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Congressional Research Service

Report 98-201

*APPROPRIATIONS FOR FY1999: U.S. DEPARTMENT
OF AGRICULTURE AND RELATED AGENCIES*

Ralph M. Chite, Environment and Natural Resources Policy Division

Updated December 21, 1998

Abstract. The President released his budget request for FY1999 on February 2, 1998. The proposed FY1999 budget contains \$54.3 billion in total outlays for all programs within the U.S. Department of Agriculture (USDA), compared with estimated total outlays of \$55.0 billion for FY1998. The agriculture subcommittees of the House and Senate Appropriations Committees have begun a series of hearings on the FY1999 USDA budget request.

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Appropriations for FY1999: U.S. Department of Agriculture and Related Agencies

Updated December 21, 1998

Ralph M. Chite, Coordinator
Specialist in Agricultural Policy
Environment and Natural Resources Policy Division

<http://wikileaks.org/wiki/CRS-98-201>

Appropriations are one part of a complex federal budget process that includes budget resolutions, appropriations (regular, supplemental, and continuing) bills, rescissions, and budget reconciliation bills. The process begins with the President's budget request and is bounded by the rules of the House and Senate, the Congressional Budget and Impoundment Control Act of 1974 (as amended), the Budget Enforcement Act of 1990, and current program authorizations. In addition, the line item veto took effect for the first time in 1997.

This report is a guide to one of the 13 regular appropriations bills that Congress passes each year. It is designed to supplement the information provided by the House and Senate Appropriations Subcommittees on Agriculture Appropriations. It summarizes the current legislative status of the bill, its scope, major issues, funding levels, and related legislative activity. The report lists the key CRS staff relevant to the issues covered and related CRS products.

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Appropriations for FY1999: U.S. Department of Agriculture and Related Agencies

Summary

The conference agreement on the FY1999 omnibus appropriations bill (P.L. 105-277/H.R. 4328) was signed into law on October 21, 1998. The measure contains \$55.9 billion in regular FY1999 appropriations for the U.S. Department of Agriculture and related agencies and \$5.9 billion in emergency disaster and economic assistance for agriculture, for a total of \$61.8 billion. The House and Senate earlier had approved a separate conference agreement for FY1999 USDA appropriations (H.R. 4101), but the President vetoed the measure because its emergency provisions did not authorize an increase in the loan rates, or farm price guarantees, for growers of certain crops.

Republican leadership strongly opposed any increases in the loan rates, but instead agreed to increase the total level of direct farm assistance from the \$4.2 billion provided in the vetoed version of H.R. 4101, to \$5.9 billion in P.L. 105-277. A budget emergency was declared for this amount, which by definition requires no budgetary offsets for the new spending. The \$5.9 billion in emergency funding includes: \$3.057 billion in "market loss" payments, of which \$2.857 billion is for grain and cotton farmers and \$200 million for dairy farmers; \$1.5 billion for 1998 crop loss payments; \$875 million for farmers affected by multiple years of disasters; \$200 million in livestock feed assistance; and \$31 million to cover the cost of making or guaranteeing \$440 million in additional farm operating loans.

The \$55.9 billion in regular USDA and related agencies appropriations for FY1999 in P.L. 105-277 is about equal to the House-passed level (H.R. 4101), \$1.2 billion below the Senate-passed level (S. 2159), and \$2.1 billion below the Administration request. Of this amount, \$42.25 billion is for mandatory programs and \$13.69 billion for discretionary spending. Even excluding the additional emergency aid spending, total budget authority is significantly higher than the \$49.5 billion appropriated in FY1998, mainly because of a change in the formula for determining how much is required to reimburse the Commodity Credit Corporation (CCC) for its net realized losses. In order to stay within the discretionary spending allocation for the bill, P.L. 105-277 either limits or eliminates FY1999 funding for several mandatory programs. It prohibits the spending of any of the \$60 million authorized for FY1999 for the Fund for Rural America, and reduces spending for commodities in the Emergency Food Assistance Program (EFAP) by \$10 million. The law also concurs with a House provision to prohibit the FY1999 spending (\$120 million) for a new mandatory agricultural research program; restrict the amount of acreage that can be enrolled in the Wetlands Reserve Program; and limit payments in the Environmental Quality Incentives Program (EQIP).

P.L. 105-277 also extends the statutory deadline for federal milk marketing order reform from April 4 to October 9, 1999; waives the statute of limitations on certain civil rights complaints against USDA; modifies eligibility for farm loans; and makes additional changes to trade sanction policy. A House provision to prohibit FDA from approving the abortion drug RU-486 was deleted in conference on H.R. 4101, after the President threatened a veto if the provision was included.

Key Policy Staff

| Area of Expertise | Name | CRS Division | Telephone |
|---|---------------------|-------------------------|------------------|
| USDA Budget/Farm Spending and Coordinator | Ralph M. Chite | ENR | 7-7296 |
| Conservation | Jeffrey A. Zinn | ENR | 7-7257 |
| Trade and Food Aid | Charles E. Hanrahan | ENR | 7-7235 |
| Trade Sanctions | Remy Jurenas | ENR | 7-7281 |
| Rural Development | Eugene P. Boyd | GOV | 7-8689 |
| Domestic Food Assistance | Jean Yavis Jones | ENR | 7-7331 |
| Research, Food Safety and Marketing | Jean M. Rawson | ENR | 7-7283 |
| Commodity Futures Trading Commission | Mark Jickling | ECON | 7-7784 |
| Food and Drug Administration | Donna U. Vogt | STM | 7-7285 |

Division abbreviations: ENR = Environment and Natural Resources; GOV = Government; STM = Science, Technology, and Medicine; ECON= Economics Division.

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Appropriations for FY1999: U.S. Department of Agriculture and Related Agencies

Most Recent Developments

The Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277, H.R. 4328) was signed into law on October 21, 1998. Contained within the measure was \$55.9 billion in regular FY1999 appropriations for the U.S. Department of Agriculture (USDA) and related agencies and an additional \$5.9 billion in emergency supplemental spending for farm economic and disaster assistance. USDA appropriations were folded into the omnibus bill after the President vetoed the conference agreement (H.R. 4101) on FY1999 funding for USDA and related agencies on October 7, because the emergency spending provisions in the bill did not include an increase in loan rates (price guarantees) for farmers. P.L. 105-277 does not provide for an increase in loan rates, but the \$5.9 in emergency assistance provided is \$1.7 billion above the amount provided in the vetoed bill.

USDA Spending at a Glance

The U.S. Department of Agriculture (USDA) carries out its widely varied responsibilities through approximately 30 separate internal agencies staffed by some 100,000 employees. USDA is responsible for many activities outside of the agriculture budget function. Hence, spending for USDA is not synonymous with spending for farmers.

USDA net outlays (after adjustment for offsetting receipts) for the most recently completed fiscal year (FY1997) were \$52.5 billion. By far the largest outlay within the Department, \$35.9 billion (67%) of total outlays in FY1997, was for its food and nutrition programs, primarily the food stamp program (the costliest of all USDA programs), various child nutrition programs, and the Women, Infants and Children (WIC) program. Total FY1997 outlays also included \$8.9 billion (17%) for farm and foreign agricultural services. Within this mission area of USDA are the programs funded through the Commodity Credit Corporation (e.g., commodity support payments, the conservation reserve program, and certain trade programs), crop insurance, farm loans, and foreign food aid programs. Another \$4.2 billion (8%) was spent on an array of natural resource and environment programs, nearly three-fourths of which funds the Forest Service (which is funded through the Interior appropriations bill, not the agriculture appropriations bill), and the balance for a number of conservation programs for farm producers.

USDA programs for research and education (\$1.8 billion in outlays for FY1997), rural development (\$1.35 billion), marketing and regulatory activities, \$708 million),

meat and poultry inspection (\$574 million), and departmental activities (\$309 million) accounted for the balance of USDA spending.

Mandatory vs. Discretionary Spending

Approximately three-fourths of total USDA spending is classified as mandatory, which by definition occurs outside the control of annual appropriations. Eligibility for mandatory programs is usually written into authorizing law, and any individual or entity that meets the eligibility requirements is entitled to the benefits authorized by the law. Currently accounting for the vast majority of USDA mandatory spending are the food stamp program and child nutrition programs; the farm commodity price and income support programs; the federal crop insurance program; and the conservation reserve program (CRP).

Table 1. U.S. Department of Agriculture and Related Agencies Appropriations, FY1993 to FY1999
(budget authority in billions of dollars)

| | FY93 | FY94 | FY95 | FY96 | FY97 | FY98 | FY99 |
|------------------------|---------|---------|---------|---------|---------|---------|---------|
| Discretionary | \$13.88 | \$14.59 | \$13.29 | \$13.31 | \$13.05 | \$13.75 | \$13.69 |
| Mandatory | \$46.88 | \$56.25 | \$54.61 | \$49.78 | \$40.08 | \$35.80 | \$42.25 |
| Total Budget Authority | \$60.75 | \$70.84 | \$67.90 | \$63.09 | \$53.12 | \$49.55 | \$55.94 |

Note: Includes funding for the Food and Drug Administration and Commodity Futures Trading Commission. Excludes USDA Forest Service. Emergency supplemental spending of \$5.89 billion is not included in the FY1999 total.

Sources: Congressional Budget Office and House Appropriations Committee.

Although they have mandatory status, the food and nutrition programs are funded by an annual appropriation based on projected spending needs. Supplemental appropriations generally are made if and when these estimates fall short of required spending. An annual appropriation is also made to reimburse the Commodity Credit Corporation for losses it incurs in financing the commodity support programs and the various other programs it finances. Historically, the farm commodity support programs were a larger portion of the USDA budget than they are currently. Spending levels among these programs were erratic and unpredictable, making total USDA spending highly variable. Some of this unpredictability was lessened by the enactment of the 1996 farm bill, which fixes the level of spending on direct payments to program crop producers, and no longer ties these payments to market conditions.

The other 25% of the USDA budget is for discretionary programs, which are determined by funding in annual appropriations acts. Among the major discretionary programs within USDA that are funded by the annual agriculture appropriations act are its rural development programs, research and education programs, agricultural

credit, the supplemental nutrition program for women, infants, and children (WIC), the Public Law (P.L.) 480 international food aid program, meat and poultry inspection, and food marketing and regulatory programs. FY1998 funding levels for all USDA discretionary programs (except for the Forest Service) were provided by the FY1998 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act (P.L. 105-86), and by the FY1998 Supplemental Appropriations Act (P.L. 105-174). For more information on FY1998 funding, see CRS Reports 97-201 and 98-478.

Status of FY1999 Agriculture Appropriations

Table 2 tracks the key legislative steps necessary for the enactment of the Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act for FY1999.

Table 2. Congressional Action on FY1999 Appropriations for the U.S. Department of Agriculture and Related Agencies

| Subcommittee Markup Completed | | House Report | House Passage | Senate Report | Senate Passage | Conference Report | Conference Report Approval * | | Public Law* |
|-------------------------------|--------|--|---------------------------|-------------------------------------|-------------------------|-----------------------------|------------------------------|--------------------------|--------------------------|
| | | | | | | | House | Senate | |
| 6/10/98 | 6/9/98 | H.R. 4101, H. Rept. 105-588 6/16/98 | Vote of 373-48 6/24/98 | S. 2159, S.Rept. 105-212 6/11/98 | Vote of 97-2 7/16/98 | H. Rept. 105-763 10/2/98 | Vote of 333-53 10/2/98 | Vote of 55-43 10/6/98 | P.L. 105-277 10/21/98 |

*The conference report on H.R. 4101 was vetoed by the President on October 7, 1998. FY1999 appropriations for USDA and related agencies were ultimately included in the Omnibus Consolidated and Emergency Appropriations Act, 1999 (P.L. 105-277, H.R. 4328), which was approved by the House on 10/20/98 by a 333-95 vote, by the Senate on 10/21/98 by a vote of 65-29, and signed into law on October 21, 1998.

