



United States Department of Agriculture

# Regulatory Impact Analysis for the Conservation Stewardship Program

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Amendments made by the Agricultural Act of 2014 to  
the Food Security Act of 1985  
Title XII – Conservation  
Subchapter B – Conservation Stewardship Program  
Section 1238D et seq.

September 10, 2014

Natural Resources Conservation Service

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## Executive Summary

The Conservation Stewardship Program (CSP) is authorized under the provisions of Chapter 2, Subtitle D of Title XII of the Food Security Act of 1985 (16 U.S.C. 3830 et seq.), as amended by Title II, Subtitle D of the Food, Conservation, and Energy Act of 2008, Pub. L. No. 110-246, 122 Stat. 1651 (2008) and by Title II, Subtitle B of the Agriculture Act of 2014, Pub. L. No. 113-79 (2014). The Secretary of Agriculture, acting through the Chief of the Natural Resources Conservation Service (NRCS), administers the program.

As part of the 2014 Act, Congress reauthorized CSP and capped enrollment at 10 million acres for each fiscal year (FY) during the period February 7, 2014, through September 30, 2022; however, the 2014 Act only provided funding through FY 2018. CSP contracts run for 5 years and include the potential for a one-time renewal option for an additional 5 years, thus creating financial obligations through FY 2027 for commitments made during FY 2014 to FY 2018. Nationally, program costs cannot exceed an annual average rate of \$18 per acre. For each of the five FY signups (FY 2014 to FY 2018) including a one-time contract renewal option for an additional 5 years, Congress authorized a maximum of \$1.8 billion. Total authorized funding equals \$9 billion for the five signups (FY 2014 to FY 2018).

Participation in CSP is voluntary. Agricultural and forestry producers decide whether or not CSP participation helps them achieve their objectives. Hence, CSP participation is not expected to negatively impact program participants and nonparticipants.

Pursuant to Executive Order 12866, Regulatory Planning and Review (Office of the President, 1993) and the Office of Management and Budget's Circular A-4 (OIRA, 2003) that provides guidance in conducting regulatory analyses, NRCS conducted an assessment of CSP consistent with its classification as a "significant" program. Most of this rule's impacts consist of transfers from the Federal Government to producers. Although these transfers create incentives that very likely cause changes in the way society uses its resources, we lack data to estimate the resulting social costs or benefits. This analysis therefore, includes a summary of program costs and qualitative assessment of program impacts.

Total government program obligations for CSP are shown in table E1. Obligations include only costs to government between FY 2014 and FY 2027 (five signups with one-time, 5-year contract renewals). Projected maximum program obligations in nominal dollars equal \$9 billion. Given a 3 percent discount rate, projected cumulative program obligations equal \$6.405 billion in constant 2014 dollars. At a 7 percent discount rate, maximum program obligations equal \$4.942

billion in constant 2014 dollars. Average annualized obligations at the 3 percent and 7 percent discount rates equal \$567 million and \$565 million, respectively.

**Table E1. Total Projected Program Obligations for CSP, FY 2014 through FY 2027<sup>a</sup>**

<b>Fiscal Year</b>	<b>Obligation<sup>b</sup> (million \$)</b>	<b>GDP Price Deflator<sup>c</sup> (2014=100)</b>	<b>Obligation Constant Dollars (million \$)</b>	<b>Discount Factors for 3%</b>	<b>Present Value of Obligation - 3% (million \$)</b>	<b>Discount Factors for 7%</b>	<b>Present Value of Obligation - 7% (million \$)</b>
<b>FY14</b>	180	100.0000	180	0.9709	175	0.9346	168
<b>FY15</b>	360	102.1000	353	0.9426	332	0.8734	308
<b>FY16</b>	540	104.2441	518	0.9151	474	0.8163	423
<b>FY17</b>	720	106.4332	676	0.8885	601	0.7629	516
<b>FY18</b>	900	108.6683	828	0.8626	714	0.7130	591
<b>FY19</b>	900	110.9504	811	0.8375	679	0.6663	541
<b>FY20</b>	900	113.0584	796	0.8131	647	0.6227	496
<b>FY21</b>	900	115.2065	781	0.7894	617	0.5820	455
<b>FY22</b>	900	117.3954	767	0.7664	588	0.5439	417
<b>FY23</b>	900	119.6260	752	0.7441	560	0.5083	382
<b>FY24</b>	720	121.8989	591	0.7224	427	0.4751	281
<b>FY25</b>	540	124.2149	435	0.7014	305	0.4440	193
<b>FY26</b>	360	126.5750	284	0.6810	194	0.4150	118
<b>FY27</b>	180	128.9799	140	0.6611	92	0.3878	54
<b>Total</b>	<b>9,000</b>		<b>7,912</b>		<b>6,405</b>		<b>4,942</b>
<b>Annualized Obligations</b>					<b>567</b>		<b>565</b>

<sup>a</sup>Table 1 of this document.

<sup>b</sup>Congress set a maximum of 10 million acres per signup and a national payment rate of \$18 per acre. With a one-time contract renewal option, each signup equals \$1.8 billion in projected program obligations over its 10-year period. Congress authorized five signups.

<sup>c</sup>For years 1 to 5, the GDP adjustment is 2.10 percent (OMB); for years 6 to 14, the GDP adjustment factor is 1.90 percent (average growth since 1993).

Compared to CSP as authorized under the 2008 Farm Act, Congress significantly reduced its size but left much of CSP's underlying structure intact. In addition, the Secretary of Agriculture proposed a number of discretionary changes as a means of improving program implementation.

As shown in table E2, the downsizing of CSP from an annual 12.769 million acre program to an annual 10 million acre program has the greatest impacts on program funds, conservation activities, and cost-effectiveness. Program funds, which include financial and technical assistance, decrease by \$2.492 billion (nominal dollars) compared to CSP under the 2008 Farm Act. With fewer acres and fewer dollars, fewer contracts will be funded under the 2014 Farm Act. The new conservation activities that would have been applied to enhance the existing activities on the lost 2.769 million acres will not be applied to the Nation's working lands. However, cost-effectiveness, defined as dollars per additional unit of conservation effect, will improve slightly because lower ranked eligible applications are the first ones cut from every State's ranking pools. That is, obligations per unit of conservation effect will be lower under the

2014 Farm Act. Properly implemented, a smaller sized CSP will be neutral in its impacts across all producer types, including beginning and socially disadvantaged groups.

<b>Table E2. Program Impacts of the Statutory Requirements and Discretionary Actions<sup>a</sup></b>				
<i>Based on 2008 CSP Farm Bill Provisions: 12.769 Million Acres vs. 10 Million Acres</i>				
<b>Statutory</b>	<b>Program Funds</b>	<b>Impacts of Conservation Activities</b>	<b>Cost-Effectiveness</b>	<b>Participant Diversity</b>
Acreage Enrollment Limitation	- \$2.492 billion in program funds	Significantly large decrease	Slight improvement	No impact
<i>2008 CSP at 10 Million Acres vs. 2014 CSP at 10 Million Acres</i>				
<b>Statutory</b>	<b>Program Funds</b>	<b>Impacts of Conservation Activities</b>	<b>Cost-Effectiveness</b>	<b>Participant Diversity</b>
Conditions for Contract Renewal	Small/Moderate decrease	Increase	Improvement	No Impact
<b>Discretionary</b>	<b>Program Funds</b>	<b>Impacts of Conservation Activities</b>	<b>Cost-Effectiveness</b>	<b>Participant Diversity</b>
Contract Renewal: To renew contracts, shift eligibility determinations to applicable priority resource concerns.	Moderate decrease	Marginal Increase	Marginal Improvement	No Impact
<sup>a</sup> Shortened version of table 10 in the main document.				

One additional legislated change in the 2014 Act, additional contract renewal requirements, is also expected to generate smaller, yet important program impacts. The legislated 2014 contract renewal requirements – producer agrees to meet the stewardship thresholds for at least two additional priority resource concerns by the end of the renewed contract period or to exceed the stewardship thresholds of at least two existing priority resource concerns specified in the original contract – will likely result in a slightly larger portion of CSP participants not renewing their contracts compared to a comparably sized 2008 CSP and renewal rate. The 2008 Act only requires the addition of one or more new conservation activities for contract renewal. However, CSP participants under the 2014 Act are required to add activities to meet or exceed stewardship thresholds for at least two priority resource concerns, thus likely increasing the number of additional activities applied the second 5 year period. With yearly payments extended and more activities being applied under 2014 Act renewals, a small improvement in cost-effectiveness is expected. Overall no differential impacts are expected between general agricultural and general forest producers and beginning and socially disadvantaged producers, including veteran status.

