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United States Government Accountability Office
Washington, DC 20548

September 29, 2011

The Honorable Collin C. Peterson
Ranking Member
Committee on Agriculture
House of Representatives

Subject: *USDA's Application of Administrative PAYGO to Its Mandatory Spending Programs*

Dear Mr. Peterson:

In fiscal year 2010, about 80 percent of the U.S. Department of Agriculture's (USDA) total outlays of about $129 billion was used to fund mandatory spending programs—programs with at least some spending that is controlled through eligibility rules, benefit formulas, and other parameters that are set in law other than appropriations acts. At USDA, mandatory spending programs include the majority of the department's nutrition assistance, farm commodity, crop insurance, and export promotion programs, as well as a number of its conservation programs.

To maintain spending discipline over the long-term, the President's budget for fiscal year 2006 proposed a number of changes that would affect the budget process, including having the Office of Management and Budget (OMB) implement a budget-neutrality requirement on agency administrative actions affecting mandatory spending programs. A May 23, 2005, memorandum from the Director of OMB to the heads of departments and agencies provided guidance on a new OMB review process that would apply to administrative actions not required by law that would increase mandatory spending.[1] As directed by the memorandum, in submitting to OMB for review such proposed actions, agencies must include one or more proposals for other administrative actions to be taken by the agency that would comparably reduce mandatory spending. This process for controlling spending is referred to as "administrative pay-as-you-go (PAYGO)."

OMB's memorandum defines an increase in mandatory spending as an increase relative to the projection in the President's most recent budget or mid-session review of what is required, under current law, to fund mandatory spending programs. Administrative actions subject to administrative PAYGO include regulations, demonstrations, program notices, guidance to states or contractors, or other similar actions not required by law that would increase mandatory spending. Among other things, the memorandum states the following:

[1]OMB, *Budget Discipline for Agency Administrative Actions*, M-05-13 (Washington, D.C.: May 23, 2005).

- Proposals of actions subject to administrative PAYGO submitted without an offset will be returned to the agency for reconsideration.
- Questions concerning whether a proposed administrative action is subject to administrative PAYGO will be resolved at the discretion of the OMB Director.
- If an agency determines that a proposed administrative action that would increase mandatory spending is required by law and therefore not subject to administrative PAYGO, the agency's general counsel must provide an opinion explaining that conclusion.
- The materials submitted to OMB on the proposed administrative action should include a first-year cost estimate and, whenever possible, 5- and 10-year cost estimates.
- When there is a difference between cost estimates for the action as submitted for review and as assumed in the most recent projection in the budget or mid-session review, the agency must explain the discrepancy.
- If OMB determines that a proposed offset is inappropriate, OMB may request that an agency propose alternative offsets.[2]
- Exceptions to the budget-neutrality requirement set forth in the memorandum must be requested by the agency head and will be granted only when the OMB Director determines that the exception is appropriate in light of extraordinary need or other compelling circumstances.
- The agency head may appeal the OMB Director's decision to the Budget Review Board.

Separate from OMB's review process for agency proposals that would increase mandatory spending, the Congressional Budget Office (CBO) prepares a "baseline," in accordance with the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (Deficit Control Act) and the Congressional Budget and Impoundment Control Act of 1974 and publishes this information annually in a report. CBO projects a baseline of revenues and spending for federal agencies and programs over the subsequent 10-year period. As stated in CBO's report, when estimating revenues and mandatory spending, CBO assumes that current laws will remain in place throughout the 10-year period. In contrast, to project discretionary spending (i.e., spending generally subject to the annual appropriations process), CBO adjusts current-year appropriations to reflect the effects of inflation and certain other factors, as specified in the Deficit Control Act. The resulting baseline projections, for mandatory and discretionary spending, are not intended to predict future budgetary outcomes; rather, they serve as the benchmark that lawmakers use during annual budget deliberations and as a way to measure the effects of spending or revenue proposals (also referred to as "scoring"). CBO updates its baseline projections annually to reflect legislative changes, such as additional projected outlays resulting from new legislation; economic changes, such as modifications to CBO's projections of inflation, the unemployment rate, interest rates, and other economic variables that affect outlays; and technical changes made in response to new information about the operations of programs.

[2]According to the memorandum, changes in baseline estimates due to economic or technical reasons, as opposed to policy actions, are not to be considered offsets.

In this context, you asked us to review USDA's actions concerning administrative PAYGO. Our objectives were to determine (1) what additional guidance, if any, exists for the use of administrative PAYGO in mandatory spending programs; (2) the extent to which USDA applied administrative PAYGO to its programs during fiscal years 2005 through 2010, documented these actions, and followed related guidance; and (3) the budgetary and operational impact, if any, of administrative PAYGO actions, as identified by USDA, OMB, and CBO.

On June 17, 2011, we briefed your staff on the preliminary results of our work on USDA's administrative PAYGO actions. This report summarizes the information we presented in that briefing and provides additional detailed information on these actions. (See encls. I and II.)