FY1999 Agriculture Appropriations Action

The conference agreement on the FY1999 omnibus appropriations bill (P.L. 105-277/H.R. 4328) was signed into law on October 21, 1998. The measure contains \$55.9 billion in regular FY1999 appropriations for USDA and related agencies and \$5.9 billion in emergency funding to help farmers recover from natural disasters and low crop prices.

The House and Senate earlier had approved a separate conference agreement for FY1999 USDA appropriations (H.R. 4101) on October 2 and October 6, 1998, respectively. However, the President vetoed the measure on October 7, because the emergency spending provisions in the bill did not include a Senate Democratic leadership-supported increase in loan rates (price guarantees) for farmers. The vetoed

measure included \$55.9 billion in new budget authority, and \$4.2 billion in emergency assistance.

Republican leadership opposed any increase in loan rates, but instead agreed to an increase in the amount of emergency farm assistance provided from \$4.2 billion in the vetoed bill (H.R. 4101) to \$5.9 billion in P.L. 105-277. A budget emergency was declared for this amount, which by definition requires no budgetary offsets for the new spending. (See "Emergency Supplemental Farm Assistance" below for details.

The \$55.9 billion in regular (non-emergency) FY1999 appropriations for USDA and related agencies in P.L. 105-277 is about equal to the House-passed level of H.R. 4101, \$1.3 billion below the Senate-passed level (S. 2159), and nearly \$3 billion below the Administration request. Of this amount, \$42.25 billion is for mandatory programs and \$13.69 billion for discretionary spending.

With only a few exceptions, the \$55.9 billion provided to USDA and related agencies in P.L. 105-277 is nearly identical to amounts provided in the vetoed conference agreement on H.R. 4101. The major differences are that P.L. 105-277 provides \$23.3 million more for the President's Food Safety Initiative spread out among FDA and several USDA agencies, and \$15 million more for rural empowerment zones and enterprise communities programs within USDA's rural development programs.

Total non-emergency budget authority in P.L. 105-277 for USDA and related agencies is significantly higher than the \$49.55 billion appropriated in FY1998, which is mainly attributable to a change in the formula for determining how much is required to reimburse the Commodity Credit Corporation for its net realized losses. (See "Farm Commodity Programs" below for details.) A significant portion of the \$1.1 billion difference between the total amounts provided in H.R. 4101 and S. 2159 is in the amount provided for food stamps. The House based its projections on more recent economic forecasts that show lower average participation and benefits than previously were projected.

The following is a review of the major USDA and related agencies provisions of P.L. 105-277, the House- and Senate-passed bills (H.R. 4101 and S. 2159), and the Administration request for FY1999 funding. (See Table 3 at the end of this report for a program-by-program comparison of P.L. 105-277 with the House and Senate bills, the FY1999 request, and actual FY1998 appropriations.)

Emergency Supplemental Farm Disaster and Economic Assistance

Several regions of the country, have been experiencing low farm commodity prices (primarily for wheat, corn, soybeans, and cotton) and/or natural disasters this year (particularly in the Northern Plains and the South). This has had the effect of significantly reducing farm income. P.L. 105-277 provides \$5.893 billion in supplemental assistance, primarily to mitigate the effects of low crop prices and natural disasters. Conferees included language which declares a budget emergency for this expenditure, which by definition means that no budgetary offsets will be required for this new spending.

The amount provided for farm assistance in P.L. 105-277 is similar to a proposal announced by House Republican leadership on September 17, except that it contains an additional \$1.7 billion more than what was originally proposed. Included in the final total of \$5.9 billion in emergency farm assistance provided by P.L. 105-277 are:

- \$3.057 billion in "market loss" payments to compensate grain, cotton and dairy farmers for loss of 1998 income caused by "regional economic dislocation, unilateral trade sanctions and the failure of the government to pursue trade opportunities aggressively." Of this amount \$2.857 billion are for grain and cotton farmers who were eligible for a 1998 production flexibility contract payment, and \$200 million is reserved for dairy farmers. Among contract holders, the \$2.857 billion is expected to be distributed in approximately the following proportions: corn contract holders (\$1.3 billion), wheat (\$750 million), upland cotton (\$332 million), rice (\$242 million), and other feed grains (\$212 million.) These additional payments are about 50% higher than the \$5.6 billion in contract payments farmers are scheduled to receive in FY1999. The Secretary of Agriculture will have to determine how the \$200 million in dairy payments will be distributed among dairy producers, since milk is not a contract commodity;
- \$1.5 billion in disaster payments to farmers who have incurred significant losses to any crop in 1998 due to natural disasters;
- an additional \$875 million in direct disaster payments to producers who have experienced multiple years of natural disasters and crop diseases, particularly those in the Northern Plains and Upper Midwest.
- \$200 million in cost-share assistance for livestock growers who lost to a natural disaster a significant amount of feed grown on the farm.

Disaster payments will be made to a producer regardless of whether the farmer had an active crop insurance policy. However, if a farmer waived crop insurance coverage in 1998, he would be required to obtain crop insurance in the next two crop years as a condition for receiving a disaster payment. Because the federal government pays the entire premium for the farmer for the basic level of crop insurance coverage, this mandatory requirement to obtain insurance is estimated to cost the government an additional \$66 million, which is factored into the \$5.9 billion supplemental appropriation. Conditions of eligibility for the disaster payments were left to the discretion of the Secretary of Agriculture.

Other emergency farm assistance provisions in P.L. 105-277 include: \$50 million in disaster assistance to help western Alaska fishermen recover from poor salmon returns; \$40 million in additional salaries and expenses for the Farm Service Agency (FSA), the USDA agency that administers farm commodity, disaster and loan programs; and \$31 million in budget authority to support \$540 million in additional direct and guaranteed FSA farm operating loans; and \$3 million in dairy disaster assistance.

A provision not included in the conference agreement, but strongly supported by the Administration and Senate Democratic leadership during the debate, was a

temporary increase in the loan rate (price guarantees) for certain farm commodities. One attempt to raise the loan rates for grains and cotton was defeated during Senate floor action on S. 2159. Another attempt was defeated when the Senate tabled a similar amendment to the Interior appropriations bill (S. 2237). The President vetoed the conference agreement on FY1999 agriculture appropriations because its emergency provisions did not include an increase in the loan rates. Senate Democrats supported an increase saying it was needed to adequately address farm financial problems. Republican leadership opposed a proposed one-year increase in loan rates because of its estimated cost (\$5 billion) and because it believed that it would fundamentally undermine the policy changes made by the omnibus 1996 farm law.

For more details on the implementation of the emergency provisions, see CRS Report 98-952, *The Emergency Agricultural Provisions in the FY1999 Omnibus Appropriations Act*.

Farm Commodity Programs

Outlays for the farm commodity programs, and certain farm export programs and conservation programs are funded through USDA's Commodity Credit Corporation (CCC). The CCC is a revolving financing mechanism within USDA, through which it supports more than a dozen specified commodities, including grains, cotton, milk, sugar, peanuts, and tobacco. The formulas that determine payments under these programs are made by long-term farm legislation, and benefits have to be provided to any participating producer.

In past years, outlays of the CCC have been highly variable, and tended to fluctuate based on crop market conditions. The Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127, the 1996 farm bill) replaced the program of making direct payments to participating producers when market prices fall below a target level, with pre-determined and declining market transition payments to eligible producers over a 7-year period. Consequently, CCC outlays have been more predictable since 1996 than they were in previous years.

The Administration estimated earlier this year that total CCC outlays for FY1999 would be \$9.0 billion for all CCC-funded programs, of which \$5.5 billion would be for direct market transition payments to farmers.¹ (All estimates exclude the \$5.6 billion in emergency FY1999 CCC spending provided by P.L. 105-277.) The \$9.0 billion estimate is down from an estimated \$9.3 billion in FY1998 outlays of which \$5.8 billion was in market transition payments. Because these programs are funded through the CCC, they do not require annual appropriations. Instead, the CCC borrows funds from the Treasury to fund its operations. However, because CCC outstanding borrowing cannot exceed \$30 billion, the annual appropriations bill

¹ In addition to the farm commodity programs, the CCC also serves as a funding mechanism for several USDA export subsidy programs, including the export enhancement program, export credit guarantees, and the market assistance program, and for an array of conservation programs, including the conservation reserve program, the wetlands reserve program, and the environmental qualities incentive program. (See "Agricultural Trade and Food Aid" and "Conservation" below for more details on these programs.)

usually contains funding for a "reimbursement of CCC net realized losses" so that the CCC can repay its debt to the Treasury and not exhaust its borrowing authority. This reimbursement is also categorized as a mandatory expense and is not included toward the discretionary spending allocation given to the appropriations subcommittees.

The \$8.439 billion requested by the Administration, and provided as a regular (non-emergency) appropriation in P.L. 105-277, for the FY1999 reimbursement to the CCC is up significantly (+\$7.7 billion) from the \$783.5 million that was appropriated in FY1998. Much of the difference can be explained by a change in methodology used by USDA for determining how much to request for net realized losses, rather than a change in farm policy. (In brief, the methodology used before last year based the reimbursement request on an estimate of losses in the previous fiscal year, while the new methodology bases the request on actual losses from the second previous fiscal year.) The \$783.5 million requested in FY1998 was unusually low because it was a transition year for switching to the new methodology.

Although the farm commodity programs do not require an annual appropriation, per se, opponents of these programs have in the past offered floor amendments to agriculture appropriations bills in an attempt to effect changes in farm commodity policy. Separate amendments which would have affected the peanut and sugar price support programs and crop insurance for tobacco farmers were offered and defeated on the House floor when H.R. 4101 was debated in June. An adopted Senate amendment to S. 2159 would have required tobacco growers to be assessed for the cost of USDA to administer its tobacco price support programs and related activities, but was deleted in conference.

Civil Rights Provisions. P.L. 105-277 contains provisions somewhat similar to what was in the House-passed appropriations bill (H.R. 4101) with respect to waiving the statute of limitations for certain allegations of discrimination against USDA. The Department has been under close scrutiny in recent years for its treatment of minorities, for both its personnel actions and in its administration of its farmer programs. P.L. 105-277 waives the statute of limitations on civil rights cases for eligible complaints made during the period January 1, 1981 through December 31, 1996. Eligible complaints included in the conference agreement are those pertaining to cases involving potential discrimination within USDA's farm commodity, farm credit, rural housing loan, and disaster assistance programs only. Conferees on P.L. 105-277 modified the civil rights provision in the vetoed bill (H.R. 4101) to include housing loan programs and to extend the statute of limitation back to 1981, instead of 1983 as in the vetoed bill. P.L. 105-277 also requires the Secretary of Agriculture to conduct an investigation, issue a written determination, and propose a resolution, within 180 days.

Milk Marketing Order Reform. P.L. 105-277 contains a House-adopted provision that requires USDA to issue its final rule for federal milk marketing order reform between February 1, and April 4, 1999, and extend the deadline for implementation from April 4, 1999 to October 1, 1999. No comparable provision was in the Senate-passed bill. Federal milk marketing orders regulate the farm price of milk in much of the country. USDA is in the process of consolidating the number of marketing orders, as required by the 1996 farm bill, and reforming dairy pricing

policy, which has been the center of controversy among dairy production regions, processors and consumers.