An important discretionary change is clearly defining the terms “applicable priority resource concerns” and “other priority resource concerns.” “Applicable priority resource concerns” represent resource issues within a watershed or portion of a State that NRCS is targeting for improvement. “Other priority resource concerns” are resource concerns that may or

may not exist in the watershed but are currently not being targeted for improvement. These definitions allow NRCS to better describe how it is targeting resources to meet statutory objectives.

In summary, differences in program impacts between the 2008 CSP and the 2014 CSP can be attributed primarily to the program's smaller acre cap of 10 million acres. Statutory requirements related to contract renewals and proposed discretionary actions will result in a more focused approach to meeting conservation objectives.

# Regulatory Impact Analysis for the Conservation Stewardship Program

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## Background

### Legislative Authority

The Conservation Stewardship Program (CSP) is authorized under the provisions of Chapter 2, Subtitle D of Title XII of the Food Security Act of 1985 (16 U.S.C. 3830 et seq.), as amended by Title II, Subtitle D of the Food, Conservation, and Energy Act of 2008, Pub. L. No. 110-246, 122 Stat. 1651 (2008), and by Title II, Subtitle B of the Agriculture Act of 2014, Pub. L. No. 113-79 (2014). The Secretary of Agriculture, acting through the Chief of the Natural Resources Conservation Service (NRCS), administers the program.

This analysis follows the rules and documentation covering the intent and design of regulatory analyses as described in:

- Executive Order 12866, Regulatory Planning and Review.<sup>1</sup>
- Unfunded Mandates Reform Act of 1995.<sup>2</sup>
- Federal Crop Insurance Reform Act of 1994.<sup>3</sup>
- OMB Circular A-4, Regulatory Analysis.<sup>4</sup>

Most of this rule's impacts consist of transfers from the Federal Government to producers. Although these transfers create incentives that may cause changes in the way society uses its resources, we lack data to estimate the resulting social costs or benefits. This analysis, therefore, includes a summary of program costs and qualitative assessment of program impacts.

### Need for the Regulation and Rationale for the Rule

The vast majority of agricultural commodities are traded in well-functioning markets. Corn, soybeans, cattle, hogs, and hundreds of other commodities, for example, are bought and sold continuously in markets throughout the United States and the world. Regarding ecosystem goods and services coming from agricultural lands, market failure, however, is commonplace. Ecosystem markets seldom form without government intervention.

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<sup>1</sup>Executive Order 12866 of September 30, 1993,--Regulatory Planning and Review, available at: <http://www.epa.gov/fedrgstr/eo/eo12866.htm>

<sup>2</sup>Unfunded Mandates Reform Act of 1995, Pub. L. 104-4, <http://www.regulation.org/pl104-4.html>

<sup>3</sup>Federal Crop Insurance Reform Act of 1994, Pub. L. 103-354, <http://www.reeusda.gov/1700/legis/agreorg.htm>

<sup>4</sup>OMB Circular A-4, Regulatory Analysis, <http://www.whitehouse.gov/omb/memoranda/m03-21.html>

Two instances of market failure in the agricultural sector regularly occur. First, agricultural production creates negative externalities that are borne by third parties outside of commodity markets. For example, nonpoint sediment runoff from agricultural lands can carry nutrients into surrounding streams causing degradation of that water resource. Due to market failure, such third-party costs are not fully internalized by the agricultural producers that till their lands and apply fertilizer. As a consequence, protective conservation activities may not be employed efficiently across the landscape.

Second, agricultural production generates positive externalities. Society benefits, for example, from carbon stored in forestry and rangeland operations. Because markets typically do not exist for those beneficial ecosystem goods and services produced in the agricultural sector, producers will produce less than socially optimal amounts.

Even though CSP is a transfer program (meaning that payments are made from taxpayers to eligible farmers), CSP can help correct for some of those market failures. CSP-eligible conservation activities can mitigate negative externalities, generate positive externalities, or both. Conservation activity payments provide the needed financial incentive to spur producers to take actions. Such efforts also support NRCS' strategic objective of getting and keeping more conservation on the ground for the purposes of maintaining productive farms and ranches, eliminating and reducing impairments to water bodies, helping prevent the designation of additional water bodies to the "impaired" list, and decreasing threats to "candidate" and threatened/endangered species (Natural Resources Conservation Service, 2011).

## **Program Description and Features**

### **Program Overview**

Participation in CSP is voluntary. NRCS offers every CSP applicant selected for enrollment a yearly payment based on index points earned for existing activities and proposed activities, prices of the various points, and acres in the operation. Prices per index point, which vary by land use and whether the points come from existing activities or additional activities, depend on impacts of conservation activities, foregone income, and maintenance costs.<sup>5</sup>

Agricultural and forestry producers decide whether or not CSP participation can improve their returns while implementing or maintaining conservation activities. For example, CSP participation may help producers meet other environmental requirements or encourage participation in ecosystem markets if they are available and program rules allow participants to sell part or all of the additional services generated by a CSP contract.

CSP is available to all eligible agricultural and forestry applicants – individuals, legal entities, joint operations, Indian Tribes, and Alaskan Native corporations – in the United States,

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<sup>5</sup> A more detailed discussion of index point calculations is available at the CSP Web site ([http://www.nrcs.usda.gov/wps/portal/nrcs/detailfull/national/programs/financial/csp/?cid=nrcs143\\_008316](http://www.nrcs.usda.gov/wps/portal/nrcs/detailfull/national/programs/financial/csp/?cid=nrcs143_008316)) in the section "Conservation Measurement Tool (CMT) Scoring Process."

Caribbean, Virgin Islands, Guam, American Samoa, and Commonwealth of the Northern Mariana Islands. It provides equitable access to program funds for eligible applicants regardless of crops produced, size of operation, or geographic location.

## Program Objectives

CSP encourages agricultural and forestry producers to comprehensively treat their soil erosion, soil quality, water quality, water quantity, air, plant, animal, and energy resource concerns. Generally, resources that are being degraded become resource concerns. The resource concern soil erosion, for example, includes sheet and rill, ephemeral gully, streambank, shoreline, and construction erosion. Left untreated, these types of erosion degrade soil resources.

CSP participants agree to improve, maintain, and manage existing conservation activities and undertake additional conservation activities to address resource concerns. Eligible additional activities include enhancements<sup>6</sup> and a few conservation practices such as alley cropping, brush management, conservation crop rotation, forest stand improvement, and woody residue treatment.<sup>7</sup>

Enhancements are unique to CSP. By definition, enhancements are used to treat natural resources and improve conservation performance. Once adopted, the management intensity applied via the enhancement is designed to exceed the minimum treatment requirements of the corresponding practice standard. The total number of enhancements available for any particular signup period vary over time. The Chief, NRCS, uses discretionary authority to make available enhancements that address national, state and local resource concerns. For example, PLT15 – Establish Pollinator and/or Beneficial Insect Habitat – is available for use across all CSP land uses and promotes the planting of nectar and pollen producing plants in noncropped areas such as field borders, grassed waterways, and riparian forests. Enhancement bundles such as BCR06 – Cropland Enhancement Bundle for improving nutrient and pesticide application techniques and larger buffers – encourage producers to apply several enhancements at the same time. An important enhancement used extensively on pasture, range, and forest lands is WQL03 – Rotation of Supplement and Feeding Areas – that encourages producers to regularly move their livestock to reduce localized degraded areas and reduce impacts on water quality.

In return for improving, maintaining, and managing existing conservation activities and undertaking additional conservation activities, producers receive five equal annual payments. Both Farm Acts include a contract renewal option that allows participants to renew their contract for another 5 years if they fully complied with their existing contract and agree to satisfy additional conditions specified by NRCS.