To determine what additional guidance, if any, exists for the use of administrative PAYGO, we interviewed USDA, OMB, and CBO officials and conducted a literature review to identify applicable laws, executive orders, regulations, OMB circulars, or other federal guidance on the use of administrative PAYGO in mandatory spending programs. To determine the extent to which USDA applied administrative PAYGO, we obtained USDA's spreadsheet of its administrative PAYGO actions, referred to as the "scorecard," which is jointly maintained by USDA's Office of Budget and Program Analysis (OBPA) and OMB. We also interviewed USDA program officials to verify the savings and costs estimates in the scorecard and to obtain additional detail about the basis for each estimate. Based on the information we gathered through interviews, we determined these data are sufficiently reliable for our purposes. To determine the extent to which USDA documented these actions and followed applicable guidance, we interviewed USDA officials and reviewed documents that they provided to assess how consistently USDA had tracked the actions in the scorecard and followed guidance for estimating and offsetting the associated increases in mandatory spending. To determine the potential budgetary impacts of administrative PAYGO, we interviewed USDA, OMB, and CBO officials to obtain their views of the effects of administrative PAYGO actions on the baselines for USDA's mandatory spending programs, as well as how CBO learns of these actions. To determine the operational impact, if any, of administrative PAYGO, we interviewed USDA program officials and obtained documentation from them describing each administrative PAYGO action. We did not examine how USDA may track and use mandatory spending decreases for purposes other than administrative PAYGO offsets, such as for deficit reduction, because these issues were outside the scope of our work.

We conducted this performance audit from November 2010 to September 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

OMB has not provided further written guidance on the use of administrative PAYGO in mandatory spending programs since issuing its May 23, 2005, memorandum, and since the memorandum's provisions were incorporated into OMB's Circular A-11. USDA took no administrative PAYGO actions in fiscal year 2005, and from fiscal year 2006 through fiscal year 2010, USDA took 23 actions, including 16 actions that would increase mandatory spending by about $2.8 billion from fiscal years 2006 through 2015 and 7 actions as offsets that would decrease mandatory spending by about $3.0 billion over the same period for a net decrease of about $244 million, according to USDA data. USDA tracked these 23 actions in its scorecard, but it did not track decreases in mandatory spending that were not used as offsets. In addition, USDA estimated most increases in its scorecard for either the duration of the action or for 5 years, whichever was shorter, and offsetting decreases generally equaled or exceeded the increases in each fiscal year. With respect to budgetary and operational impacts, CBO generally reflects changes in USDA programs that result from administrative PAYGO actions as technical changes to the programs' budget baselines, according to CBO officials; however, USDA officials said they have not systematically studied the operational impacts specifically attributable to administrative PAYGO actions.

Administrative PAYGO Guidance

OMB has not provided further written guidance on the use of administrative PAYGO in mandatory spending programs since issuing its May 23, 2005, memorandum. According to USDA and OMB officials, the memorandum remains the key guidance, and its provisions have been incorporated in OMB's Circular A-11 and referenced in the *Analytical Perspectives: Budget of the U.S. Government*.[3] In addition, the guidance has been incorporated in USDA's Budget Manual and OMB's annual budget guidance to agencies.[4] According to USDA officials, typically, in implementing this guidance, a proposed administrative PAYGO action that would increase mandatory spending is first discussed between OBPA and program officials and then between OBPA and OMB officials. During either discussion, the officials said that the proposed action may be dropped or determined not to be subject to administrative PAYGO. In its annual budget submission to OMB, USDA is asked to provide a list of administrative actions planned or anticipated that would increase mandatory spending. Between annual budget submissions, USDA is asked to advise OMB of any anticipated administrative action that would increase mandatory spending as soon as possible after the agency becomes aware that the action is likely to occur. To date, USDA's administrative PAYGO actions that have been identified on the scorecard have been identified during the course of the year and have been dealt with as they are proposed. During the budget formulation process, USDA officials said decisions are made concerning trade-offs between spending increases and decreases, but these decisions are not tracked on the administrative PAYGO scorecard, but rather as part of the overall President's budget proposal.

[3]OMB, *Preparation, Submission, and Execution of the Budget*, Circular No. A-11 (Washington, D.C.: August 2011). OMB's analytical perspectives provide contextual information on the federal budget, including economic and accounting analyses, information on federal receipts and collections, analyses of federal spending, information on federal borrowing and debt, baseline or current services estimates, and other technical presentations.

[4]USDA Budget Manual, Chapter 12, Part II, Department Estimates, Fiscal Year 2011, Part 2, OMB Exhibits and USDA Crosscut Material, p. 12P2-4.