The conference provision to extend the deadline is supported by Northeast and Southeast dairy producer groups who support the current milk pricing system and are concerned that USDA might implement reforms that reduce minimum farm milk prices while Congress is in recess later this year. Opponents of the provision (mainly Upper Midwest milk producers) contend that the provision applies pressure on USDA to recommend the status quo, or else be faced with legislative action against a decision in favor of any reforms that would reduce minimum milk prices. The requirement that USDA release its final rule between February 1 and April 4, 1999, ensures that the rule will be released at a time when Congress is in session and can react to the ruling. An Obey amendment to H.R. 4101 would have removed this provision from the bill, but was defeated on the House floor on June 23 by voice vote.

The extension of the implementation deadline to October 1, 1999, effectively extends the life of the Northeast Dairy Compact to October 1 as well. The Northeast compact establishes higher minimum price for the farm price of beverage milk in New England, and under current law expires at the same time as implementation of order reform. A proposed Petri amendment to H.R. 4101 would have kept the sunset date for the Northeast dairy compact at April 4, 1999, but the amendment was not allowed to be considered on the House floor. The Chairman of the Rules Committee raised a point of order against the amendment on the floor stating that it was in violation of the rule (H. Res. 482) which prohibited the consideration of any amendments to H.R. 4101 that change existing law.

(For more on federal dairy policy reform, see CRS Issue Brief 97011, *Dairy Policy Issues*.)

Crop Insurance

The federal crop insurance program is administered by USDA's Risk Management Agency (RMA). It offers basically free catastrophic insurance to producers who grow an insurable crop. Any producer who opts for this coverage has the opportunity to purchase additional insurance coverage at a subsidized rate. Most policies are sold and completely serviced through approved private insurance companies that are reinsured by USDA.

There are basically four sources of federal expenditures for the crop insurance program -- USDA absorbs a large percentage of the program losses, compensates the reinsured companies for a portion of their delivery expenses, subsidizes the premium paid by participating producers, and pays the salaries and expenses of its administering agency within USDA. The program losses and premium subsidy are mandatory expenditures funded through USDA's Federal Crop Insurance Fund. The salaries and expenses of the RMA agency are a discretionary expense, subject to annual appropriations.

The funding source for the federal reimbursement to the private insurance companies has been the subject of controversy in recent years, and was recently addressed by legislation (P.L. 105-185, S. 1150, the agriculture research bill). Prior

to enactment of P.L. 105-185, one-half of the reimbursement was funded as a mandatory account and the other half was funded through discretionary funds. Beginning in FY1999, P.L. 105-185 authorizes all of the reimbursement to be funded through the crop insurance fund (as a mandatory account), thus precluding the need for a specific annual appropriation. Crop insurance supporters had feared that if the expense had remained discretionary it would become a target for cuts, which they say would lessen private sector participation in the program.

Since P.L. 105-185 created new mandatory spending of \$1 billion over 5 years for this reimbursement, a comparable offset had to be made as required by budget law. To partially offset the cost of this new mandatory expenditure, P.L. 105-185 made statutory changes to the federal crop insurance program, which achieve \$530 million in savings over 5 years. This includes increasing the fee charged farmers for catastrophic coverage (\$205 million in 5-year savings) and reducing the reimbursement rate to the private insurance companies from 27% of collected premiums to 24.5% (\$188 million in savings). The balance of \$485 million comes out of administrative cost savings in the food stamp program. A provision in the FY1999 omnibus appropriations act (P.L. 105-277) overturns the increase in the fee charged farmers for catastrophic coverage, so that farmers will pay no more than \$50 per crop per county for catastrophic coverage, instead of 10% of the Government-paid premium for coverage.

As is customary, the Administration requests "such sums as may be necessary" for the Federal Crop Insurance Fund, which it estimates to be \$1.504 billion for FY1999. (This estimate excludes any emergency supplemental benefits provided the emergency package described in the above section.) P.L. 105-277 concurs with this estimate. The Administration also requested \$66 million for the salaries and expenses of the RMA for FY1999. P.L. 105-277 freezes this account at the FY1998 level of \$64 million.

For more on the mechanics of the crop insurance program, see CRS Report 97-572 *Managing Farm Risk in a New Policy Era*.

Agricultural Credit

USDA serves as a lender of last resort for family farmers unable to obtain credit from a commercial lender through its Farm Service Agency (FSA). USDA provides direct farm loans and also guarantees qualified loans from commercial lenders, which are used to finance the purchase of farm real estate, help producers meet their operating expenses, and financially recover from natural disasters.

Under budget rules adopted in 1990, federal agencies are required to estimate the cost of making a direct or guaranteed loan and record that cost as a budget outlay for the loan. The cost of making a loan is directly related to any interest rate subsidy provided by the government, as well as a projection of anticipated loan losses caused by farmer non-repayment of the loans.

The Administration requested an appropriation of \$105.7 million to fund nearly \$3.0 billion in total farm loans for FY1999. H.R. 4101, as passed by the House in June, recommended a somewhat smaller appropriation (\$91.4 million in loan subsidy

to support \$2.299 billion total loans) than S. 2159 (\$96.5 million in subsidy to support \$2.365 billion in loans). The final amount provided in P.L. 105-277 contains a two-part appropriation for farm loans: a regular FY1999 appropriation of \$89.7 million to support \$2.285 billion in direct and guaranteed loans, and an emergency supplemental appropriation of \$31.4 million to provide \$440 million in additional direct and guaranteed operating loans. The supplemental appropriation was made to remedy the backlog of applications for operating loans, which occurred because of a shortage of FY1998 funds.

P.L. 105-277 also adopted many of the credit provisions in the Senate bill, which modify farmer eligibility for future FSA farm loans when the farmer has been forgiven outstanding debt. Under current law, a farmer borrower cannot receive a subsequent direct or guaranteed FSA farm loan if the borrower has been forgiven debt on a delinquent loan. One adopted provision would allow a borrower to have up to three debt forgivenesses and still remain eligible for a new guaranteed loan as long as the debt was forgiven before April 4, 1996. A borrower with up to one debt forgiveness that occurred before April 4, 1996, would also remain eligible for an emergency disaster loan. A separate provision requires the Secretary to use his discretion in determining whether a producer is eligible for an emergency disaster loan, and not to automatically disqualify the applicant if he lacks a certain amount of collateral.

A separate farm credit provision in P.L. 105-277 changes the individual loan limits for FSA farm loans. Current law limits a borrower to total outstanding indebtedness of no more than \$300,000 for farm ownership loans and \$400,000 for farm operating loans to a combined limit of \$700,000 per borrower. The level of the loan limit will be allowed to rise by the annual change in the consumer price index, beginning in FY2000. Another provision reduces the statutory cashflow requirement on a restructured delinquent farm loan from 110% of the amount needed by the borrower to meet expenses to 100% of that amount.

Agricultural Trade and Food Aid Programs

The omnibus FY1999 appropriations act (P.L. 105-277) provides a program level of \$5.8 billion, which entails an appropriation of \$1.2 billion, for USDA's international activities. Those activities include export credit guarantees, export subsidies and market promotion programs, and foreign food aid. The final appropriation for agricultural export and food aid programs is very near the Administration's budget request, which called for a program level of \$5.7 billion for USDA's agricultural trade and food aid programs. The difference between program level and outlays is attributable to the large part played by export credit guarantees (\$4.6 billion proposed for FY1999) in the Department's international activities. For such credit programs, only costs represented by administrative expenses and loan subsidies, not the value of the guarantees, require an appropriation. The FY1999 appropriation is \$1.1 billion lower than the FY1998 level. Proposed reductions in the value of CCC export credit guarantees and concessional food aid account for most of the decline in FY1999 requested program level and outlays. P.L. 105-277 also amend the Arms Export Control Act to allow Pakistan to regain access to USDA's agricultural export credit guarantees.

CCC Export Credit Guarantees. CCC export credit guarantees guarantee the repayment of commercial loans to finance the sale of U.S. agricultural exports to developing and middle-income countries that would otherwise have difficulty securing credit. The Administration's budget request for FY1999 differs from previous budgets in that the estimate for CCC export credit guarantees (\$4.6 billion) is intended to reflect the actual level of sales expected to be registered under the programs rather than the level authorized in the 1996 farm bill (\$5.5 billion). P.L. 105-277 reflects the Administration's estimate. For several years, actual program levels under CCC export credit guarantees have been less than the authorized amounts. For example, for FY1997, the Administration requested \$5.5 billion for these programs, but actual guarantees were \$2.876 billion. Guarantees were \$4.4 billion in FY1998. The actual level of guarantees in FY1999 could differ from the budget request, and will depend on the demand for guarantees, market conditions, and USDA decisions about using the programs.

Of the \$4.6 billion proposed, \$4.3 billion will be allocated to the GSM-102 program which provides short-term commercial export credit guarantees (up to 3 year repayment terms). \$100 million will be allocated to the GSM-103 program which provides guarantees for intermediate-term credit (3 to 10 year repayment terms). Two other guarantee programs, the supplier credit guarantee and the facilities financing guarantee, receive \$150 million and \$50 million respectively in FY1999. Under the supplier credit guarantee, CCC guarantees payments due on financing extended directly by exporters to importers (due in up to 180 days) for the purchase of U.S. agricultural products. Under the facilities financing guarantee, CCC guarantees the financing of manufactured goods and services exported from the United States to improve or establish agricultural related facilities, such as port improvements, in emerging markets.

Agricultural Trade Sanctions. Farm state members voiced concerns in June 1998 that the imposition of sanctions on Pakistan and India following their nuclear weapons tests would result in lost agricultural sales, particularly of wheat to Pakistan. This led to efforts to include amendments in the FY1999 agriculture appropriations measures reported out by both the House and Senate Appropriations Committees to allow Pakistan to regain access to USDA's agricultural export credit guarantees. Pakistan, the third largest market for U.S. wheat, has used this program extensively since the early 1990s to facilitate its sizable purchases of U.S. wheat. When Pakistan announced that it would be purchasing a large quantity of wheat on July 15, 1998, Congress approved and the President signed separate legislation (P.L. 105-194, S. 2282) to exempt USDA credits, guarantees, and financial assistance from the nonproliferation sanctions mandated under the Arms Control Act. This action helped facilitate the sale of over 600,000 metric tons of white wheat to Pakistan during the remainder of 1998. (For more information, see CRS Report 98-770, *U.S. Agricultural Exports and the Nuclear Nonproliferation Sanctions on India and Pakistan.*)

Growing recognition of the adverse impact that U.S. trade sanctions have on U.S. agricultural exports prompted considerable debate on this issue during floor consideration of the Senate version of FY1999 agriculture appropriations (S. 2159). However, conferees dropped language adopted during Senate floor debate, offered by Dodd and amended by Torricelli, that would have exempted the sale of food,

fertilizer, medicine and medical equipment from current and future U.S. unilateral sanctions, except for those imposed on countries that support terrorism or use food and medicine for coercion or punishment.

Country of Origin Labeling for Agricultural Products. P.L. 105-277 does not contain separate Senate-adopted amendments to require country of origin labeling on fresh cuts of imported meats and for imported produce. Instead, it requires further studies on these issues -- imported meat labeling issues by the Secretary of Agriculture and imported produce labeling by the General Accounting Office.

Market Access Program. The FY1999 agricultural appropriations act places no funding limitations on the Market Access Program. The FY1999 budget estimate of \$90 million is unchanged from FY1998 and is the maximum authorized under the 1996 farm bill. MAP supports, on a cost-sharing basis, foreign market development and promotion efforts of non-profit agricultural trade organizations, state and regional trade groups, and private companies. The 1996 farm bill prohibits providing direct assistance to foreign firms for the promotion of foreign-produced products and to any firm that is not recognized as a small business under the Small Business Act. Popular in the agricultural community, the program is often targeted for elimination as "corporate welfare" by opponents in Congress, some consumer organizations, and fiscally conservative groups.