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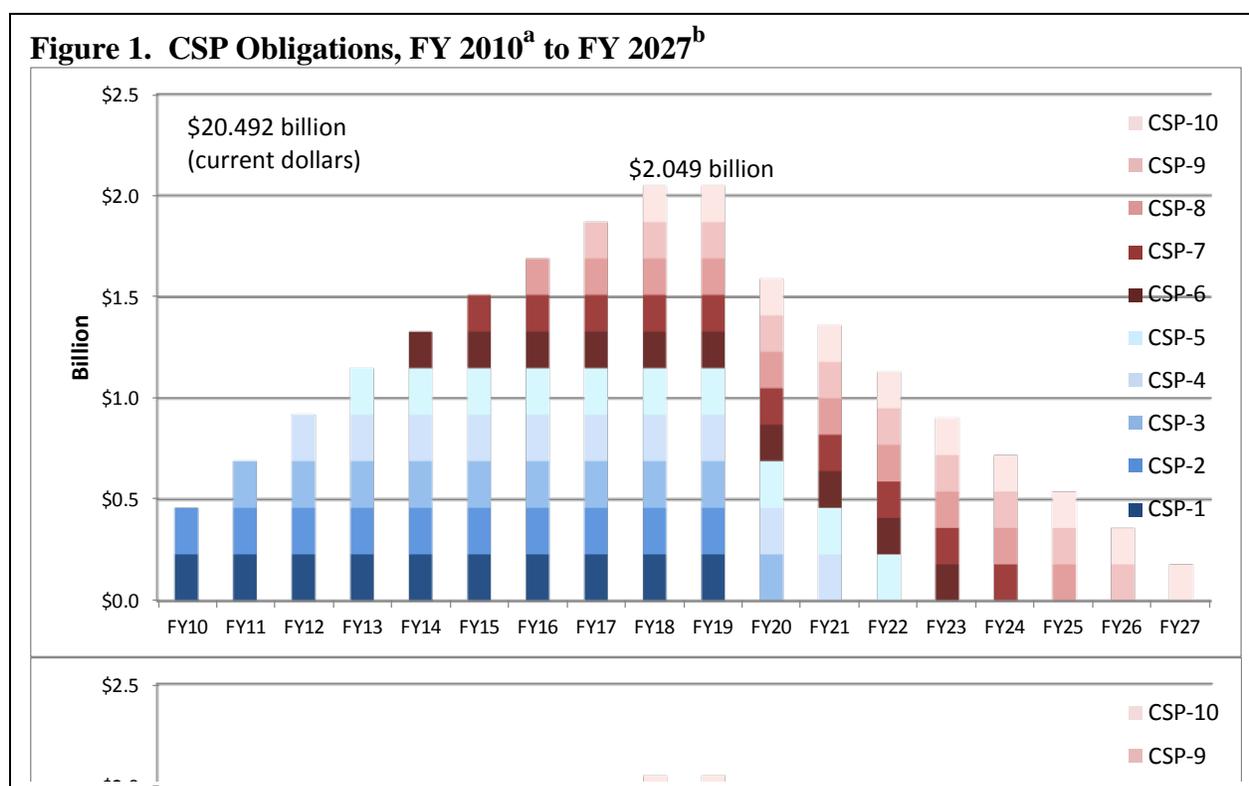
<sup>6</sup> Enhancements for CSP are listed and described in the section “2014 CSP Enhancement Activity Job Sheets” (<http://www.nrcs.usda.gov/wps/portal/nrcs/detail/national/programs/financial/csp/?cid=stelprdb1240690#water-quality>).

<sup>7</sup> The list of eligible conservation practices can be found at the CSP Web site in the “Activity List” section ([http://www.nrcs.usda.gov/wps/portal/nrcs/detailfull/national/programs/financial/csp/?cid=nrcs143\\_008316](http://www.nrcs.usda.gov/wps/portal/nrcs/detailfull/national/programs/financial/csp/?cid=nrcs143_008316)) and the pdf file “2014 Ranking Period One Activity List.” Detailed descriptions of NRCS practices are available at [http://www.nrcs.usda.gov/wps/portal/nrcs/detailfull/national/technical/references/?cid=nrcs143\\_026849](http://www.nrcs.usda.gov/wps/portal/nrcs/detailfull/national/technical/references/?cid=nrcs143_026849).

## Program Funding

Congress authorized the enrollment of 12,769,000 acres for each fiscal year (FY) covered by the 2008 Farm Act. Under the 2014 Farm Act, Congress authorized the enrollment of 10,000,000 acres for each FY during the period February 7, 2014, through September 30, 2018. CSP contracts run for 5 years and include a one-time renewal option for an additional 5 years, thus creating financial obligations through FY 2027 for commitments made during FY 2014 to FY 2018. Nationally, program costs cannot exceed an annual average of \$18 per acre.

Annual maximum Federal obligations for CSP under the 2008 and 2014 Farm Acts are displayed in figure 1. Without further extensions of CSP in future farm acts, annual obligations increase steadily with every new signup,<sup>8</sup> reach a 2-year high of \$2.049 billion annually during FY 2018 and FY 2019, and decrease steadily as renewed contracts expire.



Under the 2008 Farm Act, each FY signup<sup>9</sup> with one contract renewal (CSP-1, CSP-2, CSP-3, CSP-4, and CSP-5) creates a \$2.298 billion obligation (12,769,000 acres x \$18 x 10 years).

<sup>8</sup> NRCS formally calls each period of open enrollment a ranking period. For example, CSP's first ranking period, which occurred in FY 2009, was labeled CSP-2010-1; the second ranking period, CSP-2010-2; the third, CSP-2011-1; the fourth, CSP-2012-1, and the fifth, CSP-2013-1. To simplify discussions, the word "signup" replaces ranking period, and ranking periods are labeled sequentially starting with CSP-1 and ending with CSP-10.

<sup>9</sup> More than one signup (ranking period) can be held in a FY to enroll the maximum allowed acres and/or obligate the maximum allowed obligations. To date, only one signup has occurred in each FY.

Maximum allowed obligations equal \$11.492 billion, 56 percent of the \$20.492 billion shown in figure 1.

The five signups (CSP-6 through CSP-10) with contract renewal authorized under the 2014 Farm Act individually create a maximum obligation of \$1.8 billion (10,000,000 acres x \$18 x 10 years). Maximum allowed obligations equal \$9 billion, 44 percent of the \$20.492 billion shown in figure 1.

Total government program obligations for CSP under the 2014 Farm Act are shown in table 1. Obligations include only costs to government between FY 2014 and FY 2027 (five signups with one-time, 5-year contract renewals). Projected maximum program obligations in nominal dollars equal \$9 billion. Given a 3 percent discount rate, projected cumulative program obligations equal \$6,405 billion in constant 2014 dollars. At a 7 percent discount rate, maximum program obligations equal \$4,942 billion in constant 2014 dollars. Average annualized obligations at the 3 percent and 7 percent discount rates equal \$567 million and \$565 million, respectively.

**Table 1. Total Projected Program Obligations for CSP, FY 2014 through FY 2027**

<b>Fiscal Year</b>	<b>Obligation<sup>a</sup> (million \$)</b>	<b>GDP Price Deflator<sup>b</sup> (2014=100)</b>	<b>Obligation Constant Dollars (million \$)</b>	<b>Discount Factors for 3%</b>	<b>Present Value of Obligation - 3% (million \$)</b>	<b>Discount Factors for 7%</b>	<b>Present Value of Obligation - 7% (million \$)</b>
<b>FY14</b>	180	100.0000	180	0.9709	175	0.9346	168
<b>FY15</b>	360	102.1000	353	0.9426	332	0.8734	308
<b>FY16</b>	540	104.2441	518	0.9151	474	0.8163	423
<b>FY17</b>	720	106.4332	676	0.8885	601	0.7629	516
<b>FY18</b>	900	108.6683	828	0.8626	714	0.7130	591
<b>FY19</b>	900	110.9504	811	0.8375	679	0.6663	541
<b>FY20</b>	900	113.0584	796	0.8131	647	0.6227	496
<b>FY21</b>	900	115.2065	781	0.7894	617	0.5820	455
<b>FY22</b>	900	117.3954	767	0.7664	588	0.5439	417
<b>FY23</b>	900	119.6260	752	0.7441	560	0.5083	382
<b>FY24</b>	720	121.8989	591	0.7224	427	0.4751	281
<b>FY25</b>	540	124.2149	435	0.7014	305	0.4440	193
<b>FY26</b>	360	126.5750	284	0.6810	194	0.4150	118
<b>FY27</b>	180	128.9799	140	0.6611	92	0.3878	54
<b>Total</b>	<b>9,000</b>		<b>7,912</b>		<b>6,405</b>		<b>4,942</b>
<b>Annualized Obligations</b>					<b>567</b>		<b>565</b>

<sup>a</sup>Congress set a maximum of 10 million acres per signup and a national payment rate of \$18 per acre. With a one-time contract renewal option, each signup equals \$1.8 billion in projected program obligations over its 10-year period. Congress authorized five signups.

<sup>b</sup>For years 1 to 5, the GDP adjustment is 2.10 percent (OMB); for years 6 to 14, the GDP adjustment factor is 1.90 percent (average growth since 1993).

## Historical Program Enrollment Statistics – 2008 Farm Act

NRCS completed five CSP signups under the 2008 Farm Act and extensions. Contract data, including cancelled and terminated contracts, are summarized in table 2. The most notable trend in the data is the low number of cancelled and terminated contracts (1,190; 2.6 percent). In general, most CSP participants are fulfilling their 5-year contracts.

	<b>CSP-1</b>	<b>CSP-2</b>	<b>CSP-3</b>	<b>CSP-4</b>	<b>CSP-5</b>	<b>Total</b>
Total Contracts	10,678	9,984	9,655	9,055	6,994	46,366
Cancelled Contracts	444	234	179	99	2	958
Terminated Contracts	100	80	28	24	0	232
<b>Total Active Contracts as of 10/1/2013</b>	10,134	9,670	9,448	8,932	6,992	45,176

Source: ProTracts 10/25/2013 data.