Application and Documentation of Administrative PAYGO to USDA Programs

USDA took no administrative PAYGO actions in fiscal year 2005, and from fiscal year 2006 through fiscal year 2010, USDA took 23 actions, including 16 actions that would increase mandatory spending by about $2.8 billion from fiscal years 2006 through 2015 and 7 actions that would decrease mandatory spending by about $3.0 billion over the same period, according to USDA data. (See encl. I.) The net offsets resulting from these 23 actions (i.e., decreases exceeded increases) of about $244 million were used for deficit reduction, according to USDA and OMB officials. The 16 administrative PAYGO actions that increased mandatory spending affected a total of nine programs in four agencies, as shown in table 1.

Table 1: USDA Agencies and Programs Affected by Administrative PAYGO Actions That Increased Mandatory Spending, Fiscal Years 2006 through 2010.

Dollars in millions

Agency	Program	Amount of increase
Farm Service Agency	Administrative support of Commodity Credit Corporation-funded programs	$30.5
	Average Crop Revenue Election	30.0
	Conservation Reserve	677.4
	Dairy Product Price Support	7.0
	Direct and Counter-Cyclical Payments	5.0
	Domestic and international food assistance programs	315.0
Food and Nutrition Service	Supplemental Nutrition Assistance	25.0
Forest Service	Knutson-Vandenberg Trust Fund	69.0
Risk Management Agency	Federal Crop Insurance	1,623.5
Total		**$2,782.4**

Source: GAO analysis of USDA's administrative PAYGO scorecard.

As indicated in the table, most of the increases in mandatory spending (about $2.6 billion of about $2.8 billion) involved three programs: about $1.6 billion in the Federal Crop Insurance Program for new initiatives; about $677 million in the Conservation Reserve Program to enroll additional acres and to fund various initiatives; and $315 million in food aid commodity swaps for domestic and international food assistance programs. Further detail on the purposes of these mandatory spending increases is presented in enclosure II.

The seven administrative PAYGO actions that decreased mandatory spending affected a total of four programs in four agencies, as shown in table 2.

Table 2: USDA Agencies and Programs Affected by Administrative PAYGO Actions That Decreased Mandatory Spending, Fiscal Years 2006 through 2010.

Dollars in millions

Agency	Program	Amount of decrease
Farm Service Agency	Conservation Reserve	$181.7
Foreign Agricultural Service	GSM-102 Export Credit Guarantee	695.0
Forest Service	Knutson-Vandenberg Trust Fund	51.0
Risk Management Agency	Federal Crop Insurance	2,098.7
Total		**$3,026.5**

Source: GAO analysis of USDA's administrative PAYGO scorecard.

Note: Column does not sum due to rounding.

As indicated in the table, most of this decrease in mandatory spending (about $2.8 billion of about $3 billion) involved two programs: about $2.1 billion in the Federal Crop Insurance Program mostly resulting from reductions in the reimbursements and returns paid to insurance companies, and $695 million in the GSM-102 Export Credit Guarantee Program resulting from the adoption of a new fee schedule based on a recipient country's risk of default. Further detail on the purposes of these mandatory spending decreases is presented in enclosure II.

With respect to the extent to which USDA documented its administrative PAYGO actions, the department's use of the scorecard maintained by OBPA and OMB to track these actions was a mutual decision between USDA and OMB, according to officials of these agencies. USDA tracked the 23 administrative PAYGO actions in the scorecard, but it did not track decreases in mandatory spending not used as offsets. For example, CBO estimated that renegotiating the Federal Crop Insurance Program's Standard Reinsurance Agreement would reduce the cost of operating the program by about $6 billion over 10 fiscal years.[5] However, the scorecard reflects only $2 billion of these savings—the amount USDA used as offsets for increased mandatory spending in the Conservation Reserve Program (CRP) and the Federal Crop Insurance Program. The $4 billion of the savings not used as an offset was applied to deficit reduction, according to USDA and OMB officials, and thus was not tracked in the scorecard. In addition, USDA does not track administrative PAYGO actions that were approved but not implemented. For example, in an administrative PAYGO action during the previous Administration, the Farm Service Agency agreed to forgo the fiscal year 2009 general sign-up for CRP in return for funding an "open fields" initiative, under which landowners would be paid a fee by the agency to allow hunters, anglers, and other outdoor recreationists access to their CRP-enrolled land. The open fields initiative was later cancelled because there was a similar program in the 2008 Farm Bill, and the funding for the initiative was applied to deficit reduction instead, according to USDA officials. Neither of these actions appears in the scorecard. For the administrative PAYGO actions noted in the scorecard, we found that many of the programs associated with these actions retained information on how the related savings or costs were estimated. However,

[5]USDA allows private insurance companies that participate in the Federal Crop Insurance Program to transfer a portion of their risk to the federal government. The Standard Reinsurance Agreement establishes the terms and conditions under which the federal government will provide subsidies and reinsurance on eligible crop insurance contracts sold or reinsured by the insurance company named on the agreement.

according to USDA officials, administrative PAYGO rules do not require USDA to review whether the estimated savings or costs were actually achieved.