MAP is a mandatory program, funded through the Commodity Credit Corporation (CCC), and does not require annual appropriations. Amendments to eliminate MAP spending in FY1999 were defeated in both chambers. P.L. 105-277 does call for the Secretary to carry out a study of the economic costs and benefits of the MAP program.

Export Subsidies. P.L. 105-277 does not provide for any changes in the EEP program and places no limits on the FAIR Act authorized levels for EEP. That means that the full amount authorized for EEP for FY1999, \$550 million, will be available. The FY1999 estimated program level is \$170 million above the FY1998 level, which was capped at \$150 in the FY1998 agricultural appropriations act. Like MAP, USDA's export subsidy programs are funded through the CCC, and are not subject to direct annual appropriations. Two programs--the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP)--offer bonuses to exporters of U.S. agricultural commodities to make them price competitive in markets that are also targets of competitors' countries subsidies. Only \$5 million in EEP bonuses were awarded in FY1996 and none were awarded in FY1997. In FY1998, the availability of EEP bonuses for 20,000 tons of poultry meat and 30,000 tons of barley were announced.

No action was taken on the President's proposal to set EEP spending at \$1.2 billion over FY1999 through FY2003 with an allocation of up to \$320 million as a first installment of a "flexible, multi-year program authorization for EEP." Under the Administration proposal, any funding not used in one fiscal year would remain available for use in a subsequent year, but annual program levels would remain subject to export subsidy reduction commitments made in the Uruguay Round Agreement on Agriculture. Savings from the proposed multi-year EEP program were estimated at approximately \$1.4 billion, the difference between the proposed program levels and

the amounts authorized in the 1996 farm bill. Authorizing this multi-year program would have required new authorizing legislation.

For DEIP, the President's budget anticipated a lower level of program activity in FY1999 because of a tighter domestic market for dairy products. The \$82 million proposed is \$17 million less than the estimated \$99 million for FY1998. Actual levels of DEIP will be determined by market conditions, subject to reduction commitments in the Uruguay Round Agricultural Agreement.

Public Law 480 or Food for Peace. The FY1999 appropriations act essentially maintains spending for P.L. 480 at the level of last year's appropriation, approximately \$1.1 billion. P.L. 480 is the U.S. Government's primary means of providing food assistance to foreign countries. Title I of P.L. 480 funds long-term concessional sales of U.S. agricultural products, primarily to develop markets in low-income countries. Title II is a program of humanitarian food donations for both emergencies and non-emergency feeding programs. Title III provides grant food aid for development projects in low-income developing countries. USDA administers Title I; the Agency for International Development (AID) administers Titles II and III.

For FY1999, the Administration proposed a total budget authority of \$967 million for P.L. 480, estimated to provide 2.8 million metric tons of commodities. The FY1998 appropriation was \$1.063 billion which will provide 3.2 million metric tons of commodity assistance. The new budget request thus represents a reduction of \$96 million in budget authority and 700,000 metric tons of commodities, all of it coming from Title I. Agricultural appropriators rejected efforts by the Administration in FY1997 and FY1998 to cut Title I spending. Similarly, previous Administration efforts to reduce or eliminate Title III were rebuffed. Commodity groups whose products figure prominently in the Title I program (wheat, wheat flour, vegetable oil, rice, among others) have opposed any reductions in Title I; supporters in Congress of using food for development assistance oppose reducing further or eliminating Title III.

Food for Progress. FFP provides commodities to governments, private voluntary organizations, cooperatives or intergovernmental organizations for use in developing countries and emerging democracies committed to free enterprise in their agricultural economies. FFP can use Title I funds to procure commodities and pay transport costs. It can use commodities, if any, in CCC inventories under Section 416(b) of the Agricultural Act of 1949; or it can use CCC funds to procure and ship commodities when Section 416(b) commodities are unavailable. Annual programming is limited to not more than 500,000 metric tons and not more than \$30 million for non-commodity costs of the program. The Administration budget assumes that \$109 million of CCC funds will be used to support FFP in FY1999--\$79 million for the purchase of commodities by CCC and \$30 million for transportation and other non-commodity costs. P.L. 105-277 provides an emergency appropriation to allow an additional \$25 million in spending for FFP.

Foreign Agricultural Service. FAS administers the agricultural export and food aid programs. It is also responsible for other market development and export promotion efforts, formulating agricultural trade policy, conducting agricultural trade negotiations, gathering foreign market information, and carrying out programs of

international cooperation. The FY1999 budget requested \$141 million in appropriated funds for FAS, but P.L. 105-277 provides for an appropriation of \$136.2 million which includes funds (\$4.4 million) for international cooperative administrative support to cover costs of FAS' overseas operations. Included in FAS's appropriated funding is around \$60 million for market development, which includes funding to support the Foreign Market Development (or Cooperator) Program (FMDP).

For more information on agricultural trade and food aid programs, see CRS Issue Brief 98006, *Agricultural Export and Food Aid Programs*.

Conservation

P.L. 105-277 provides \$793.1 million for conservation programs in FY1999, slightly more than the FY1998 appropriation of \$786.5 million. Conservation programs are administered by both USDA's Natural Resources Conservation Service (NRCS) and its Farm Service Agency (FSA). However, all of the appropriated funds go to the NRCS. The Administration had requested \$826.3 million, an increase of \$40 million from the preceding year. The Senate-passed appropriation bill (S. 2159) would have provided \$792 million, while the House-passed bill (H.R. 4101) would have provided \$784.4 million.

The balance of funding for conservation programs was made mandatory in the 1996 farm act and is funded through the Commodity Credit Corporation (CCC). P.L. 105-277 allows just under \$2 billion in funding for those programs in FY1999, a savings of more than \$100 million from the Administration proposal and more than \$300 million from FY1998.

Natural Resources Conservation Service. Within NRCS, the core conservation program and the primary source of technical assistance to producers and landowners is Conservation Operations (CO). P.L. 105-277 provides \$641 million for CO, \$99 million less than the Administration request of \$742 million. This request included a transfer of \$50 million from the Watershed and Flood Prevention Operations Program (the portion that pays for the technical assistance under this program) into the CO account. Other major requested increases included \$23 million for activities associated with the Clean Water and Watershed Restoration Initiative, and \$20 million to be used as incentive payments to encourage state and local conservation efforts. These increases would have been partially offset by \$10 million from user fees (to be charged for the first time in conservation), and elimination of \$6.9 million in prior congressional earmarks that do not have a federal or national impact. Both chambers rejected these requests. The House-passed bill had recommended funding at \$641 million for CO, while the Senate-passed bill provided \$638.6 million.

In the reports accompanying the legislation, both chambers included numerous recommendations for specific activities or projects (mostly of \$1 million or less), and some involve policy changes. The House report expressed concern about accountability for how these funds are spent and identified several Administration initiatives on which they cannot be spent without prior approval by the House Appropriations Committee. It also called on NRCS to submit a report justifying the creation of regional offices with its FY2000 budget submission. The Act is silent on most items in the report language that either chamber had adopted. Where one

chamber had earmarked funds, the earmark was accepted, but some of the funding levels were changed.

Beyond CO, P.L. 105-277 rejects most of the Administration proposals and makes changes in other programs. It adopts language on the Watershed and Flood Prevention Program inserted by the House that limits Technical Assistance under that program to a maximum of \$47 million, and provides \$6.3 million for the Forestry Incentives Program, as passed by the Senate. (The House and Administration had both recommended no funding.) The House and Senate had small disagreements on two other programs; the Senate provided level funding for two NRCS programs that are line items, Watershed Surveys and Planning and Resource Conservation and Development, while the House provided a decrease of \$1.6 million for Watershed Surveys and Planning, and an increase of less than \$1 million for the Resource Conservation and Development Program.

Five conservation programs administered by NRCS are funded as mandatory spending (not subject to annual appropriations) through the CCC as a result of provisions in the 1996 farm act. P.L. 105-277 makes changes to three of these mandatory programs and claimed nearly \$100 million in budget savings, which was then applied towards meeting the allocation for all discretionary programs. It limits the Environmental Quality Incentives Program (EQIP), which supports structural and land management practices under multi-year agreements, to \$174 million for savings of \$26 million; concurs with the Senate in limiting Wetland Reserve Program (WRP) enrollment to 120,000 acres for savings of \$47 million, and includes language passed by the Senate supporting greater flexibility for enrolling land into the WRP. It concurs with both Chambers in prohibiting any funding for the Conservation Farm Option (CFO), which provides payments to producers receiving market transition payments, for savings of \$25 million. But, P.L. 105-277 rejected the House-passed prohibition on funding the Wildlife Habitat Incentives Program (WHIP), which provides payments to farmers who implement approved plans.

The Administration had proposed adding \$100 million to the EQIP and increasing the CFO by \$10 million. A proposed reduction in the WRP by \$95 million, to \$124 million, would have allowed USDA to enroll an additional 164,000 acres under permanent easements, temporary easements and long-term agreements. Also in the Administration request, the WHIP would have declined from \$30 to \$20 million and the Farmland Protection Program (FPP) would not have been funded. These changes reflect the approaching of the enrollment cap for the WRP, and the allocation of all authorized funds for the FPP in FY1998 and for the CFO and WHIP in FY1999.

The Senate bill had limited WRP enrollment to 120,000 acres (for \$47 million in savings), changed how land can be enrolled and when payment limits would not apply for the WRP, and prohibited any funding for the CFO (\$25 million in savings). The House bill had prohibited funding for the WHIP (\$20 million in savings), limited WRP enrollment to 130,000 acres (\$37 million savings), and limited funding for the EQIP to \$174 million (\$26 million savings). It also had prohibited funding for the CFO (\$25 million savings).

Farm Service Agency Conservation Programs. FSA operates the largest conservation program, the Conservation Reserve Program (CRP). Under the CRP, landowners can enter into contracts, usually 10 years in duration, to retire environmentally sensitive lands from production in return for annual payments and technical assistance. CRP is a mandatory program funded through the CCC as a result of provisions enacted in the 1996 farm act. Estimated funds needed for the CRP decline from \$1.798 billion in FY1998 to \$1.694 billion in FY1999, according to the Administration. No funds were requested for two other programs, both responding to natural disasters, the Emergency Conservation Program (ECP) and the Flood Risk Reduction Program. Conferees rejected a Senate provision to add a pilot program for haying and grazing on CRP acreage in 7 states in no more than 1 in 4 years in return for reduced payments. The House-passed bill provides some directions for administering the Conservation Reserve Enhancement Program, a subset of the CRP.

The Forest Service, with requested outlays of \$3.378 billion in FY1999, is another agency in USDA with natural resource protection responsibilities. Appropriations for the Forest Service are within the jurisdiction of the interior subcommittees of the House and Senate Appropriations Committees. Forest Service funding issues are addressed with the other major federal land management agencies in the CRS report on the Interior appropriations bill (see CRS Report 98-206.)

For more information on USDA conservation issues, see CRS Issue Brief IB96030, *Soil and Water Conservation: Implementing the 1996 Farm Bill*.

Agricultural Research, Education, and Economics

The FY1999 omnibus appropriations act (P.L. 105-277) contains \$1.930 billion in spending to support the programs of USDA's research, education, and economics (REE) agencies in FY1999. The House-passed version of H.R. 4101 contained \$1.838 billion, and the Senate bill, S. 2159, contained \$1.843 billion for the REE agencies. The vetoed conference agreement on H.R. 4101 would have provided \$1.923 billion. Its research provisions are virtually identical to those in P.L. 105-277, except that P.L. 105-277 provides \$7 million more to the research agencies for the President's Food Safety Initiative. The level in P.L. 105-277 is almost 7% higher than the Administration's request of \$1.808 billion and 3% above the FY1998 funding level of \$1.870 billion. The conference agreement's allocation of funds among the various research and education programs differs significantly from the Administration's, as did the earlier House and Senate measures.