Enrollment, obligations, payments, and TA on active contracts are summarized in table 3. Projected obligations, including a one-time contract renewal and technical assistance (TA), equal \$8.707 billion for the 45,176 active contracts enrolled under the 2008 Farm Act. Except for CSP-5, the signup that occurred under the extension provisions of the 2008 Farm Act, enrolled acres exceeded 12 million per signup. Thus far, payments and TA equal \$1.626 billion (table 2, last column) slightly less than 19 percent of the projected total.

**Table 3. CSP Contracts, Acres, Obligations, and Payments**

Sign-up	Contracts	Acres	Obligations: FY 2010 to FY 2019 <sup>a</sup>			Obligations - FY 2010 to FY 2013 <sup>b</sup>			Payments FY 2010 to FY 2013 <sup>c</sup>		
			Obligations	TA <sup>d</sup>	Total	Obligations	TA <sup>d</sup>	Total	Payments	TA <sup>d</sup>	Total
CSP-1	10,134	12,142,452	1,397,741,119	169,994,328	1,567,735,447	559,096,447	67,997,731	627,094,179	419,270,129	50,998,298	470,268,427
CSP-2	9,670	12,064,102	1,706,500,564	168,897,431	1,875,397,995	682,600,226	67,558,972	750,159,198	511,110,704	50,669,229	561,779,933
CSP-3	9,448	12,479,590	1,878,342,049	174,714,266	2,053,056,315	563,502,615	52,414,280	615,916,894	375,296,590	34,942,853	410,239,444
CSP-4	8,932	12,008,675	1,668,021,088	168,121,449	1,836,142,537	333,604,218	33,624,290	367,228,507	166,629,107	16,812,145	183,441,252
CSP-5	6,992	9,515,888	1,241,066,370	133,222,432	1,374,288,802	124,106,637	13,322,243	137,428,880	-- <sup>e</sup>	-- <sup>e</sup>	-- <sup>e</sup>
<b>Total</b>	<b>45,176</b>	<b>58,210,708</b>	<b>7,891,671,190</b>	<b>814,949,905</b>	<b>8,706,621,095</b>	<b>2,262,910,142</b>	<b>234,917,516</b>	<b>2,497,827,659</b>	<b>1,472,306,531</b>	<b>153,422,526</b>	<b>1,625,729,056</b>

<sup>a</sup>A one-time contract renewal for another 5 years is possible under the 2008 Farm Act.

Therefore, 5-year obligations of each contract were multiplied by 2 to obtain 10 years of estimated obligations.

<sup>b</sup>Four years of reported obligations for CSP-1 and CSP-2; 3 years, CSP-3; 2 years, CSP-4; and 1 year; CSP-5. Contract modifications and separate obligations for resource conserving crop rotations create slightly different yearly obligations.

<sup>c</sup>Payments occur in the FY following completion of contract requirements: 3 years of payments reported for CSP-1 and CSP-2; 2 years, CSP-3; and 1 year, CSP-4. Again, yearly payments reflect approved contract modifications.

<sup>d</sup>TA estimated at \$1.40 per acre per year.

<sup>e</sup>Payments occur in the FY following confirmation that contract requirements were met.

Source: ProTracts 10/25/2013.

Average yearly obligations and payments by signup, contract, and acres; additional activities by signup; and additional activities per contract are summarized in table 4 for the five signups conducted under the 2008 Farm Act. Average yearly obligations and payments and their averages by contract and acres exhibit a similar pattern of increasing over the first three signups and then decreasing. Average yearly obligations and payments per contract remain below the program's assumed maximum financial assistance (FA) cap of \$16.60<sup>10</sup> per acre. Several statutory requirements and program constraints – all acres of an operation be enrolled, yearly annual contract and payment limitations cannot exceed \$40,000 per person or legal entity or \$80,000 for joint operations,<sup>11</sup> annual program obligations plus NRCS TA cannot exceed \$18 per acre nationally, and average per acre obligations by land use remain relatively the same across signups – make it difficult for NRCS to simultaneously enroll the maximum allowable acres and expend the funds authorized by Congress.

<sup>10</sup> National average total cost per acre, which includes FA and TA, cannot exceed \$18 per acre. TA averages \$1.40 per acre.

<sup>11</sup> The higher contract limit for joint operations became effective when the final rule was approved in June 3, 2010, and was implemented beginning with CSP-2.

**Table 4. Yearly Obligations, Payments and Additional Activities**

Signups	Avg. Yearly Obligations <sup>a</sup>	Avg. Yearly Payments <sup>b</sup>	Avg. Yearly Oblig./Contract	Avg. Yearly Pay/Contract	Avg. Yearly Oblig/Acre	Avg. Yearly Pay/Acre	Additional Activities <sup>c</sup>	Avg. Activities/Contract
CSP-1	\$139,774,112	\$139,756,710	\$13,792.59	\$13,790.87	\$11.51	\$11.51	36,893	3.6
CSP-2	\$170,650,056	\$170,370,235	\$17,647.37	\$17,618.43	\$14.15	\$14.12	38,112	3.9
CSP-3	\$187,834,205	\$187,648,295	\$19,880.84	\$19,861.17	\$15.05	\$15.04	43,012	4.6
CSP-4	\$166,802,109	\$166,629,107	\$18,674.67	\$18,655.30	\$13.89	\$13.88	41,711	4.7
CSP-5	\$124,106,637	-- <sup>d</sup>	\$17,749.81	-- <sup>d</sup>	\$13.04	-- <sup>d</sup>	33,064	4.7
<b>Total</b>	<b>\$789,167,119</b>	<b>\$664,404,347</b>	<b>\$17,468.72</b>	<b>\$14,707.02</b>	<b>\$13.56</b>	<b>\$11.41</b>	<b>192,792</b>	<b>4.3</b>

<sup>a</sup>Total dollars obligated divided by 10 years of the contract.

<sup>b</sup>Payments occur in the FY following confirmation that contract requirements were met: 3 years of payments reported for CSP-1 and CSP-2; 2 years, CSP-3; and 1 year, CSP-4.

<sup>c</sup>Total number of additional activities recorded in active contracts that will be applied on designated areas during the initial 5-year contract.

<sup>d</sup>Not applicable. The first payment for CSP-5 contracts signed during FY 2013 will occur during FY 2014 provided contract conditions are satisfied.

Source: ProTracts 10/25/2013.

Also summarized in table 4 are totals of the additional activities that will be applied to designated acres during the first 5 years of the contracts. The number of additional activities per signup increased through CSP-3 and then declined as enrolled acres declined. The number of additional activities planned per contract however, increased steadily through CSP-4.

For the 5 signups through FY 2013, the top 10 enhancements and practices by land use are shown in table 5. Acre treatments were used to identify the top enhancements and practices. Enhancements that improved the applications of pesticides and nutrients dominated the list for cropland and contributed to improvements in air and water quality. Activities that reduced pesticide drift and targeted chemical applications topped the list. Other enhancements improved the amount, timing, and placement of nutrients.

**Table 5. Top Ten Enhancements and Practices by Land Use and Acre Treatments**

<b>Cropland</b>		
<b>Code</b>	<b>Practice Name</b>	<b>Acres Treated</b>
AIR04	Use drift reducing nozzles, low pressures, lower boom height and adjuvants to reduce pesticide drift	15,674,760
AIR07	GPS, targeted spray application (SmartSprayer), or other chemical application electronic control technology	10,424,030
WQL04	Plant tissue testing and analysis to improve nitrogen management	5,754,891
WQL13	High level integrated pest management to reduce pesticide environmental risk	4,702,584
WQL07	Split nitrogen applications 50 percent after crop/pasture emergence/green up	3,924,216
WQL11	Precision application technology to apply nutrients	3,050,593
WQL05	Apply nutrients no more than 30 days prior to planned planting date	2,659,666
AIR08	Nitrification inhibitors or urease inhibitors	1,607,251
WQL09	Apply phosphorus fertilizer below soil surface	1,345,862
WQL06	Apply controlled release nitrogen fertilizer	1,310,080
<b>Pastureland</b>		
<b>Code</b>	<b>Practice Name</b>	<b>Acres Treated</b>
WQL03	Rotation of supplement and feeding areas	2,228,875
PLT02	Monitor key grazing areas to improve grazing management	974,111
AIR04	Use drift reducing nozzles, low pressures, lower boom height and adjuvants to reduce pesticide drift	696,795
ANM26	Managing calving to coincide with forage availability	480,520
AIR07	GPS, targeted spray application (SmartSprayer), or other chemical application electronic control technology	258,290
ANM17	Monitoring nutritional status of livestock using the NUTBAL PRO System	189,142
WQL07	Split nitrogen applications 50 percent after crop/pasture emergence/green up	185,383
ANM09	Grazing management to improve wildlife habitat	155,820
ANM03	Incorporate native grasses and/or legumes into 15 percent or more of the forage base	130,507
PLT10	Intensive management of rotational grazing	117,850
<b>Rangeland</b>		
<b>Code</b>	<b>Practice Name</b>	<b>Acres Treated</b>
WQL03	Rotation of supplement and feeding areas	16,154,659
PLT02	Monitor key grazing areas to improve grazing management	12,193,385
ANM17	Monitoring nutritional status of livestock using the NUTBAL PRO System	6,405,887
ANM09	Grazing management to improve wildlife habitat	5,112,559
ANM26	Managing calving to coincide with forage availability	2,560,147
BRA01	Range Grazing Bundle #1	2,329,937
WQL13	High level integrated pest management to reduce pesticide environmental risk	669,176
WQL01	Biological suppression and other non-chemical techniques to manage brush, weeds and invasive species	653,469
WQL12	Managing livestock access to water bodies/courses	538,276
PLT10	Intensive management of rotational grazing	519,132
<b>Forest land</b>		
<b>Code</b>	<b>Practice Name</b>	<b>Acres Treated</b>
ANM15	Forest stand improvement for habitat and soil quality	303,900
WQL03	Rotation of supplement and feeding areas	247,007
ANM24	Forest wildlife structures	237,630
PLT02	Monitor key grazing areas to improve grazing management	196,678
WQL13	High level integrated pest management to reduce pesticide environmental risk	176,617
PLT04	Forest stand improvement, prescribed burning	160,178
SQL07	Forest stand improvement for soil quality	142,137
645	Upland wildlife habitat management	105,306
338	Prescribed burning	79,425
WQL01	Biological suppression and other non-chemical techniques to manage brush, weeds and invasive species	63,519

