filling this void, NRCS has compiled information about various resource concerns that EQIP addresses. These data show that in 2007, the primary resource concerns addressed through EQIP spending included water quality (20%), plant condition (17%), soil erosion (16%), water quantity (13%), domestic animals (12%), soil condition (10%), wildlife and fish (7%), and air quality (5%).²⁵ Little is known, however, about how enduring those conservation practices might be after the contract ends. Among the questions that NRCS is trying to address for all of its conservation activities, including EQIP, are how to (1) evaluate performance, (2) measure environmental changes, (3) evaluate cost-effectiveness, (4) determine which methods to use to identify environmental effects, and (5) determine which types of data should be collected to measure output.

NRCS initiated a national review in 2003, called the Conservation Effects Assessment Project (CEAP), in an attempt to develop better answers to all these questions. CEAP was originally intended to account for the benefits from the 2002 farm bill's substantial increase in conservation program funding through the scientific understanding of the effects of conservation practices at the watershed scale.²⁶ Only a few initial results are currently available; however, a draft watershed report is expected to be released this year for technical review.²⁷

²⁴ Section 1604, P.L. 110-246.

²⁵ USDA, NRCS, *Environmental Quality Incentives Program: Program Information Review, Fiscal Year 2007*.

²⁶ Lisa F. Duriancik, Dale Bucks, and James P. Dobrowolski et al., "The First Five Years of the Conservation Effects Assessment Project," *Journal of Soil and Water Conservation*, vol. 63, no. 6 (Nov/Dec 2008), p. 185A.

²⁷ For more information on CEAP, see <http://www.nrcs.usda.gov/technical/NRI/ceap/>.

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