Four agencies carry out USDA's REE function. The Department's in-house research agency is the Agricultural Research Service (ARS), which provides scientific support to USDA's action and regulatory agencies and conducts long term, high risk, basic and applied research on subjects of national and regional importance. The National Agricultural Library merged with ARS in the 1994 USDA reorganization. The Cooperative State Research, Education, and Extension Service (CSREES) is USDA's liaison with state-level research, education and extension programs at the land grant Colleges of Agriculture. The Economic Research Service (ERS) provides economic analysis of agriculture issues using its databases as well as data collected

by the National Agricultural Statistics Service (NASS). ARS, CSREES, ERS, and NASS are under the Under Secretary for Research, Education, and Economics.

Agricultural Research Service (ARS). P.L. 105-277 provides \$842 million for ARS in FY1999. Of that amount, \$786 million would be allocated to ARS research programs (a \$42 million increase from the FY1998 level of \$744 million), and \$56.4 million would be allocated to the construction and repair of ARS buildings and facilities (compared to \$80.6 million in FY1998). P.L. 105-277 provides more for ARS than either the Senate measure (S. 2159 -- \$809 million), the House-passed version (H.R. 4101-- \$817.2 million), or the conference agreement on H.R. 4101 (\$838.4 million) .

The Senate-passed version of S. 2159 contained a \$13.5 million reduction in the ARS buildings and facilities funds that the Senate used to partly offset a \$66 million increase in support for the President's Food Safety Initiative over the amount contained in the bill as originally reported by the Senate Appropriations Committee. Of the \$66 million, the Senate designated \$9 million for ARS food safety research (the Administration requested \$14 million). P.L. 105-277 provides a total of \$59.3 million for the Initiative for research and increases the ARS allocation by \$3.6 million to \$12.6 million, but the offset is no longer coming from ARS's construction funds. The final appropriation of \$56.4 million for ARS buildings and facilities exceeds the Senate-passed level by \$24.5 million and is only \$5 million less than the House-passed level of \$61.4 million.

Two other titles of P.L. 105-277, not related to agriculture, also provide funds to ARS for specific research. Under Title III, the Office of National Drug Control Policy is to transfer \$4.5 million to ARS for anti-drug research. Under Title VIII, the Western Hemisphere Drug Elimination Act of 1998, \$23 million is appropriated for ARS to do research on drug crop eradication technologies, narcotics plant biochemistry, alternative crops, and development of herbicides for aerial spraying programs to eradicate narcotic plants.

Cooperative State Research, Education, and Extension Service (CSREES). P.L. 105-277 provides \$919.2 million for cooperative research, education, and extension programs in the states, an amount that is \$71.3 million higher than the House-passed version of H.R. 4101, \$44 million higher than S. 2159, \$88 million above the Administration request, and \$3.9 million more than the vetoed conference agreement on H.R. 4101.

The Administration requested a \$23.5 million decrease in CSREES funding for FY1999, which included controversial reductions in Hatch Act funds for research at the state agricultural experiment stations, Smith-Lever Act formula funds for Extension programs, and McIntire-Stennis funds for cooperative forestry research. P.L. 105-277 reverses all of these proposals and actually provides more than contained in either S. 2159 or the House-passed version of H.R. 4101 (with the exception of formula funds for extension programs, where the conferees agreed with what the Senate had provided in S. 2159). P.L. 105-277 contains \$180.5 million for Hatch Act formula funds (a 7% increase over FY1998); \$276.5 million for Smith-Lever formula funds (a 3% increase); and \$21.9 million for forestry research (a 7% increase). P.L. 105-277 also increases funding for research at the 1890 historically

black land grant colleges by 7%, to \$29.7 million, and for 1890's extension programs by 3%, to \$25.8 million.

P.L. 105-277 provides \$119.3 million for the National Research Initiative (NRI) competitive grants program. This amount is higher than either the House or Senate bills and higher than the FY1998 level of \$112.5 million, but less than the Administration's \$130 million request. Of the six research categories under the NRI, food safety receives an \$8 million increase over the FY1998 level for a total of \$16 million, as part of the Food Safety Initiative. Conference report language directs USDA to consult with the Food and Drug Administration (FDA) regarding its research needs and to use \$5 million of the \$8 million increase to meet those needs. P.L. 105-277 also provides an additional \$4.1 million to CSREES for other research programs addressing food safety, for a total increase of \$12.1 million in cooperative food safety research.

P.L. 105-277 provides a 23% increase (to \$63.1 million) over the FY1998 level of \$51.5 million. S. 2159 would have reduced funding for special grants to \$51.4 million and the House-passed version of H.R. 4101 to \$49.3 million. P.L. 105-277 also provides an additional \$633,000 in funding for Extension special projects over the FY1998 level of \$11.1 million. Extension's Expanded Food and Nutrition Education Program will receive level funding of \$58.7 million.

Congress directed in the FY1996 agricultural appropriations report that no new funds should be appropriated for constructing research facilities at land grant Colleges of Agriculture after FY1997. No such funds were appropriated for FY1998. The Administration did not request any funds for facilities construction in FY1999, and P.L. 105-277 likewise contains none. It is expected that such funding may resume once Congress and Department officials have examined a congressionally mandated 10-year strategic plan for agricultural research facilities that is due to be completed shortly.

CSREES administers a competitive grants program under the Fund for Rural America, a program focused on research and development projects of benefit to farm and rural communities that was authorized and given mandatory funding in the 1996 farm act (P.L. 104-127). In FY1998, CSREES had \$36.1 million available in funds to award to research projects related to rural needs. The recently enacted Agricultural Research, Extension, and Education Reform Act (P.L. 105-185, S. 1150) extended the authority for the Fund for Rural America through FY2003 and allocated an additional \$100 million in mandatory funds to it over 5 years. This would make a total of \$60 million available annually to USDA for all the activities of the Fund, with somewhat less than half of that amount being available for research grants. P.L. 105-277 reflects provisions in both the House- and Senate-passed FY1999 funding measures that prohibit the use of any funds to pay the salaries and expenses of personnel to carry out Fund for Rural America activities. This effectively puts the program on hold until FY2000.

Similarly, P.L. 105-277 adopts a provision in the House-passed version of H.R. 4101 that prohibits outlays of the first year's allocation of \$120 million for the Initiative for Future Agriculture and Food Systems. The Initiative was authorized by the new research reauthorization act (P.L. 105-185) and would provide \$600 million

in mandatory funds over 5 years to support research on the genetics of food crops and livestock, food safety, human nutrition, alternative uses for agricultural commodities, biotechnology, and site-specific farming using satellite technology (precision agriculture). The withholding of the first year's funds puts the program on hold until FY2000.

Economic Research Service (ERS) and National Agricultural Statistics Service (NASS). P.L. 105-277 provides \$65.8 million in funding for ERS. This is slightly below the House-passed level of \$67.3 million and significantly higher than the Senate level of \$54.0 million. The FY1998 appropriation of \$71.6 million reflected a decision to give ERS the responsibility for all USDA research and analysis of food programs and food policy issues. P.L. 105-277 adopts the House provision to keep those responsibilities in ERS rather than to transfer them to the Food and Nutrition Service as the Administration requested and the Senate proposed. P.L. 105-277 stipulates that \$12.2 million will be used for studies and evaluations of the food stamp, child nutrition, and Women, Infants, and Children (WIC) programs, and also includes language that directs that \$2 million of the \$12.2 million be transferred to the Food Program Administration account of the Food and Nutrition Service for conducting program evaluations. Also as part of ERS's total funding, the conferees directed \$453,000 to be spent on studies to estimate the benefits of food safety. S. 2159 had provided \$900,000 for that purpose and the House-passed bill contained \$704,000. The conferees also reiterated Senate report language directing ERS not to reduce the frequency of its commodity situation and outlook reports.

P.L. 105-277 adopts the Senate provision to provide \$104 million for NASS, reflecting the Administration's position that the agency will not require as much funding in FY1999 to continue its work on the 1997 Census of Agriculture. The FY1998 appropriation was \$118 million, and the Administration's budget request for FY1999 was \$107.2 million. The House measure would have provided \$105.1 million. P.L. 105-277 provides that \$23.6 million be spent for NASS's continuing work on the census, and reiterates Senate report language requiring USDA to streamline the census application by reducing redundant questions.

For more information on agricultural research issues, see CRS Issue Brief 97032, *Agricultural Research, Education, and Extension Issues in the 105th Congress*.

Food Safety and Inspection

Improved food safety is among the three goals that Secretary Glickman has set forth for USDA under the Government Performance and Results Act. In order to elevate the Department's role in this mission area, the Administration in 1995 established an Office of the Under Secretary for Food Safety. The Food Safety and Inspection Service (FSIS) is the only agency in USDA's food safety mission area. FSIS is responsible for the mandatory inspection of meat, poultry and processed egg products to ensure their safety, wholesomeness, and proper labeling.

FSIS and the industry are now implementing a comprehensive new system to reduce pathogens in meat and poultry products through a preventive approach known as hazard analysis critical control point, or HACCP. This system is to supplement, not replace, existing inspection procedures. One budget issue related to HACCP implementation is FSIS's ability to properly implement and enforce the new

procedures while still meeting its traditional inspection obligations. Some observers maintain that the agency could be hard pressed to keep both systems operating optimally with the annual appropriation it receives from Congress.

Food Safety and Inspection Service. For several years the Administration has proposed requiring the meat packing industry cover a greater portion of the full cost of federal meat, poultry, and egg inspection by paying increasing amounts of user fees. Congress rejected the Administration's user fee proposal last year, as it has rejected previous (and more modest) ones, and both the Senate and House appropriations measures reject the Administration's user fee proposal for FY1999.

For FY1999, P.L. 105-277 provides a \$617.0 million appropriation for FSIS. This level is \$8 million higher than the vetoed conference agreement on H.R. 4101. It is estimated that the amount of user fees collected for overtime inspection services will remain at about the FY1998 level (\$86 million), bringing the total program level to \$704 million, about a 4% increase from the 1998 fiscal year. The FY1998 appropriation for FSIS was \$589 million, with a total program level of \$675 million. The \$8 million increase is designated entirely to FSIS activities related to the Food Safety Initiative, bringing the agency's total allocation for the Initiative to \$16 million in FY1999. Conferees adopted a Senate provision to provide separate funding of \$446,000 for the Office of the Under Secretary for Food Safety rather than a House proposal to fund the Office from the FSIS appropriation. Congress provided separate funding for the Office in FY1998.

Conferees adopted language directing the Secretary to report to the Committees on Appropriations by March 1, 1999, with recommendations on lifting the ban on interstate shipment of state inspected meat. The committee also rejected a Senate provision to require country-of-origin labeling on imports of beef and lamb, but requires a comprehensive study on its potential effects and several other related issues. The explanatory statement attached to P.L. 105-277 also directs FSIS to redo a report on the potential merits and effectiveness of a mandatory inspection program for meat from ratites (e.g., ostrich, emu, rhea), and to include in the revision the cost-benefit analysis and health risk assessment that Congress had originally asked for. (For more information, see CRS Issue Brief 95062, *Meat and Poultry Inspection Issues*.)