Source: Conservation Measurement Tool (CMT) 10/25/2013.

Enhancements applied to pastureland exhibited considerably more variability (table 5). Grazing land management and improvements – rotation of feeding areas and monitoring of grazing areas – topped the list. Producers also applied enhancements such as drift reducing nozzles, targeted spray application technology, and split nitrogen applications to improve their management and application of pesticides and nutrients thus improving air and water quality. Finally, producers selected enhancements that improved animal health and wildlife habitat by incorporating more native grasses and legumes into the forage base, intensive rotational grazing, and changing grazing management to improve wildlife habitat.

The top two enhancements – rotation of supplement and feeding areas and monitoring of grazing areas to improve grazing management – applied to rangeland contributed to improvements in water quality and plant health (table 5). Like pastureland, CSP participants selected enhancements designed to improve animal health (monitoring the health of their livestock, managing calving and forage ability, in improving range quality and quantity) and wildlife habitat through better grazing management. Participants also applied integrated pest management and animal activities to reduce pesticides and animal waste in the environment.

For forest land, the top enhancements selected by CSP participants contributed to better stand management and soil quality, grazing activities, and wildlife habitat (table 5). Producers also made a commitment to integrated pest management. Different than the other land uses, two practices – upland wildlife habitat management and prescribed burning – were used extensively on forested areas.

In summary, producer interest and participation in CSP remained robust throughout the 2008 Farm Act period as evidenced by the reported enrollment numbers and the relatively small percentage of cancelled and terminated contracts. Furthermore, CSP participants enhanced their existing levels of conservation by applying almost 193 thousand new complementary conservation activities

## **CSP and the Agricultural Act of 2014: Mandated Changes, Proposed Discretionary Changes, and Projected Program Impacts**

In reauthorizing CSP, Congress reduced the program's size, mandated some changes that affect eligibility and ranking, and allowed the Secretary of Agriculture more discretion, especially concerning the program's emphasis in regards to a science-based foundation and resource concerns. Statutory requirements, discretionary actions, and likely program impacts of the two sets of changes are discussed below.

### **Statutory Requirements**

The most important change to CSP is the reduction in annual acres allowed for enrollment and the corresponding decrease in funding. Congress reduced CSP from a 12.769 million acre program to a 10 million acre program. In addition, Congress mandated several changes to CSP's overall structure to strengthen its scientific foundation and improve program performance. Specifically, Congress instructed the Secretary to establish science-based stewardship thresholds for use in the program's eligibility and ranking processes while also modifying the eligibility and

ranking processes. The primary statutory requirements of CSP and changes to them as specified in the 2014 Farm Act are summarized in table 6.

Program Elements	Primary Statutory Requirements of Interest	
	2008 Farm Act	2014 Farm Act
<b>Acreage enrollment limitation</b>	12,769,000 acres	10,000,000 acres
<b>National average program rate<sup>a</sup></b>	\$18/acre	\$18/acre
<b>Program purpose</b>	Comprehensive treatment based on <b>resource concerns</b> .	Comprehensive treatment based on <b>priority resource concerns</b> .
<b>Ineligible land</b>	Land enrolled in CRP, WRP, or GRP.	Land enrolled in CRP, Conservation Security Program, or a wetland reserve easement in ACEP.
<b>Acreage limitation on NIPF</b>	Enrolled acres cannot exceed 10 percent of allowable acres.	No acreage cap.
<b>Number of ranking factors</b>	Five ranking factors listed.	Original five ranking factors remain with a focus on priority resource concerns; one additional factor dealing with former CRP land transitioning into agricultural use.
<b>Number of priority resource concerns listed in a state's ranking pool</b>	<b>Not less than three and no more than five</b> priority resource concerns.	<b>Not less than five</b> applicable priority resource concerns.
<b>Minimum program requirements</b>	Participants are required to meet stewardship threshold of <b>one resource concern</b> at the beginning of the contract and <b>one additional priority resource concern</b> by the end of the 5-year contract.	Participants are required to meet the stewardship thresholds of <b>two priority resource concerns<sup>b</sup></b> at the beginning of the contract and <b>one additional priority resource concern</b> by the end of the 5-year contract.
<b>Conditions for contract renewal</b>	Demonstrates compliance with the existing contract and agrees to adopt new conservation activities.	Same as the previous and adds: agrees to adopt and continue to integrate conservation activities across the entire agricultural operation and agrees, at a minimum, to meet the stewardship threshold for at least <b>two priority resource concerns</b> by the end of the renewed contract period, <b>or</b> to exceed the stewardship threshold of at least <b>two existing priority resource concerns</b> .
<b>Measurement of environmental improvement</b>	Conservation measurement tool mandated to be developed and used.	Establishes need to develop and use science-based thresholds for priority resource concerns <sup>c</sup> .
<b>Factors to consider in determining payment levels</b>	Based on: costs incurred; foregone income; and expected environmental benefits.	Same as the previous and adds three conditions related to benchmark and additional activities to meet priority resource conditions plus one additional factor to be determined by the Secretary.

<sup>a</sup>Includes all FA and TA associated with the enrollment and participation in the program.

<sup>b</sup>Under the Agricultural Act of 2014, Congress altered resource concern designations. Priority resource concerns represent the universe of concerns identified for CSP. Priority resource concerns are split into “applicable” priority resource concerns and “other” priority resource concerns.

<sup>c</sup>Statute does not rule out the use of CMT or a CMT-like planning tool.

Abbreviations used: CRP = Conservation Reserve Program; WRP = Wetlands Reserve Program; NIPF = Nonindustrial private forest land; WE = wetland easement; and ACEP = Agricultural Conservation Easement Program.

## Discretionary Changes

NRCS proposes to implement a number of discretionary changes. The primary discretionary changes are shown in table 6. These changes describe how NRCS is interpreting some parts of the statute and how NRCS plans to implement these interpretations into CSP in future years.

**Table 7. NRCS Proposed Discretionary Changes**

Issue	Discussion	Recommendation
<b>Expiring Conservation Reserve Program (CRP) land and enrollment in CSP.</b>	CRP land is not eligible for enrollment in CSP unless the CRP contract expires at the end of the FY in which the land is to be offered for consideration in CSP and CRP payments for land enrolled in the program cease before the first CSP payment.	A producer, who has an expiring CRP contract and is interested in CSP, must develop a conservation plan that describes his or her proposed farm/ranch management system, including conservation activities. The proposed management system will be used to determine eligibility, ranking, any offer of enrollment, until time of obligation.
<b>Changes in a CSP participant's operation that reduce overall conservation performance.</b>	Currently CSP program rules do not allow changes in a farm/ranch/forest operation that reduce the level of conservation performance specified in the CSP contract.	Change program rules to include the following decision rule: Participant remains in CSP if the recalculated ranking score of the proposed operation/management system equals or exceeds the cutoff score for the participant's ranking pool. Adjust obligations. Otherwise follow buyout provisions modeled after CRP.
<b>Separate ranking pools for agricultural operations and forest operations.</b>	As currently defined, an agricultural operation includes NIPF, cropland, rangeland, pastureland, and grassland. This raises the question why there are separate enrollment procedures for agricultural and forest operations.	Maintain separate ranking pools and enrollment procedures for agricultural and forest operations. These are two significantly different operations and comparisons between them are not suitable.
<b>Development of science-based stewardship thresholds and use of these thresholds in eligibility determinations.</b>	Stewardship thresholds currently represent a percentage of the best possible score an applicant can receive for a resource concern when answering the inventory questions. At time of application, the points a person receives for answering the inventory questions (existing activities) by resource concern are compared to the stewardship threshold. Checks to see if additional activities contribute to meeting more stewardship thresholds are not made.	Progress from a proxy stewardship threshold value for each resource concern by land use to a method which uses more defined quantitative measures.
<b>Contract Renewal: To renew contracts, shift eligibility determinations to applicable priority resource concerns.</b>	The Secretary has discretion to set contract renewal requirements. This discretionary action emphasizes the treatment of priority resource concerns specified by the States as important or by the Secretary as important.	At time of contract renewal, agrees to adopt and continue to integrate conservation activities across the entire agricultural operation and agrees, at a minimum, to meet the stewardship threshold for at least <b>two additional applicable priority resource concerns</b> by the end of the renewed contract period, <u>or</u> to exceed the stewardship threshold of at least <b>two existing applicable priority resource concerns</b> .