With respect to following the guidance in OMB's memorandum, OMB officials indicated that the provision that agencies should estimate the increase in the first year, and whenever possible, increases over 5- and 10-year periods, is not a rigid requirement and that some flexibility is allowed. USDA estimated most increases in its scorecard for either the duration of the action or for 5 years, whichever was shorter. However, in one instance, USDA estimated the increases for CRP for 6 years. Also, the guidance states that agencies must include one or more proposals for other administrative actions to be taken by the agency that would comparably reduce mandatory spending but does not specify whether offsetting decreases have to equal or exceed the increases in each fiscal year. However, according to USDA and OMB officials, OMB initially required decreases to completely offset increases in each fiscal year but now allows the net offset to occur over the duration of the action.

Budgetary and Operational Impacts of USDA Administrative PAYGO Actions

CBO generally reflects changes in USDA programs that result from administrative PAYGO actions as technical changes to the programs' budget baselines, according to CBO officials who monitor the budget accounts related to USDA's programs. According to these officials, they generally were not aware of OMB's May 23, 2005, memorandum or the term "administrative PAYGO;" however, they were generally aware of the actions in USDA's scorecard. The officials said that CBO focuses on changes in USDA's mandatory spending programs that may affect baselines and attributes those changes to new legislation, updated economic assumptions, or technical changes in program operation. CBO officials said they are generally comfortable with their communications with USDA and stay informed of changes in how USDA implements mandatory spending programs through departmental press releases, *Federal Register* notices, and periodic conversations with USDA program officials. The CBO officials indicated they were confident that these mechanisms are sufficient to learn of these changes.

USDA officials said they are not required to systematically examine the operational impacts of administrative PAYGO actions after their implementation. Moreover, they said that although they put a lot of forethought into how these actions might impact programs, it would be very difficult to isolate the actual impacts of administrative PAYGO actions versus other factors affecting program operations, such as changes in economic conditions or other programmatic activity. However, agency documents describing these actions provide some information on their operational impacts. For example, in July 2009, the Secretary of Agriculture announced a 3-month increase in the purchase prices offered under the Dairy Product Price Support Program for nonfat dry milk, block cheese, and barrel cheese because a widely used indicator of profitability had remained at historically low levels for these products in the several months preceding the action. This type of information for other USDA administrative actions is summarized in enclosure II.

Agency Comments

We provided USDA with a draft of this report for review and comment. In an e-mail response, USDA indicated that it generally agreed with the information presented in the report. USDA also provided suggested technical corrections, which we incorporated as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees, the Secretary of Agriculture, the Director of the Office of Management and Budget, and other interested parties. In addition, this report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-3841 or shamesl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Enclosure III lists key contributors to this report.

Sincerely yours,

Lisa Shames

Lisa Shames
Director, Natural Resources
and Environment

Enclosures-3

Enclosure I: Increases and Decreases in USDA Mandatory Spending Programs for Actions Subject to Administrative PAYGO

The U.S. Department of Agriculture (USDA) took no administrative PAYGO actions in fiscal year 2005. This enclosure provides information on actions subject to administrative PAYGO at USDA that were taken during fiscal years 2006 through 2010. For actions estimated to increase spending in mandatory spending programs for fiscal years 2006 through 2015, see table 3; for actions estimated to decrease mandatory spending, see table 4; and for the net offsets resulting from these actions, see table 5. In some cases, the change in mandatory spending occurred in a single year, but in others, the change was made or was being made over several years.

Table 3: Administrative PAYGO Actions That Increased Spending in USDA Mandatory Programs, Fiscal Years 2006 through 2015

Dollars in millions

Agency/program and administrative action	Fiscal year										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Farm Service Agency/Administrative support of Commodity Credit Corporation-funded programs											
Section 4 limit	$7.5	$10.8	$6.9	$5.3							**$30.5**
Farm Service Agency/Average Crop Revenue Election Program											
Sign-up extension					30.0						**30.0**
Farm Service Agency/Conservation Reserve Program											
Wetland incentives				7.8	14.6	17.3	19.2	20.8			**79.8**
Conservation Reserve Enhancement Program incentives				0.7	2.3	7.3	9.5	10.8			**30.6**
2009 extensions				19.0							**19.0**
2010 modification (Duck Nesting, Quail Habitat, State Acres for Wildlife Enhancement Program)					3.6	8.7	12.3	12.3	7.2	3.9	**48.0**
Initiatives and increasing the fiscal year 2010 general sign-up					500.0						**500.0**
Farm Service Agency/Dairy Product Price Support Program											
July 2009 increase in minimum dairy prices				7.0							**7.0**
Farm Service Agency/Direct and Counter-cyclical Payments Program											
Federal base acre reinstatement				5.0							**5.0**