Marketing and Regulatory Programs

The mission of USDA's marketing and regulatory programs — administered by three agencies, the Agricultural Marketing Service (AMS), the Animal and Plant Health Inspection Service (APHIS), and the Grain Inspection, Packers, and Stockyards Administration (GIPSA) — is to “facilitate the domestic and international marketing of U.S. agricultural products and to ensure the health and care of animals and plants while improving market competitiveness and the economy for the overall benefit of both consumers and American agriculture,” according to USDA. APHIS spending accounts for most of the marketing and regulatory program budget.

P.L. 105-277 contains \$521.3 million for these agencies' programs, with an additional \$195.3 million authorized to be collected through user fees, for a total program level of \$716.6 million (27% user fee supported). The total program level in FY1998 was \$708.6 million, of which approximately \$195 million (or about 27%) came from user fees. The Administration's FY1999 budget proposal would have set

a program level of \$712.7 million for these agencies' programs, of which \$207 million (about 29%) would have come from user fees.

Agricultural Marketing Service. P.L. 105-277 provides \$61.0 million in appropriations to AMS (\$3.0 million more than FY1998) and authorizes the collection of \$64.7 million in user fees (\$1.2 million more than the current year) for a total FY1999 program level of \$124.7 million. The Senate measure, S. 2159, would have provided \$57.8 million in budget authority to AMS and authorized the collection of \$63.5 million in user fees. The House-passed bill allocated virtually level funding for FY1999 and adopted the Administration's request to allow \$64.7 million to be collected in user fees. The Administration had requested \$70.7 million for AMS and would have allocated most of the increase to broadening the scope of the Pesticide Data Program (PDP), which collects and analyzes data on pesticide residues in fruits, vegetables, and other foods.

P.L. 105-277 adopts a Senate provision that amends the Agricultural Marketing Act of 1946 to make it illegal to grade and repack eggs in USDA-stamped cartons if they have already been in commerce without having gone through the USDA voluntary egg grading program. Conference language also requires USDA and FDA to submit a status report to Congress on the agencies' efforts to improve the safety of shell eggs.

Animal and Plant Health Inspection Service. P.L. 105-277 provides \$425.8 million in budget authority for APHIS programs (\$0.5 million less than FY1998) and authorizes the expenditure of \$88 million (same as FY1998) in collected user fees, for a total program level of \$513.8 million for FY1999. S. 2159 would have provided a program level of \$514.5 million, and the House version of H.R. 4101 would have provided \$512.5 million. P.L. 105-277 also provides \$7.7 million for APHIS building projects, an amount that is \$2.5 million higher than the budget request and the House-passed bill, and \$3.5 million higher than S. 2159. Conferees also adopted language directing USDA to publish rules regarding the compensation of Arizona wheat producers and others for their economic losses on the 1997-1998 crop due to karnal bunt disease.

The budget request, which called for an \$8.1 million decrease for APHIS programs in FY1999, assumed less demand for some APHIS programs and increased cost-sharing for predator control and boll weevil eradication programs. In addition, the Administration's FY1999 budget proposed new user fees to recover some of the costs for administering animal welfare, biotechnology, veterinary biologic, pink bollworm, and Swine Health Protection Act programs. P.L. 105-277 reflects the fact that neither the Senate nor the House bill adopted this proposal.

A floor amendment (Bass) to the House version of H.R. 4101 that would have reduced funding by \$10 million for APHIS's livestock predator control operations through its Wildlife Services program was adopted on June 23, and then voted down on June 24. After the amendment was adopted, many members were concerned that the wording of the amendment would actually reduce Wildlife Services spending by \$21 million instead of the intended \$10 million, and require reductions in Wildlife Services research spending as well as operations. When the amendment was revised the next day, it was defeated, thus maintaining the funding level at \$28.7 million for

operations and \$10.3 million for research, as originally reported by the House Appropriations Committee.

P.L. 105-277 provides \$28.8 million for predator control operations and \$10.4 million for research. Conferees also adopted provisions that would provide: \$400,000 to be used to prevent the inadvertent introduction of brown tree snakes in Hawaii; \$300,000 to establish a Wildlife Services office in Hawaii; \$450,000 for trap testing to meet U.S. obligations under international standards; and an additional \$175,000 for coyote and wolf control in the Rocky Mountain region.

Grain Inspection, Packers, and Stockyards Administration. P.L. 105-277 provides \$26.8 million for GIPSA and authorizes the collection of \$42.6 million in user fees for a total program level of \$69.3 million. S. 2159 would have appropriated \$26.4 million and the House-passed measure \$27.5 million for GIPSA. The amount provided in P.L. 105-277 is slightly higher than the current appropriation (\$25.4 million) and substantially higher than the Administration request of \$11.8 million. The budget request assumed enactment of authority for \$21.5 million in additional user fees (which the House and Senate did not adopt) for grain inspection activities and to administer the Packers and Stockyards Act. A provision added in conference on P.L. 105-277 requires the Secretary of Agriculture to conduct a 12-month pilot investigation to require certain large buyers, sellers or marketers of domestic or imported cattle for fresh beef, or sheep for frozen lamb, to report to the Secretary the prices they paid. A similar pilot investigation is also required for the collection of export data for fresh or frozen muscle cuts of beef.

Rural Development

USDA rural development programs are intended to improve the quality of rural life through the development of decent and affordable housing; the creation and retention of jobs; expanded and improved access to electric and telecommunications services, and modern and affordable water and waste disposal services. Funds are awarded and technical assistance provided by one of three USDA rural development services charged with carrying out the department's rural development strategy: Rural Housing Service (housing and community facilities), Rural Business-Cooperative Service, and Rural Utilities Service (telecommunications, electricity, water quality, and solid and wastewater disposal). Funds are awarded to states and local governments, rural businesses and cooperatives, and nonprofit organizations and individuals.

In the aggregate, the amount appropriated by P.L. 105-277 for rural development activities totals \$2.175 billion for assistance to the three rural development service agencies and for the Rural Community Advancement Program (RCAP). A portion of total rural development funding is targeted to direct subsidy support of \$6.169 billion in loan authority. P.L. 105-277 includes a total of \$657 million in grants, and \$1.5 billion in loan subsidies, salaries, and expenses. The President's FY1999 budget proposal included a request for an appropriation of \$2.220 billion for rural development programs, much of which would have supported \$5.797 billion in loan authority for rural development initiatives.

Rural Community Advancement Program. In addition to grants, loans, and loan guarantees awarded under one of the three service divisions of the Rural Development Administration, rural development assistance may also be available through the Rural Community Advancement Program (RCAP), which was authorized by the Federal Agriculture Improvement and Reform Act of 1996. RCAP consolidated twelve programs into three distinct funding streams dedicated to rural community facilities, rural utilities, and rural business and cooperative development. State development officers may transfer up to 25% of the program's total budget authority among the three accounts, provided that no more than 10% of the funds are transferred from any one of the three accounts nationally. A state may control up to 10% of its RCAP funds through the creation of a state administered block grant.

The FY1999 omnibus appropriations act includes \$722.7 million in budget authority to support RCAP loan and grant activities. This is \$22.5 million less than recommended by the House, \$20.1 million more than approved by the Senate, \$7.5 million more than requested by the Administration, and \$70.5 million more than appropriated for FY1998. A major portion (\$68 million) of the \$70.5 million increase in appropriations will be allocated to support water and waste disposal grants and loans. The increase in grants and loans for water and waste disposal projects is consistent with the President's Water 2000 Initiative to provide all rural households with clean running water by the year 2000.

P.L. 105-277 includes a provision originally included in the Senate bill that would permit the USDA to transfer up to \$26 million in discretionary funds not otherwise appropriated for a specific purpose or location for activities in the Lower Mississippi Delta Region. It also includes a proviso that would count any funds made available from ongoing programs of the Department for use in the Lower Mississippi Delta as part of the \$26 million targeted to the region.

P.L. 105-277 directs the Undersecretary for Rural Development to give particular consideration to specific projects or activities in various locations, but the report stops short of earmarking RCAP funds for these projects. Instead, report language states that the Department is "to apply established review procedures when considering applications." Such language contrasts with the recent practice of allocating funds for the Department of Housing and Urban Development's Economic Development Initiative (EDI), where funds are routinely earmarked for specific projects identified in reports accompanying bills appropriating funds for HUD programs. (For additional discussion of the increasing use of set-asides under the EDI program, see CRS Issue Brief 98026, *Community Development Block Grants: Funding and Other Issues in the 105th Congress.*)

P.L. 105-277 includes provisions found in the original House- or Senate-passed versions of the bill, including earmarks of:

- \$16.2 million in technical assistance for water and sewer funding;
- \$5.3 million for the circuit rider program;
- \$33.9 million for assistance to empowerment zones and enterprise communities (EZ/EC);

- \$500,000 in transportation related technical assistance; and .
- \$24 million in water and waste disposal assistance.

Rural Housing Service. P.L. 105-277 provides a total appropriation of \$1.14 billion, of which \$197.3 million supports \$4.25 billion in total housing loans (\$1.15 billion in direct loans and \$3.0 billion in loan guarantees). Included in this amount is \$116.8 million appropriated to support \$3 billion in guaranteed loans and \$965 million in direct loans for single family housing in support of the Administration's National Housing Initiative. Loan authority provided for single family housing is \$35 million more than approved by the House and \$35 million less than what was approved by the Senate, requested by the Administration, and appropriated in FY1998. On a number of other RHS funding items, the Senate conferees receded in favor of the recommendations of the House. These included funding for the: Section 504 housing repair program (\$25 million in loan level supported by \$8.8 million in subsidies); Section 514 farm labor housing program (\$20 million loan level supported by \$10.4 million subsidy); multifamily credit sales program (\$2.3 million in subsidy in support of a \$5 million loan level); and credit sales of acquired property program (\$3.5 million in loan subsidy in support of \$16.9 million in loan authority.)

Provisions of P.L. 105-277 reflect House and Senate compromises on assistance for Section 515 rental housing loans and Section 538 multifamily housing guarantees. The Act provides a loan subsidy of \$55.2 million to support \$114.3 million of Section 515 activities. It also provides \$100 million for Section 538 multifamily housing loan guarantees, a significant increase from the \$20 million program level in FY1998. In addition, P.L. 105-277 includes a Senate provision that earmarks \$10.4 million in RHS assistance to existing empowerment zones and enterprise communities (EZ/EC) authorized under P.L. 103-66. The Administration had sought to provide \$100 million in grants, over 5 years, for five newly designated empowerment zones. P.L. 105-277 also includes a general provision, which was in neither the House nor the Senate bill, which appropriates an additional \$15 million in assistance to previously designated empowerment zones (\$10 million) and 20 additional rural enterprise communities (\$5 million).

The FY1999 appropriations act also includes a Senate provision that earmarks \$1 million in mutual and self help housing grants for use in EZ/EC communities with the proviso that such assistance must be obligated by June 30, 1999. It includes a provision that appropriates \$41 million for the Rural Housing Assistance Grant Program. This is \$4.7 million less than appropriated in FY1998. It includes language that reauthorizes a number of rural housing programs through the year 2000. A Senate provision would have reauthorized these programs through FY1999, but was deleted in conference. A provision reauthorizing such programs was included in separate legislation.