## Program Impacts of Regulatory and Discretionary Changes

Each regulatory and recommended discretionary change is discussed next in terms of program costs, impacts from supported conservation activities, cost-effectiveness, and participant diversity. Impacts from supported conservation activities capture changes in CSP's resource concerns. Cost-effectiveness is described as dollars per conservation effect. Program diversity

addresses program impacts on beginning producers, socially disadvantaged producers, and forest producers. Except for program costs, the impacts are described qualitatively.

***Acreage Enrollment Limitation***

The lower acreage enrollment limit significantly impacts costs and conservation as shown in table 8. The decrease of 2.769 million acres per year reduces program expenditures by \$2.492 billion over CSP’s 10-year span. In absolute terms, impacts of conservation activities decline because of the loss of additional activities on the 2.769 million acres removed from the program. Producers are expected to maintain their existing conservation, but not add new activities without CSP payments. If NRCS reduces every State's allocations by the percentage decrease in acres (-21.69 percent), the lowest ranked applications in every State’s ranking pools will not be funded.<sup>12</sup> A small improvement in cost-effectiveness – fewer dollars expended per conservation effect – is expected. Given separate ranking pools in every State for beginning and socially disadvantaged producers and the ability of these producers to also enroll in the general agricultural and forest pools, the reduction in program acres does not adversely impact these two groups any differently than other applicants.

<b>Table 8. Program Impacts of Statutory Requirement to Reduce Acres to 10 million</b>				
<i>Based on 2008 CSP Farm Bill Provisions: 12.769 Million Acres vs. 10 Million Acres</i>				
<b>Statutory</b>	<b>Program Funds</b>	<b>Impacts of Conservation Activities</b>	<b>Cost-Effectiveness</b>	<b>Participant Diversity</b>
<b>Acreage Enrollment Limitation</b>	- \$2.492 billion in program funds	Significantly large decrease	Small improvement	No impact

***National Average Program Rate (\$18/acre)***

The national average program rate of \$18 per acre did not change between the two Farm Acts. Combined with CSP’s 10 million acre cap, annual program funds per signup for FA and TA cannot exceed \$180 million. This \$18 rate is a constant between the two farm acts, and hence, is neutral in terms of program impacts. However, we do expect other changes to result in a small improvement in cost-effectiveness.

***Program Purpose***

Congress changed the wording slightly regarding resource concerns in the 2014 Farm Act. The changes are displayed in table 9. At the broad level of program purpose, slightly different wording does not have any specific program impacts. These changes in the wording of program purpose; however, do affect eligibility and ranking, and those impacts are discussed below in the subsections Minimum Program Requirements, Number of Ranking Factors, and Number of Priority Resource Concerns Listed in a State’s Ranking Pool.

<sup>12</sup> NRCS scores and then sorts the applications in every ranking pool from highest to lowest using the scores. Starting at the top of the list and working down the list, NRCS offers the applicants enrollment until the acres in the ranking pool or the associated FA is committed.

### ***Ineligible Land***

Congress consolidated many small working lands and easement programs into the Environmental Quality Incentive Program (EQIP) and a new Agricultural Conservation

Easement Program. The Land considered ineligible for enrollment in CSP is updated using the new programs. This updating of ineligible land has no discernable program impacts.

<b>Farm Act 2008</b>	<b>Farm Act 2014</b>
Resource concerns	"Priority" resource concerns
a. Priority resource concerns	a. Applicable priority resource concerns
b. Other resource concerns	b. Other priority resource concerns

<sup>a</sup>Interpretation provided by the CSP team.

### ***Acres Limitation on NonIndustrial Private Forest land***

Enrollment of NIPF did not exceed its cap (10 percent of 12.769 million acres) in any of the five signups conducted to date. Furthermore, enrolled forest land acres are trending downward. Removal of the 10 percent forest land acre cap does not generate any program impacts by itself.

### ***Number of Ranking Factors***

Applications are scored and ranked based on assessments of conservation activities already on the land and proposed new activities.<sup>13</sup> Applicants are ranked higher if existing and new conservation activities protect resource concerns identified by each State to be priority resource concerns under the 2008 Farm Act and "applicable" priority resource concerns under the 2014 Farm Act. The addition of a CRP-specific ranking factor is being addressed under discretionary changes. Overall, there are no discernable direct program impacts of Congress's rewording of the ranking factors and addition of the CRP ranking factor.

### ***Number of Priority Resource Concerns Listed in a State's Ranking Pool***

An increase in the requirement that States identify at least 5 "applicable" priority resource concerns will change ranking scores, especially in States that currently have fewer than five applicable priority resource concerns<sup>14</sup> selected for their ranking pools. Generally ranking scores will increase across the board. There is little reason, however, to expect changes in absolute ranking scores to significantly affect an application's position on the "offer enrollment" list. Applications at the top of the list may move up or down a few positions, but they will still be offered enrollment. Any impacts brought about by the requirement that states select at least five applicable priority resource concerns for their ranking pools will occur at the bottom of the "offer enrollment" list. Some applications will change positions and result in a few different applications being offered enrollment.

Overall, more applicable priority resource concerns are not expected to impact program funds or negatively impact beginning producers, socially disadvantaged producers, or veteran producers. Impacts on levels of conservation activities and cost-effectiveness are expected to be negligible as shown in table 10.

<sup>13</sup> A more detailed discussion of index point calculations is available at the CSP Web site ([http://www.nrcs.usda.gov/wps/portal/nrcs/detailfull/national/programs/financial/csp/?cid=nrcs143\\_008316](http://www.nrcs.usda.gov/wps/portal/nrcs/detailfull/national/programs/financial/csp/?cid=nrcs143_008316)) in the section "Conservation Measurement Tool (CMT) Scoring Process.

<sup>14</sup> Under the 2014 Farm Act, applicable priority resources are equivalent to priority resource concerns under the 2008 Farm Act (see table 9).

**Table 10. Program Impacts of Statutory Requirements and Discretionary Actions**

<i>Based on 2008 CSP Farm Bill Provisions: 12.769 Million Acres vs. 10 Million Acres</i>				
<b>Statutory</b>	<b>Program Funds</b>	<b>Impacts of Conservation Activities</b>	<b>Cost-effectiveness</b>	<b>Participant Diversity</b>
Acreage Enrollment Limitation	- \$2.492 billion in program funds	Significantly large decrease	Slight Improvement	No impact
<i>2008 CSP and 10 Million Acres vs. 2014 CSP and 10 Million Acres</i>				
<b>Statutory</b>	<b>Program Funds</b>	<b>Impacts of Conservation Activities</b>	<b>Cost-effectiveness</b>	<b>Participant Diversity</b>
National Average Program Rate	No Impact	No Impact	No Impact	No Impact
Program Purpose	No Impact	No Impact	No Impact	No Impact
Ineligible Land	No Impact	No Impact	No Impact	No Impact
Acreage Limitation on NIPF	No Impact	No Impact	No Impact	No Impact
Number of ranking factors	No Impact	No Impact	No Impact	No Impact
Number of Priority Resource Concerns Listed in a State's Ranking Pool	No Impact	Negligible	Negligible	No Impact
Minimum Program Requirements	No Impact	± Negligible	± Negligible	No Impact
Conditions for Contract Renewal	Small/Moderate decrease	Increase	Increase	No Impact
Measurement of Environmental Improvement	See "Development of Science-Based Stewardship Thresholds"			
Factors to Consider in Determining Payment Levels	No Impact	No Impact	No Impact	No Impact
<b>Discretionary</b>	<b>Program Funds</b>	<b>Impacts of Conservation Activities</b>	<b>Cost-effectiveness</b>	<b>Participant Diversity</b>
Expiring Conservation Reserve Program (CRP) Land and Enrollment in CSP	No Impact	No Impact	No Impact	No Impact
Changes in a CSP Participant's Operation that Reduce Overall Conservation Performance	+; Negligible	-; Negligible	No Impact	No Impact
Separate Ranking Pools for Agricultural Operations and Forest Operations.	No Impact	No Impact	No Impact	No Impact
Development of Science-Based Stewardship Thresholds and Use of These Thresholds in Eligibility Determinations.	No Impact	+ Negligible	+ Negligible	No Impact
Contract Renewal: To renew contracts, shift eligibility determinations to applicable priority resource concerns.	Moderate decrease	Marginal Increase	Marginal Improvement	No Impact