Agency/program and administrative action	Fiscal year										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Farm Service Agency/Domestic and international food assistance programs											
Food aid commodity swaps		77.0	60.0	111.0	67.0						**315.0**
Food and Nutrition Service/Supplemental Nutrition Assistance Program											
Title XIX treatment facilities	3.0	4.0	6.0	6.0	6.0						**25.0**
Forest Service/Knutson-Vandenberg Trust Fund											
Change in Trust Fund spending	51.0	18.0									**69.0**
Risk Management Agency/Federal Crop Insurance Program											
Factor removal			0.4	2.7	8.3						**11.4**
Crop coverage expansions				0.6	12.8						**13.4**
Pasture, Rangeland, and Forage Rainfall Index in Montana				4.6	23.0	23.4	23.7	24.1			**98.7**
Crop Insurance initiatives					1,500.0						**1,500.0**
Total increases in USDA mandatory program spending	**$61.5**	**$109.8**	**$73.3**	**$169.6**	**$2,167.6**	**$56.7**	**$64.7**	**$68.0**	**$7.2**	**$3.9**	**$2,782.4**

Source: GAO analysis of USDA's administrative PAYGO scorecard.

Note: Some rows and columns do not sum due to rounding.

Table 4: Administrative PAYGO Actions That Decreased Spending in USDA Mandatory Programs, Fiscal Years 2006 through 2015

Dollars in millions

Agency/program and administrative action	Fiscal year										
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Farm Service Agency/Conservation Reserve Program											
2008 $2-per-acre maintenance reduction				$0.1	$0.6	$24.6	$28.7	$31.6			**$85.6**
2009 reduction in maintenance payments				43.6	1.5						**45.1**
2010 modification (reduction in Bottomland Hardwood)					3.3	7.2	8.7	9.7	10.6	11.5	**51.0**

Agency/program and administrative action	Fiscal year										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Foreign Agricultural Service/GSM-102 Export Credit Guarantee Program											
Implementation of risk-based approach	139.0	139.0	139.0	139.0	139.0						**695.0**
Forest Service/Knutson-Vandenberg Trust Fund											
Increase timber and payment to state receipts	51.0										**51.0**
Risk Management Agency/Federal Crop Insurance Program											
Terminations not previously counted				4.6	23.0	23.4	23.7	24.1			**98.7**
Standard Reinsurance Agreement					2,000.0						**2,000.0**
Total decreases in USDA mandatory program spending	**$190.0**	**$139.0**	**$139.0**	**$187.3**	**$2,167.4**	**$55.2**	**$61.1**	**$65.4**	**$10.6**	**$11.5**	**$3,026.5**

Source: GAO analysis of USDA's administrative PAYGO scorecard.

Note: Some rows and columns do not sum due to rounding.

Table 5: Net Offsets in Spending in USDA Mandatory Programs Related to Administrative PAYGO Actions, Fiscal Years 2006 through 2015

Dollars in millions

	Fiscal year										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Total increases in USDA mandatory program spending	$61.5	$109.8	$73.3	$169.6	$2,167.6	$56.7	$64.7	$68.0	$7.2	$3.9	**$2,782.4**
Total decreases in USDA mandatory program spending	190.0	139.0	139.0	187.3	2,167.4	55.2	61.1	65.4	10.6	11.5	**3,026.5**
Net offsets (total increases minus total decreases)	**($128.5)**	**($29.2)**	**($65.7)**	**($17.6)**	**$0.3**	**$1.5**	**$3.6**	**$2.6**	**($3.4)**	**($7.6)**	**($244.1)**

Source: GAO analysis of USDA's administrative PAYGO scorecard.

Note: Some columns do not sum due to rounding.

Enclosure II: Descriptions of the 23 Actions Subject to Administrative PAYGO at the U.S. Department of Agriculture, Fiscal Years 2006 through 2010