Rural Business-Cooperative Service. Total funding of \$56.4 million for RB-CS programs in FY1999 includes \$3.3 million in grants, \$25.7 million in salaries and expenses and \$23.9 million in loan subsidies. P.L. 105-277 provides an appropriation of \$56.4 million to fund salaries and expenses of RB-CS and to support a loan level of \$48 million. Total funding for FY1999 is \$5.7 million below FY1998, \$10.6

million below the Administration request, \$5 million below the Senate level, but \$2.5 million above the proposed House level. Within these amounts are:

- \$16.6 million in Rural Development Loan Fund subsidies in support of a loan level of \$33 million, which is consistent with the amount proposed by the Senate;
- \$3.8 million in Rural Economic Development loan subsidies in support of a \$15 million loan level as proposed by the House; and
- \$3.3 million in Rural Cooperative Development Grants, with \$1.3 million earmarked for technology transfer to rural areas program as proposed by the House, and \$250,000 earmarked for a cooperative development program as proposed by the Senate.

P.L. 105-277 also includes language that directs the Secretary to give special consideration to several projects requesting Rural Cooperative Development Grant assistance. These projects are located in Missouri, Pennsylvania, and Iowa. Further, the FY1999 act appropriates \$3.5 million for the Alternative Agricultural Research and Commercialization Revolving Loan Fund. This is \$3.5 million less than approved by the Senate or appropriated in FY1998, and \$6.5 million less than requested by the Administration. The House version of the bill provided no funding for the program.

Rural Utilities Service. P.L. 105-277 provides a total appropriation of \$126.2 million to the Rural Utilities Service to support \$1.87 billion in FY1999 lending authority. It includes \$300 million in authority for Treasury-rate telecommunications loans and \$158 million for the Rural Telephone Bank Program. The Act allocates \$12.7 million in distance learning and telemedicine grants, and \$180,000 in loan subsidies in support of a \$150 million loan level for distance learning and telemedicine loans

Fund for Rural America. The Act prohibits any funds from being used to administer the Fund for Rural America for FY1999. The Fund, which was created in 1996, provides grants assistance in support of rural economic development projects. An annual appropriation is not required for the Fund since it receives its funding directly from the U.S. Treasury. The Act in effect prohibits the spending of the \$60 million that is authorized for the program in FY1999.

Food and Nutrition Programs

Food and nutrition programs are administered by the U.S. Department of Agriculture (USDA). They include the food stamp program, child nutrition programs, the special supplemental nutrition program for women, infants, and children (WIC), and several commodity donation programs serving low-income mothers and children, Indians, the elderly, and needy families and individuals. Total spending approved for these programs for FY1999 is \$36.07 billion, or about two-thirds of total spending for the USDA. The Administration requested a total of \$38.4 billion (+\$1.2 billion from the FY1998 enacted level) in spending for food and nutrition programs in FY1999.

The final omnibus FY1999 appropriations act (P.L. 105-277) contains identical provisions for food and nutrition programs to those in the earlier vetoed conference agreement on H.R. 4101. As finally enacted, P.L. 105-277 provides a total of: (1) \$22.6 billion for the food stamp program; (2) \$3.924 billion for the WIC program, the same as FY1998 funding; (3) \$5.38 billion for the school lunch program; (4) \$1.6 billion for the child and adult care food program, and (5) just under \$1.4 billion for the school breakfast program. Funding and responsibility for nutrition program studies and evaluations is maintained within the Economic Research Service (ERS), instead of the Food and Nutrition Service (FNS) as proposed by the Administration.

Food Stamps. P.L. 105-277 essentially adopted the House-proposed spending levels for food stamps -- \$22.58 billion in total funding, and \$90 million for EFAP commodities. The Administration food stamp request for FY1999 was \$24.7 billion, a decrease of \$439 million from FY1998 projected spending. The request included funding for Nutrition Assistance to Puerto Rico and for the food distribution program on Indian Reservations; \$100 million to buy commodities for food banks and soup kitchens participating in the emergency food assistance program (EFAP); and a \$1 billion contingency reserve fund.

Senate appropriations provided a total of \$23.8 billion for food stamp and related programs for FY1999, or \$920 million less than the Administration request. This allowed for a contingency reserve of \$100 million (instead of the \$1 billion requested by the Administration), and called for a reduction of \$20 million from the \$100 million in food stamp funds required to be used to buy commodities for the EFAP. As passed by the House, H.R. 4101 recommended \$22.6 billion for food stamps in FY1999. The difference is due largely to the fact that the House used more recent estimates of food stamp spending needs than either the Administration or Senate. These showed lower than previously projected participation and benefit costs, and thus, the need for less spending. The finally enacted measure cut the Administration's \$1 billion contingency fund request down to \$100 million, the same as last year. It also provided \$10 million less to buy commodities for the EFAP than the \$100 million of food stamp funds that are supposed to be used to buy commodities for this program. The Administration requested the full \$100 million; the Senate proposed \$80 million.

Child Nutrition Programs. These programs include school lunch and breakfast, summer food, child and adult care and special milk programs, and related support activities. P.L. 105-277 provides a total of \$9.177 billion, which is less than both the House and Senate-passed measures. This is because of acceptance of a Senate provision that will lessen mandatory FY1999 spending by about \$40 million for commodity procurement for the school lunch program. This provision, originally added as a floor amendment to provide room for an increase for the WIC program (see below), requires that the USDA use bonus commodities to help meet the requirement that not less than 12% of federal support for the school lunch program be in the form of commodity assistance.² The Administration proposed total funding

² The National School Lunch Act mandates a legislatively specified level of commodity assistance (currently valued at 14.75 cents) for every lunch served under the school lunch, child and adult care, and summer food programs. Section 6g of this law also requires that not

(continued...)

of \$9.2186 billion for child nutrition programs in FY1999. The Senate appropriation for FY1999 would have funded these programs at a total of \$9.2199 billion, slightly less (\$13 million) than the Administration request. The House bill recommended \$9.2186 billion for child nutrition programs.

The final law provided \$10 million for the School Meals Initiative, the amount proposed by the Senate, and \$2 million more than the House proposal. Committee report language in both chambers' initially-approved bills recommended that \$4 million of the funds appropriated for the School Meals Initiative be used to fund food service training grants to states, with the remainder used for technical assistance materials (\$1.6 million), print and electronic resource systems (\$400,000), and other unspecified activities (\$3.2 million). No funding for the Nutrition Education and Training (NET) program, as proposed by the Senate, was contained in the final law. This program was funded at \$3.75 million in FY1998, the level requested by the House for FY1999. The Administration requested \$10 million for the NET.

WIC. The final amount provided in P.L. 105-277 for WIC is the same as the House-recommended level (\$3.924 billion). P.L. 105-277 did not approve funding for a WIC contingency reserve proposed by the Administration (\$20 million). It did approve the \$15 million recommended by the Administration and Senate for the WIC farmers' market nutrition program but did not accept the Administration proposal that this be funded with Commodity Assistance Program (CAP) funds, instead of WIC funds. Of the \$15 million in WIC appropriations for the farmers' market program, the conferees directed that USDA obligate \$10 million within 45 days of enactment, and allow an additional \$5 million from any funds not needed to maintain the WIC caseload level. The Administration budget proposed WIC program funding of \$4.16 billion in FY1999, \$157 million more than FY1998 appropriations. This reflected a \$20 million contingency reserve and the assumption that no WIC funds will be used to fund the WIC Farmers Market Coupon (FMC) program, which would be funded elsewhere (see section on Commodity Donation Programs). According to Administration estimates, its FY1999 WIC funding proposal was necessary to maintain the FY1998 monthly average participation level of 7.5 million persons. Legislators agreed to maintain FY1999 WIC funding at the FY1998 level because of lower projected participation than that assumed by the Administration, and the assumption of program efficiencies growing out of child nutrition reauthorization legislation (H.R. 3874) passed at the end of the session. The Senate-passed bill recommended \$3.948 billion for WIC in FY1999, or \$24 million more than FY1998 funding. The additional \$24 million was added by a floor amendment that also reduced federal funding for commodity procurement for the school lunch program to pay for the WIC increase.

²(...continued)

less than 12% of the federal assistance provided to the school lunch program be in the form of commodities. In recent years, the per lunch rate of commodity assistance has not provided sufficient values of commodities to meet the 12% school lunch commodity requirement, and appropriations have been needed to meet the 12% minimum. The Senate amendment lessens the amount of funds that must be appropriated for this purpose by requiring the Secretary to use "bonus" commodities to meet the FY1999 shortfall. "Bonus" commodities are those acquired for farm support or surplus removal reasons rather than for domestic food programs, and commonly are donated to domestic food programs.

Commodity Donation Programs. The final amount in P.L. 105-277 provides \$272.1 million in FY1999 for commodity donation programs -- the emergency food assistance program (EFAP), the commodity supplemental food program (CSFP), the elderly nutrition (commodities) program, and the Needy Family program. Of this total, \$45 million is for grants to states to help with the cost of distributing commodities for the EFAP³; \$86 million is for the CSFP, \$140 million is for elderly commodities, and \$1.1 million is for commodities for the needy family program. The \$86 million provided for the CSFP is \$10 million less than the amount provided last year. Unspent carryover funds from FY1998 are expected to be available to the program in FY1999 to maintain the caseload for this program, which provides monthly food packages to low-income mothers, young children and elderly.

The Administration budget proposed a total of \$317.1 million for all of these programs. Of this amount, \$96 million was for the commodity supplemental food program (CSFP) and \$45 million for EFAP state administrative grants, for a total of \$141 million. The Administration also proposed \$15 million for the WIC farmers market coupon (FMC) program (normally funded with WIC appropriations), and \$20 million for a new gleaning/food recovery initiative under this category of programs. Food donation programs were to receive \$141.1 million.

(For more information, see CRS Report 98-582, *Food and Nutrition Programs: FY1999 Budget and Appropriations*.)

Food and Drug Administration

The Food and Drug Administration (FDA) is funded through both congressional appropriations and user fees whose total level of collections is set each year by the appropriations committees. The most contentious provisions are in the funding levels for salaries and expenses (S&E) and in one user fee program. The omnibus FY1999 appropriations act (P.L. 105-277) increases FDA's S&E program level to \$970.9 million, a 13% increase over FY1998, and allows \$132.3 million for Prescription Drug User Fee Act (PDUFA) collections, also a 13% increase over FY1998. The total program level (S&E plus user fees) for FY1999 is \$1.117 billion.

Included for the first time in the S&E account is \$83 million for rental payments to be paid to the General Services Administration (GSA). The act includes a provision that will allow \$5.428 million of PDUFA funds to be transferred and merged in the S&E account and used for payment of GSA rentals. Thus, a total of \$88 million will be made available for rental payments in the S&E account. Separately, P.L. 105-277 provides \$11.35 million for FDA buildings and facilities.

P.L. 105-277 maintains the FY1998 appropriation level of \$34 million to fund tobacco outreach and enforcement activities, and also continues support for the President's Food Safety Initiative (FSI). The President had requested an additional \$50 million in direct appropriations for FDA for FSI activities. The act appropriates

³This does not reflect the \$90 million in food stamp funds appropriated to buy commodities for the EFAP.

a \$25 million increase. The conferees expect FDA to use \$24.5 million of this total amount for increased food inspections, and \$500,000 for research by the National Center for Toxicological Research.

The FY1999 appropriations act also includes \$250,000 for the Office of Seafood Inspection. Within this amount, \$200,000 is to be used to continue the grant to the Interstate Shellfish Sanitation Committee. It also directs FDA to use \$500,000 to develop the system and regulations necessary to implement a new food packaging materials notification program by May 1999. The conferees strongly urge FDA to finalize a rule within one year after receiving a citizen's petition on the use of "and/or" in the labeling of types of fish contained in surimi. Conferees increased the appropriation by \$2.5 million for the cosmetic and color regulatory program.

Conferees also expect FDA to publish by June 1, 1999, a proposed rule concerning the use of foreign marketing data in the review of new sun-screen active ingredients in the over-the-counter drug monograph on sun-screen products. Also included in the bill is \$3 million in construction funds for the third phase of construction of FDA Arkansas Regional Laboratory (ARL) in Jefferson, Arkansas. The project will need approximately \$13.3 million to be completed.