**Minimum Program Requirements**

The intent of Congress was to tighten eligibility by requiring applicants to meet or exceed stewardship thresholds of two or more priority resource concerns at time of contract offer and one additional priority resource concern at the end of the contract. However, the actual statutory

language may produce mixed results. First, the added priority resource concern at time of contract offer raises the bar for applicants. Second, by raising the front end eligibility requirements on existing conservation, there are fewer remaining conservation options available for additional enhancements, all else equal. Third, all priority resource concerns are used to assess eligibility under the 2014 Farm Act instead of the smaller subset of “applicable” priority resource concerns that correspond to 2008 Farm Act requirements (see table 10). Fourth, the 2014 eligibility requirements favor applicants who are already treating the priority resource concerns. Applicants who barely met 2008 Farm Act eligibility requirements and competed successfully for enrollment by adding substantially more additional activities will be excluded under 2014 Farm Act eligibility requirements. These now ineligible applicants will be replaced by applicants who have more existing conservation on the ground and who may offer to apply fewer additional activities over the term of their contracts.

Total program obligations will not change as long as there are more applicants than there are funds to enroll them. As shown in table 10, negligible changes in conservation impacts and cost-effectiveness are expected, and the changes may be positive or negative. The more restrictive eligibility requirements apply to all producers equally and do not disproportionately affect any group; thus, beginning and socially disadvantaged producers, including the new sub category of veteran producers, are treated equally.

### ***Conditions for Contract Renewal***

Eligibility requirements for the one-time contract renewal under the 2014 Farm Act represent a significant change from the 2008 Farm Act requirements that only required the adoption of one or more additional conservation activities. Participants enrolled under CSP’s 2014 requirements will need to adopt and continue to integrate activities such that by the end of their renewed contracts the stewardship thresholds of at least two additional applicable priority resource concerns are met or will need to exceed the stewardship thresholds of two existing applicable priority resource concerns in their initial contracts and specified by the Secretary.

Given more restrictive 2014 Farm Act contract renewal requirements, renewal rates are expected to be marginally lower than 2008 contract renewal rates. Looking at CSP-4 contract data (FY 2012 signup) by land use, we found that 74 percent of CSP participants met or exceeded five or more stewardship thresholds at time of contract offer. It is expected that 2014 Farm Act participants will exhibit similar characteristics. Hence, the majority of future CSP participants will only need to pass the conditions set by the Secretary for exceeding two applicable priority resource concerns that are already being treated above their respective stewardship thresholds. A minority of 2014 CSP participants will need to adopt new activities to meet the requirement of adopting new activities by the end of their renewed contracts that meet the stewardship thresholds of at least two additional priority resource concerns for contract renewal. A small percentage of participants from this group will likely not renew their contracts, and this percentage will likely be a little higher than the percentage for CSP participants enrolled under the 2008 Farm Act.

As shown in table 10, a small to moderate decrease in total CSP obligations is expected because a slightly higher percentage of 2014 CSP participants will decide not to renew their contracts

compared to 2008 CSP participants.<sup>15</sup> Conservation impacts are expected to increase because 2014 CSP participants need to treat two additional applicable priority resource concerns by the end of their renewed contracts compared to only one resource concern under the 2008 Farm Act even after adjustments are made for the slightly higher percentage of 2014 Farm Act participants not renewing their contracts. Cost-effectiveness will improve because of the greater number of additional activities to be applied by 2014 Farm Act participants who decide to renew their contracts and continue to receive their payments. Contract renewal requirements are not expected to adversely impact socially disadvantaged, beginning farmer or veteran producers.

### ***Measurement of Environmental Improvement***

The Secretary has considerable discretion in developing and using science-based thresholds. The approach to be used is described in the section “Development of Science-Based Stewardship Thresholds and Use of These Thresholds in Eligibility Determinations.”

### ***Factors to Consider in Determining Payment Levels***

Currently, the factors considered in determining contract obligations take into account enhancement and practice costs, income foregone, expected conservation impacts of inventoried existing activities and new enhancements and practices, and treated areas of the operation. Furthermore, this complex mix of factors and each one’s impact on obligations has been changed in the past to correct issues as they have appeared. Future changes to the factors that affect the calculation of obligations are not being planned under the 2014 Act. Hence, no impacts are expected that are different than the earlier CSP implemented under the 2008 Farm Act.

### ***Expiring Conservation Reserve Program (CRP) Land and Enrollment in CSP***

To facilitate the enrollment of expiring CRP land in CSP as instructed by Congress, NRCS will allow a producer to submit CSP applications if they have a written conservation plan that describes the production system and conservation activities to be applied in their first year of production. Applications that include these proposed production systems will be assessed like any other application based on the information summarized in the conservation plan and the applicant’s identification of new conservation activities to be completed in addition to those in the conservation plan. This accommodation allows producers to submit applications immediately rather than a year or two later after establishing their production systems. There is no reason to believe this accommodation will significantly impact program costs, conservation impacts, cost-effectiveness, or participant diversity.

### ***Changes in a CSP Participant’s Operation that Reduce Overall Conservation Performance***

Changing market conditions, family considerations, and weather necessitate changes to production systems and conservation activities. Currently, any changes that alter the level of conservation detailed in a participant’s contract are not allowed. NRCS is proposing to allow changes requested by a producer as long as the recalculated ranking score remains above the cutoff score in the producer’s original ranking pool and contract obligations are adjusted accordingly. This proposed discretionary change provides much needed flexibility with

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<sup>15</sup> The assumption is made that CSP payments do not change over the 10-year period. To continue to receive payments during the second 5 years, participants must meet contract renewal requirements by targeting at least two priority resource concerns and applying new activities.

negligible program impacts between the two Farm Acts in terms of program costs and conservation impacts and no impacts regarding cost-effectiveness and program diversity (see table 10).

### ***Maximum Contract Payment Cap of \$200 Thousand for Persons or Legal Entities and \$400 Thousand for Joint Operations***

With a higher payment cap for joint operations in both Farm Acts, CSP participants have an incentive to restructure their operations or create joint operations. For the 2014 Farm Act, this proactive discretionary action closes the loophole by setting the maximum contract cap when the contract is accepted. Once implemented, perceived negative program impacts are avoided, hence, the rating of no impact across costs, conservation impacts, cost-effectiveness, and participant diversity.

### ***Separate Ranking Pools for Agricultural Operations and Forest Operations***

Even though the definition of agricultural land includes forest land, under the 2008 Farm Act, separate ranking pools were created for forest operations and agricultural operations. This discretionary action supports the continuation of this separation in the 2014 Farm Act by formally making it part of the rule. Forest operations and agricultural operations are sufficiently different to warrant separate ranking pools and enrollment processes. No program impacts are expected with continuation of this existing policy.

### ***Development of Science-Based Stewardship Thresholds and Use of These Thresholds in Eligibility Determinations***

The 2014 Farm Act mandated the development and use of science-based stewardship thresholds to make eligibility determinations. Under the 2008 Farm Act, NRCS implemented a scientifically-based threshold development methodology which was correlated with the agency's quality criteria and established a proxy value for each resource concern by land use. Moving forward, NRCS will use objective, science-based quantitative measures as the basis for the stewardship threshold methodology.

Cost-effectiveness and changes in conservation impacts are expected; however, the progression is predicted to be negligible (see table 10).

### ***Contract Renewal: To Renew Contracts, Shift Eligibility Determinations to Applicable Priority Resource Concerns.***

As stated above and displayed in the regulatory requirements table (see table 5), Congress tightened contract renewal requirements and gave the Secretary discretion in interpreting the legislation. Hence, the Secretary has proposed to focus contract renewal requirements on applicable priority resource concerns that have been identified by States as important problems and possibly by the Secretary as being important nationally. This proposed revised discretionary action for contract renewal may offset some of the expected conservation impacts described in the subsection "Conditions for Contract Renewal."

