



TECHNICAL NOTE



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Payment Schedules

Background

The 2008 Farm Bill provided NRCS a new authority to make program payments to participants based on the estimated incurred costs, rather than the actual costs, which has made the payment process much easier for NRCS and participants. To reflect the new law, the Environmental Quality Incentives Program (EQIP) and other programs, were changed. The Farm Bill also deleted the terms “cost-share” and “incentive” and replaced those terms with “payment.” This change was made to accurately reflect that there is a payment to the landowner, rather than a cost-share based upon actual costs or an incentive which implies an excessive amount above an incurred cost.

Payments now mean financial assistance for the estimated incurred costs of conservation practices. Materials, equipment and labor needed to install or implement a conservation practice, per NRCS standard and specification, are included in this estimated cost. Estimated foregone income may also be included for some conservation practices. Foregone income accounts for an estimate of the net income loss when land is taken out of production if the loss is associated with the adoption of a conservation practice. The cost of income forgone is determined at the national level.

What is a Payment Schedule?

NRCS formulates alternatives in order to meet the needs of the resources and the producer’s objectives. These alternatives, or management solutions, are accomplished through site-specific conservation planning and technical assistance.

Payment schedules standardize the method used for establishing costs associated with practices that are needed to formulate these alternatives. They provide the basis for the amount of financial assistance provided for implementation of conservation practices.

What role do conservation practice standards play?

Each payment schedule contains scenarios that are based on a NRCS conservation practice standard (and specification, if applicable). These scenarios describe the geographic area, typical resource setting and resource concerns to be addressed. They also include the components and activities required to meet criteria in the conservation practice standard.

Each scenario describes the application of the practice based on the most common landscape setting, or typical scenario. It includes

- how the practice is implemented,
- typical quantities and units,
- materials and other inputs used, and
- methods of implementation.

The typical scenario documents the technical adequacy of the practice. It also provides the authority for the final payment rate.

What were the challenges with the former way of providing cost-share?

Prior to the 2008 Farm Bill, NRCS made cost-share payments as a percentage of the actual costs of implementing conservation practices. In addition, incentive payments for EQIP management practices were also made. Actual costs had to be documented by producer receipts and invoices. Collecting invoices and receipts necessary to administer cost-share payments created a burden on NRCS staff and producers.

By contrast, the advantages of using payment schedules are:

- Accountability and transparency of payment rates are improved,
- Conservation program contracting and contract administration are simplified, and
- Conservationists have more time for conservation planning and technical consultation.

Why did NRCS move from state-specific payment schedules to regionalized ones?

Beginning in 2009, Florida NRCS used payment schedules based on typical scenarios developed in each individual state. However, based on an internal evaluation at the national level, it was found that variations of payment rates from one state to another were often significant and difficult to explain to participants. In part, issue of cost consistency and payment rates arose from the inability of some states to justify their payment rates due to inadequate cost data documentation. (Florida NRCS was not one of the states and was considered, at the national level, to have adequate and accurate cost documentation.) Furthermore, some states were using components that were neither within the scope of the standard and specification, nor following acceptable cost methodology, which was considered fraudulent.

Based on these findings, in July 2011, NRCS initiated a national effort to implement a national/regional process that involved the construction of national scenarios. These national scenarios provide restrictions as to which type of components are allowed (i.e., material, labor, equipment, and foregone income) to reflect the installation or implementation of a conservation practice per standard and specification. Regional teams then populate each practice scenario with specific components and quantities. This effort provides greater consistency in the program payment rates on a national basis, and as a consequence, practice scenarios or costs are no longer generated at the state level.

Prior to this national/regional process, discussions regarding concerns of 'cost consistency' across states are easily understood. However, there is still confusion as to why adjoining states or regional areas do not have identical payments even after the national/regional process was complete. This is because there is a misunderstanding of what the national/regional process was designed to do. The efforts to obtain 'cost consistency' was not an effort for states to have identical payments, but rather to have **consistency in the payment calculation** by formulating scenarios based upon conservation practices **and** to have identical cost calculation methodology and adequate cost data documentation. Though regional scenarios are identical in component types and quantities, costs are based upon individual state costs which are now computed at the national level for each state. Nationally generated costs for each state differ, and thereby payments are different.

What are the advantages of regional payment schedules?

- Consistent, reliable and defensible method of creating estimated incurred costs.
- Flexibility to account for cost variation across the nation.
- Use of established and accepted regional economic alignment of states based on farm employment data and crop cost and returns.
- Consistency with the definition, purpose and technical requirements of conservation practice standards.