P.L. 105-277 prohibits FDA from closing or relocating its Division of Drug Analysis in St Louis, MO, appropriates \$1 million for the Office of Generic Drugs, and appropriates \$700,000 for competitive grants under the clinical pharmacology program.

P.L. 105-277 urges FDA to issue new regulations and guidance for the generic drug industry manufacturers who file an Abbreviated New Drug Application (ANDA) which relies on the FDA's previous determination that the drug is safe and effective, thus avoiding submitting new safety and effectiveness studies. The act also refines the definition of antibacterial ingredients to exempt a certain class in animal drugs.

Not included in P.L. 105-277 is Senate bill language on metered-dose inhalers (MDIs), which are used to treat asthma and other chronic lung diseases. Under the Montreal Protocol, the FDA is required to phase out the use of chlorofluorocarbons (CFCs) in MDIs and approve new devices that use a less environmentally damaging propellant compound. The Senate directed FDA to gather information on safe and effective non-CFC MDIs, which meet patients needs, before phasing out CFC devices.

Another Senate provision that was not included in the final act is a requirement for country of origin labeling for fresh produce. Instead, the bill directs the General Accounting Office (GAO) to study the potential effects of mandatory country of origin labeling of fresh produce and submit a report to Congress no later than 6 months after enactment of this Act.

Commodity Futures Trading Commission

Regulatory jurisdiction over derivative financial contracts — contracts whose value depends on changes in the price of some underlying commodity or financial

instrument — has been a contentious issue for several years. The Commodity Futures Trading Commission (CFTC) has jurisdiction over derivative contracts (futures contracts and some options) traded on the futures exchanges. However, several other forms of derivatives (e.g., certain contracts based on foreign currencies or U.S. Treasury securities) are exempted by law from CFTC regulation. Currently, attention focuses on swap contracts, which are the basis of a booming international market in off-exchange, or over-the-counter, derivatives. Swaps resemble futures in their economic function, but the major dealers — banks and affiliates of securities firms — are not institutions that have traditionally been regulated by the CFTC. No agency has overall regulatory jurisdiction, and there is some concern that the present fragmented regulatory structure might have difficulty responding to a crisis in the swaps market, which might have wide repercussions throughout the international financial system.

In May 1998, the CFTC published a “concept release” announcing its intention to evaluate current regulation of swaps and to consider whether they should be subject to some or all of the requirements of the Commodity Exchange Act, which governs exchange-traded futures. The Securities and Exchange Commission and the banking regulators objected to this CFTC initiative, stating that 1) existing regulation of over-the-counter derivatives was adequate, and 2) that if new regulation was necessary, it should be formulated by the various financial regulators as a group, rather than by unilateral action of a single agency. The swaps industry argued that even raising the possibility of CFTC regulation might cast doubt over the legal enforceability of swaps contracts and drive the business offshore.

In response to these concerns, the FY1999 omnibus appropriations act (P.L. 105-277) imposes a “restraint period” on the CFTC, directing it not to issue or propose any new rule or regulation affecting swaps or “hybrid” financial instruments before March 30, 1999.

**Table 3. U.S. Department of Agriculture and Related Agencies Appropriations,
Budget Authority
(\$ in millions)**

| Agency or Major Program | FY1998 Enacted (1) | FY1999 Admini- stration Request | FY1999 House- Passed Bill | FY1999 Senate- Passed Bill | FY1999 Enacted P.L. 105-277 |
|--|-----------------------------------|--|--|---|--|
| Title I — Agricultural Programs | | | | | |
| Agric. Research Service (ARS) | 825.0 | 812.7 | 817.2 | 809.1 (2) | 842.0 |
| Coop. State Research Education and Extension Service (CSREES) | 854.8 | 831.2 | 847.9 | 876.2 (2) | 919.2 |
| Economic Research Service (ERS) | 71.6 | 55.8 | 67.3 | 54.0 (2) | 65.8 |
| National Agricultural Statistics Service (NASS) | 118.0 | 107.2 | 105.1 | 104.0 | 104.0 |
| Animal Plant Health and Inspection Service (APHIS) | 430.1 | 423.0 | 429.7 | 423.7 | 433.5 |
| Agric. Marketing Service (AMS) | 58.5 | 70.7 | 58.8 | 57.8 | 61.0 |
| Grain Inspection , Packers and Stockyards Admin. (GIPSA) | 25.4 | 11.8 | 27.5 | 26.4 | 26.8 |
| Food Safety and Insp. Serv (FSIS) | 588.8 | 149.6 | 609.3 | 613.5 (2) | 617.0 |
| Farm Service Agency (FSA) | 702.1 | 727.9 | 726.9 | 713.3 | 716.9 |
| FSA Farm Loans - Subsidy Level | 105.7 | 100.6 | 91.4 | 96.5 | 89.7 |
| <i>*Farm Loan Authorization</i> | <i>2,400.7</i> | <i>2,991.0</i> | <i>2,299.2</i> | <i>2,365.0</i> | <i>2,285.0</i> |
| Farm Loans- Salaries and Administrative Expenses | 219.9 | 237.7 | 219.9 | 219.9 | 219.9 |
| Risk Management Agency (RMA) Salaries and Expenses | 64.0 | 66.0 | 64.0 | 64.0 | 64.0 |
| RMA- Commissions to Agents (3) | 188.6 | ---- | ---- | ---- | -- |
| Federal Crop Insur. Corp. Fund | 1,584.1 | 1,504.0 | 1,504.0 | 1,504.0 | 1,504.0 |
| Commodity Credit Corp. (CCC) | 783.5 | 8,439.0 | 8,439.0 | 8,439.0 | 8,439.0 |
| Other | 314.9 | 377.1 | 336.9 | 324.9 (2) | 333.0 |
| Total, Agricultural Programs | 6,940.8 | 13,916.3 | 14,344.9 | 14,317.8 (2) | 14,435.8 |
| Title II -Conservation Programs | | | | | |
| Conservation Operations | 632.9 | 742.2 | 641.2 | 638.6 | 641.2 |
| Total, Conservation Programs | 786.5 | 826.3 | 784.4 | 792.3 | 793.1 |
| Title III - Rural Development | | | | | |
| Rural Community Advancement Program (RCAP) | 652.2 | 715.2 | 745.2 | 702.6 | 722.7 |
| Rural Housing Service (RHS) | 1,254.0 | 1,288.3 | 1,250.0 | 1,284.5 | 1,269.4 |
| <i>* RHS Loan Authority</i> | <i>4,219.5</i> | <i>4,347.1</i> | <i>4,235.6</i> | <i>4,284.4</i> | <i>4,251.7</i> |
| Rural Business Cooperative Serv. | 62.0 | 67.0 | 53.9 | 61.6 | 56.4 |
| <i>* RBCS Loan Authority</i> | <i>60.0</i> | <i>50.0</i> | <i>50.0</i> | <i>56.0</i> | <i>48.0</i> |
| Rural Utilities Service (RUS) | 118.4 | 123.0 | 124.1 | 125.6 | 126.2 |
| <i>* RUS Loan Authority</i> | <i>1,745.0</i> | <i>1,400.0</i> | <i>1,886.5</i> | <i>1,801.5</i> | <i>1,869.0</i> |
| Total, Rural Development Progs | 2,087.2 | 2,220.1 | 2,173.8 | 2,174.8 | 2,175.2 |
| <i>* Rural Development, Total Loan Authority</i> | <i>6,024.5</i> | <i>5,797.1</i> | <i>6,172.1</i> | <i>6,141.9</i> | <i>6,168.7</i> |

| Agency or Major Program | FY1998 Enacted (1) | FY1999 Administration Request | FY1999 House-Passed Bill | FY1999 Senate-Passed Bill | FY1999 Enacted P.L. 105-277 |
|--|--------------------|-------------------------------|--------------------------|---------------------------|-----------------------------|
| Title IV - Domestic Food Programs | | | | | |
| Child Nutrition Programs | 7,767.8 | 9,229.9 | 9,218.6 | 9,219.9 | 9,176.9 |
| WIC Program | 3,924.0 | 4,081.0 | 3,924.0 | 3,948.0 | 3,924.0 |
| Food Stamps | 25,140.5 | 24,701.8 | 22,591.8 | 23,781.8 | 22,585.1 |
| Commodity Donation Programs | 282.2 | 317.1 | 282.1 | 282.1 | 272.0 |
| Other | 108.1 | 112.2 | 108.3 | 109.6 | 109.2 |
| Total, Food Programs | 37,222.6 | 38,442.2 | 36,124.8 | 37,341.4 | 36,067.2 |
| Title V - Foreign Assistance | | | | | |
| Foreign Agricultural Service (FAS) | 131.3 | 141.1 | 131.3 | 131.8 | 136.2 |
| Public Law (P.L.) 480 | 1,063.1 | 967.0 | 1,037.2 | 1,063.1 | 1,056.7 |
| CCC Export Loans Subsidy (4) | 407.6 | 253.0 | 252.5 | ---- | ---- |
| * <i>Export Loan Guarantee Authority</i> | 5,700.0 | 4,615.0 | 4,615.0 | ---- | ---- |
| Total, Foreign Assistance | 1,605.8 | 1,365.2 | 1,424.9 | 1,198.7 | 1,196.7 |
| Title VI - FDA & Related Agencies | | | | | |
| Food and Drug Administration | 925.1 | 970.1 | 965.7 | 989.7 (2) | 982.2 |
| Farm Credit System Financial Assistance Corporation | 7.7 | 2.6 | 2.6 | 2.6 | 2.6 |
| Commodity Futures Trading Commission (CFTC) | 58.1 | 63.4 | 62.1 | 61.0 | 61.0 |
| Total, FDA & Related Agencies | 991.0 | 1,036.0 | 1,030.4 | 1,016.3 (2) | 1,045.8 |
| Title VII -- Emergency Approps | | | | | |
| P.L. 105-174 | 159.8 | ---- | ---- | ---- | ---- |
| Emergency Spending — This Bill | ---- | 1,761.4 | ---- | ---- | 5,893.7 |
| Subtotal - Before CBO Scorekeeping Adjustments, Excluding Supplementals (5) | 49,633.6 | 57,806.1 | 55,883.1 | 56,886.4 | 55,713.8 |
| CBO Scorekeeping Adjustments | (243.4) | 256.2 | 3.7 | 288.2 | 224.2 |
| Grand Total, After Scorekeeping Adjustments, Excludes Supplem. | 49,550.2 | 58,062.4 | 55,886.9 | 57,174.6 | 55,938.1 |

Note: An item with an asterisk (*) represents the total amount of direct and guaranteed loans that can be made given the requested or appropriated loan subsidy level. Only the subsidy level is included in the totals.

(1) FY1998 enacted levels include supplemental spending and rescissions provided by the FY1998 emergency supplemental appropriations act (P.L. 105-174).

(2) The Senate amendment which would provide \$66 million to fund the President's food safety initiative is distributed among the recipient agencies in this table: USDA Chief Economist=\$98,000; ERS=\$906,000; ARS=\$8.92 million; CSREES=\$11.2 million; FSIS=\$8.347 million; FDA= \$37 million.

(3) Federal reimbursement to crop insurance agents for their administrative expenses was converted by statute to a mandatory expense beginning in FY1999, and thus no longer requires an appropriation.

(4)The Senate and conferees did not include the mandatory spending for export credit loan guarantees.

(5) Scorekeeping adjustments reflect the savings or costs of provisions that affect mandatory programs.

Source: House and Senate Appropriations Committees