CSP participants who enroll under the 2014 Farm Act have fewer options compared to participants enrolled under the 2008 Farm Act because additional activities must be applied to the subset of applicable priority resource concerns (see table 10). The contract renewal rate of 2014 Farm Act contracts will likely decrease even more with this discretionary action than

predicted above in the subsection “Conditions for Contract Renewal,” making it even lower compared to the renewal rate of 2008 Farm Act contracts. With fewer contract renewals, program obligations are expected to decrease. Conservation impacts are still expected to increase relative to 2008 Farm Act renewal requirements because participants who agree to renew will need to apply at least twice as many additional activities to meet the stewardship thresholds for at least two applicable priority resource concerns by the end of the renewed contract period or to exceed the stewardship thresholds of at least two existing applicable priority resource concerns. Contract cancellations, however, will dampen the increase as shown in table 10. Cost-effectiveness will also improve, but the improvement will be smaller. Finally, those more restrictive renewal requirements are not expected to impact participant diversity.

## **CSP and the Resource Conservation Partnership Program**

As part of the 2014 Farm Act, Congress authorized the establishment of the Regional Conservation Partnership Program (RCPP) to further conservation and restoration on a regional or watershed scale. RCPP promotes coordination between NRCS and its partners to join in efforts with producers and landowners to increase the restoration and sustainable use of soil, water, wildlife and related natural resources on regional or watershed scales.

RCPP combines the authorities of four former conservation programs – the Agricultural Water Enhancement Program, the Chesapeake Bay Watershed Program, the Cooperative Conservation Partnership Initiative and the Great Lakes Basin Program. RCPP contracts and easement agreements are implemented through CSP, ACEP, EQIP, or the Healthy Forests Reserve Program. NRCS may also utilize the authorities under the Watershed and Flood Prevention Program, other than the Watershed Rehabilitation Program, in the designated critical conservation areas.

A portion of CSP’s funding – as much as 7 percent of CSP acres – will be transferred to facilitate implementation of RCPP. Table 11 shows the maximum total government program obligations devoted to RCPP for CSP under the 2014 Farm Act.

RCPP is similar to the Cooperative Conservation Partnership Initiative (CCPI) and the Mississippi River Basin Initiative (MRBI) that were funded under the 2008 Farm Act. With these initiatives, NRCS enters partnership agreements with eligible entities, and these entities work with farmers, ranchers, and NIPF owners to focus conservation efforts within specified project areas. In the case of CSP, additional funds are available for a State’s ranking pools that include CCPI and MRBI projects. Although no States created CCPI - or MRBI-specific ranking pools, that option exists if RCPP projects warrant separate CSP ranking pools.

**Table 11. Total Projected CSP Obligations for RCPP FY 2014 through FY 2027**

<b>Fiscal Year</b>	<b>Obligation<sup>a</sup> (million \$)</b>	<b>GDP Price Deflator<sup>b</sup> (2014=100)</b>	<b>Obligation Constant Dollars (million \$)</b>	<b>Discount Factors for 3%</b>	<b>Present Value of Obligation - 3% (million \$)</b>	<b>Discount Factors for 7%</b>	<b>Present Value of Obligation - 7% (million \$)</b>
<b>FY14</b>	12.6	100.0000	12.6	0.9709	12.23	0.9346	11.78
<b>FY15</b>	25.2	102.1000	25	0.9426	23.26	0.8734	21.56
<b>FY16</b>	37.8	104.2441	36	0.9151	33.18	0.8163	29.60
<b>FY17</b>	50.4	106.4332	47	0.8885	42.07	0.7629	36.13
<b>FY18</b>	63	108.6683	58	0.8626	50.01	0.7130	41.34
<b>FY19</b>	63	110.9504	57	0.8375	47.55	0.6663	37.84
<b>FY20</b>	63	113.0584	56	0.8131	45.31	0.6227	34.70
<b>FY21</b>	63	115.2065	55	0.7894	43.17	0.5820	31.83
<b>FY22</b>	63	117.3954	54	0.7664	41.13	0.5439	29.19
<b>FY23</b>	63	119.6260	53	0.7441	39.19	0.5083	26.77
<b>FY24</b>	50.4	121.8989	41	0.7224	29.87	0.4751	19.64
<b>FY25</b>	37.8	124.2149	30	0.7014	21.34	0.4440	13.51
<b>FY26</b>	25.2	126.5750	20	0.6810	13.56	0.4150	8.26
<b>FY27</b>	12.6	128.9799	10	0.6611	6.46	0.3878	3.79
<b>Total</b>	<b>630</b>		<b>554</b>		<b>448.34</b>		<b>345.93</b>
<b>Annualized Obligations</b>					<b>39.69</b>		<b>39.55</b>

<sup>a</sup>Congress set a maximum of 7 percent CSP funds for RCPP activities.

<sup>b</sup>For years 1 to 5, the GDP deflator is 2.10 percent (OMB); for years 6 to 14, the GDP deflator is 1.90 percent (average growth since 1993).

For the five CSP signups conducted under the 2008 Farm Act, CCPI and MRBI contracts accounted for only 172 of the 45,176 CSP contracts and 3.75 percent of the 4,588 CCPI/MRBI contracts.<sup>16</sup> signed as part of the 2008 Farm Act. A total of seven States – Arkansas, Illinois, Indiana, Iowa, Louisiana, Minnesota, and Missouri – had one or more CCPI and MRBI projects funded through CSP. Projected obligations for these 172 contracts, including contract renewal, equal \$36 million, less than one half of one percent of CSP obligations with contract renewals for the five 2008 Farm Act signups.

Overall, past participation in the CCPI and MRBI partnership initiatives provide very little insight into the likely interactions of RCPP and CSP. Typically, watersheds or areas with high additional conservation treatment needs are the focus of these partner initiatives. Maintaining conservation already on the land, on the other hand, is an integral part of CSP. While it is unknown at this point in time how much interest there will be in CSP contracts under RCPP, we expect that most of the partner groups will compete for EQIP rather than CSP funds, and that some portion of the 7 percent CSP-RCPP funds will be reallocated to fund more applications in every State’s existing CSP ranking pools.

<sup>16</sup> Source: ProTracts, October 25, 2014.

## Summary

The statutory requirements of the 2014 Farm Act and proposed discretionary actions have varying impacts on CSP as shown in table 10. Program impacts are by far the greatest with the reduction in program acres to 10 million. Given an annual 10 million acre cap, a national average payment rate that cannot exceed \$18 per acre, five fiscal years of signups, and a one-time, noncompetitive contract renewal, maximum CSP obligations equal \$9 billion in nominal dollars, \$6.405 billion discounted at 3 percent, and \$4.942 billion discounted at 7 percent (see table 1). Compared to the larger CSP under the 2008 Farm Act, the decrease of 2.769 million acres under the 2014 Farm Act translates into a loss of \$2.492 billion in program funds. Given the reduction in program acres between the two farm acts, the additional activities that would have been applied to the 2.769 million acres are lost, resulting in a significant decrease of potential beneficial conservation impacts. A small improvement in cost-effectiveness – defined as dollars per additional unit of conservation effect – is expected because the lowest ranked contracts will not be funded at the lower acre cap. In short, total program conservation impacts will be reduced, but per acre impacts are expected to increase.

Regarding the other statutory requirements, only the revised contract renewal requirements are expected to generate impacts that are moderately different from the 2008 Farm Act with enrollment constrained at 10 million acres. The legislated 2014 contract renewal requirements – apply additional activities to meet the stewardship thresholds for at least two priority resource concerns by the end of the renewed contract period or to exceed the stewardship thresholds of at least two existing priority resource concerns – will likely result in a slightly larger portion of CSP participants not renewing their contracts compared to the expected 2008 Farm Act renewal rate. However, 2014 CSP participants are required to add additional activities to at least two priority resource concerns, thus likely increasing the number of additional activities applied the second 5 years. The 2008 Farm Act only requires the addition of one or more additional activities. With yearly payments extended and more activities being applied under 2014 Farm Act renewals, a small improvement in program efficiency is expected. Overall no differential impacts are expected between general agricultural and general forest producers and beginning and socially disadvantaged producers, including veteran status.

With the exception of the proposed discretionary changes to the legislated 2014 contract renewal requirements, the discretionary actions proposed by the Secretary have little or no impact when compared to CSP as implemented in the 2008 Farm Act constrained to 10 million acres. The proposed discretionary change to focus contract renewal requirements on the smaller subset of applicable priority resource concerns will likely result in slightly fewer contract renewals compared to not implementing this discretionary change. Compared to a 10 million acre 2008 Farm Act CSP, program costs are expected to be lower than without this added restriction. The additional activities will increase conservation impacts and improve program performance compared to 2008 Farm Act contracts that are renewed. Levels, however, will be below that of 2014 Farm Act renewals absent the targeting of applicable priority resource concerns.

The differences in program impacts between the 2008 CSP and the 2014 CSP can be attributed primarily to the program's smaller acre cap of 10 million acres. The revised contract renewal section of the 2014 Farm Act will contribute to some important secondary impacts that could be

dampened if the Secretary emphasizes the application of additional activities on applicable priority resource concerns during the second 5 years.

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