Agency	Program	Administrative action
Farm Service Agency (FSA)	**Administrative support of Commodity Credit Corporation (CCC)-funded programs** CCC is a government-owned and operated entity that was created to stabilize, support, and protect farm income and prices. CCC also helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution. The CCC Charter Act, as amended, aids producers through loans, purchases, payments, and other operations, and makes available materials and facilities required in the production and marketing of agricultural commodities. CCC is managed by a board of directors, subject to the general supervision and direction of the Secretary of Agriculture, who is an ex-officio director and chairperson of the board. The board consists of seven members, in addition to the Secretary, who are appointed by the President of the United States by and with the advice and consent of the Senate. All members of the board and corporation officers are USDA officials. CCC has no operating personnel. Its income support, conservation, and export programs and its domestic and foreign acquisition and disposal activities are carried out primarily through the personnel and facilities of FSA.	
	Section 4—Outside Contracting: Section 4 of CCC's Charter Act lists the general powers of CCC, one of which addresses outside contracts for administrative support of CCC programs. OMB had established a mandatory passback spending level for section 4 of $11.5 million, which was the fiscal year 2005 spending level, less all "one time" activities, as well as a reduction of $0.8 million for foreign debt collection. Any amounts greater than $11.5 million are subject to administrative PAYGO.	**Section 4 limit** Total increase: $30.5 million, fiscal years 2006-2009 For fiscal years 2006 through 2009, USDA submitted and OMB approved apportionments for section 4 mandatory spending that exceeded the $11.5 million threshold.
	Average Crop Revenue Election (ACRE) Program ACRE, new under the 2008 Farm Bill, is an alternative revenue-based safety net to the price-based safety net provided by the direct and counter-cyclical payments (DCP) program for crop years 2009 through 2012.[a] A producer's decision to enroll and "elect" ACRE may be made in any of the crop years 2009-2012; however, ACRE election is irrevocable and cannot be changed from the time of election through the 2012 crop year. To participate in the program, producers must enroll in the program following their election to participate. Producers on farms that have elected ACRE still must decide annually whether to enroll in the program and may elect the ACRE alternative on a farm-by-farm basis. The deadline to elect and enroll in the program is June 1 of the program year.	**Sign-up extension** Total increase: $30.0 million, fiscal year 2010 The initial implementing regulations established an annual enrollment period that ends on June 1 of the respective fiscal year in which the payments are made.[b] The 2009 sign-up period was the first sign-up period for ACRE and did not begin until April 27, 2009, with about a 1-month sign-up period ending on June 1, 2009. The sign-up period for subsequent years begins on October 1 and ends on June 1. Concerned that not enough time had been given to farmers to make an informed decision about staying with DCP for 2009 or switching to ACRE for crop years 2009-2012, in March 2009, FSA extended the 2009 enrollment period through August 14, 2009. Because this action could increase mandatory program outlays, the action was subjected to administrative PAYGO. The estimate of $30 million for fiscal year 2010 is based on the assumption that 2009 ACRE payments would be higher because producers would select the program with the highest return.

Agency	Program	Administrative action
	Conservation Reserve Program (CRP) CRP is a voluntary program available to agricultural producers to help safeguard environmentally sensitive land. Producers enrolled in CRP plant long-term, resource-conserving vegetative covers to improve the quality of water, control soil erosion, and enhance wildlife habitat. FSA provides participants with annual payments, including certain incentive payments, and cost-share assistance. Contract duration is between 10 and 15 years. Participant and land eligibility requirements must be met before FSA can accept a participant's offer. FSA provides a per acre maintenance incentive payment to CRP participants using continuous sign-up practices. The revised per acre maintenance incentive payments apply to all new offers for CRP except for offers for the Conservation Reserve Enhancement Program (CREP). The CREP maintenance incentive rate is established according to the terms of each CREP agreement.	**2008 $2-per-acre maintenance reduction** <u>Total decrease</u>: $85.6 million, fiscal years 2009-2013 FSA reduced CRP maintenance payments in 2008 to offset (1) the cost of providing for incentives for 1 million acres of continuous sign-up wetland restoration practices, (2) three new CREP agreements, and (3) two amendments to existing CREP agreements. The reduction applied to all new CRP contracts from 2008 onwards, permanently reduced by $2 per acre the amount producers would receive for maintenance payments, and was implemented in April 2008. The revised payment amounts resulting from this action ranged from $2 to $7 per acre, depending on the type of maintenance practice used. This action was taken in conjunction with the wetland incentives and CREP incentives.
		2009 reduction in maintenance payments <u>Total decrease</u>: $45.1 million, fiscal years 2009-2010 FSA made a second reduction of $2 per acre to the CRP maintenance allowance payments in 2009. This action was taken to offset the cost of extending CRP contracts set to expire on September 30, 2009, and was implemented in September 2009. The reduction was applied to all new CRP contracts from 2009 onwards and reduced by $2 per acre the amount producers would receive for maintenance payments. The revised payment amounts resulting from this action ranged from $0 to $5 per acre, depending on the type of maintenance practice used. This action was taken in conjunction with the 2009 CRP extensions.
		2009 extensions <u>Total increase</u>: $19.0 million, fiscal year 2009 FSA offered CRP contract extensions to allow landowners the option to continue to provide environmental benefits by keeping land in CRP in exchange for rental payments. This extension is USDA's standard practice and is normally funded through resources allocated to a general sign-up. The extension opportunity was announced in May 2009 and required an administrative PAYGO offset because resources for a general sign-up were not in the baseline for fiscal year 2009. This action resulted in the extension of contracts on 1.1 million acres. In a previous administrative PAYGO agreement, FSA agreed to forgo the fiscal year 2009 general sign-up in return for funding an "open fields" initiative that was never initiated.[c] The funding for the open fields initiative was subsequently applied to deficit reduction. This action was taken in conjunction with the 2009 reduction in CRP maintenance payments.

Agency	Program	Administrative action
		Initiatives and increasing the fiscal year 2010 general sign-up Total increase: $500.0 million, fiscal year 2010 FSA increased the acreage in the fiscal year 2010 CRP general sign-up and in the State Acres for Wildlife Enhancement (SAFE) program, and introduced other related initiatives, including CREP agreements. Specifically, FSA increased the acreage in the CRP general sign-up from the 2.9 million acres in the baseline to 4.3 million acres, thus allowing the program to reach its statutory enrollment cap of 32 million acres. FSA also increased the allotment of acreage to the SAFE initiative by 200,000 acres. The fiscal year 2010 CRP general sign-up resulted in producers' enrolling 4.0 million acres in CRP. This action was taken in conjunction with the renegotiation of the Standard Reinsurance Agreement and crop insurance program initiatives.
	Wetlands Restoration Initiative: Through this initiative, FSA aims to restore the functions and values of wetland ecosystems that have been devoted to agricultural use. FSA seeks to set aside a total of 500,000 acres of wetlands and buffers within the 100-year floodplain and 250,000 acres of wetlands and buffers located outside the 100-year floodplain (non-floodplain). Eligible participants may receive annual rental, cost-share, and/or incentive payments.	**Wetland incentives** Total increase: $79.8 million, fiscal years 2009-2013 To increase participation because of a lower than expected enrollment in four wetland restoration initiatives, FSA offered signing incentive payments; practice incentive payments; and annual incentives to encourage participation.[d] The incentives were implemented in October 2008. Enrollment of wetland restoration practices has increased, but according to USDA, it is difficult to determine the extent to which the increase was due to the incentives. Enrolled acres increased by 343,386 from September 2008 through March 2011. This action was taken in conjunction with the 2008 $2-per-acre CRP maintenance reduction and CREP incentives.
	CREP CREP, a derivative program of CRP, is a voluntary program that helps agricultural producers protect environmentally sensitive land, decrease erosion, restore wildlife habitat, and safeguard ground and surface water. CREP is a federal-state cooperative effort designed to target specific high-priority resource concerns. The program is a partnership among producers; tribal, state, and federal governments; and, in some cases, private groups. CREP agreements vary in the types and dollar amounts of incentives.	**CREP incentives** Total increase: $30.6 million, fiscal years 2009-2013 FSA proposed to implement five CREP agreements that included incentives to encourage landowners to enroll acres in CREP.[e] This action was taken in conjunction with the 2008 $2-per-acre CRP maintenance reduction and wetland incentives.

Agency	Program	Administrative action
	CRP Initiatives Duck Nesting Habitat Initiative: This initiative seeks to restore 200,000 acres of wetlands and wetland complexes that are located outside the 100-year floodplain by enhancing duck-nesting habitat on the most duck-productive areas of Iowa, Minnesota, Montana, North Dakota, and South Dakota. Eligible participants may receive annual rental, cost-share, and incentive payments. Habitat Buffer for Upland Birds (Quail) Initiative: This initiative seeks to introduce a conservation practice that creates 350,000 acres of successional grass buffers along agricultural field borders to create habitat for the northern bobwhite quail and upland birds. Enrollment is targeted to specific geographic areas in 31 states that have the highest potential to restore bobwhite quail habitat. SAFE: Owners and operators of certain cropland in designated geographic areas may enroll eligible land on a continuous (ongoing) basis to address state and regional high-priority wildlife objectives and achieve a total of 650,000 acres of wildlife habitat. Eligible participants may receive annual rental, cost-share, and incentive payments.	**2010 modification (Duck Nesting, Quail Habitat, State Acres for Wildlife Enhancement Program)** Total increase: $48.0 million, fiscal years 2010-2015 To strengthen conservation outcomes, FSA increased acreage allocations for Duck Nesting, Upland Bird (Quail), and State Acres for Wildlife Enhancement (SAFE). The increased allocations were announced in February 2010. The Duck Nesting allocation was increased by 50,000 acres, the Upland Bird allocation was increased by 100,000 acres, and the SAFE allocation was increased by 150,000 acres. Estimates were made of the costs of the estimated additional enrollment acre allocations based on the incentives for the three initiatives. Enrollment in the initiatives increased the acres allocated, but other factors besides the increased allocations could have played a role in the increase. Enrollment between July 2010 and March 2011 showed an increase of 50,312 acres for duck-nesting habitat, 9,904 acres for quail habitat, and 323,000 acres for SAFE, for a total of 383,216 additional acres. This action was taken in conjunction with the 2010 CRP modification (reduction in Bottomland Hardwood).
	Bottomland Hardwood Initiative: This initiative seeks to restore 245,000 acres of flood plains through the restoration of primarily bottomland hardwoods that provide multipurpose forest and wildlife benefits. Eligible participants may receive annual rental, cost-share, and incentive payments.	**2010 modification (reduction in Bottomland Hardwood)** Total decrease: $51.0 million, fiscal years 2010-2015 FSA reduced the Bottomland Hardwood initiative acreage allocation by 250,000 acres to offset the cost of increasing the allocations for other CRP initiatives by a total of 300,000 acres. The action was implemented through a CRP handbook amendment in July 2010.[f] This action was taken in conjunction with the 2010 CRP modification (Duck Nesting, Quail Habitat, SAFE).
	Dairy Product Price Support Program (DPPSP) Under DPPSP, FSA supports the price of nonfat dry milk, butter, and cheddar cheese made from cow's milk produced in the United States at statutory minimum levels through the purchase of such products. The established prices are uniform for all regions in the United States and may be increased by the Secretary of Agriculture when considered appropriate.	**July 2009 increase in minimum dairy prices** Total increase: $7.0 million, fiscal year 2009 The milk-to-feed price (MFP) ratio, a widely used indicator of profitability in the dairy sector, reached is lowest level in nearly 35 years in May 2009, and was below its long-term average of 2.74 for 19 consecutive months, from January 2008 through July 2009. The pressure on dairy returns was precipitated by higher feed costs. The dairy returns squeeze intensified in 2009 with the decline in the

Agency	Program	Administrative action
		milk price brought about partly by the collapse in international demand for U.S. dairy products and partly by decreased domestic demand as a result of the U.S. recession. In recognition of the potential continuation of the low MFP ratios, in July 2009, the Secretary of Agriculture announced a 3-month increase in the purchase prices offered under DPPSP for nonfat dry milk, block cheese, and barrel cheese. OMB approved the action on July 30, 2009, and the new purchase prices were in effect on August 1, 2009.
	Direct and Counter-cyclical Payments (DCP) Program DCP provides two types of payments to eligible producers—direct payments for certain eligible commodities based on base acreage and payment yield and counter-cyclical payments when market prices are low as part of a "safety net" in the event of low crop prices. Counter-cyclical payments for a commodity are only issued if the effective price for a commodity is below the target price for the commodity.	**Federal base acre reinstatement** Total increase: $5.0 million, fiscal year 2009 Regulations implementing provisions of the 2008 Farm Bill do not allow producers to establish crop acreage bases on land owned by federal agencies and terminated previously established base acreage on federally owned land.[9] USDA was concerned that terminating base acres would have hurt farmers across the United States and eroded the safety net for farmers and ranchers. Because including these acres in DCP resulted in an increase in mandatory spending, the action was subject to administrative PAYGO. The action was approved and implemented on April 1, 2009. In addition, county offices were instructed to reinstate base acres terminated on federally owned land and ensure that the owners and operators of federally owned land were notified that base acres on federally owned land would not be terminated.
	Domestic and international food assistance programs FSA purchases and delivers processed commodities under domestic distribution programs such as the National School Lunch, Commodity Supplemental Food, Food Distribution on Indian Reservations, and Disaster Assistance Programs. FSA also purchases commodities for distribution to foreign countries under Title II of the Agricultural Trade Development and Assistance Act (commonly known as "Public Law 480"); Food for Progress; section 416(b) of the Agricultural Act of 1949, as amended; and the McGovern-Dole International Food for Education and Child Nutrition Program, through private voluntary organizations and the World Food Programme.	**Food aid commodity swaps** Total increase: $315.0 million, fiscal years 2007-2010 Since 2007, CCC has conducted numerous commodity swaps (barters) to provide supplemental meals for millions of needy people worldwide at a time when appropriated funding was inadequate to keep pace with high commodity and transportation costs. Bartering not only increased food assistance levels, it also reduced CCC costs associated with long-term storage of government-owned inventories. FSA initially conducted the barters on behalf of CCC but faced challenges when considering a barter of CCC-owned products for "unlike products" requested by the food aid recipient (e.g., the exchange of cotton for canned salmon). Accordingly, CCC entered into a contract with a third party to allow CCC barters without requiring a food supplier to accept in exchange commodities of "unlike products" in which the supplier has no interest. FSA continues to barter CCC inventories for "like products," and approximately $315 million worth of commodities have been exchanged since 2007. The $315 million is the increase in FSA program expenses that has been offset under administrative PAYGO.

Agency	Program	Administrative action
Food and Nutrition Service (FNS)	**Supplemental Nutrition Assistance Program (SNAP)** The purpose of SNAP—formerly the Food Stamp Program—is to promote the general welfare and to safeguard the health and well being of the nation's population by raising the levels of nutrition among low-income households. Any firm desiring to participate in the program is to file an application that contains information that permits FNS to determine whether an applicant qualifies, or continues to qualify, for participation in the program.	**Title XIX treatment facilities** Total increase: $25.0 million, fiscal years 2006-2010 FNS implemented a policy change in March 2006 that addressed state certification for participation of alcohol and drug and treatment facilities in SNAP to include qualified faith-based rehabilitation facilities. Denial of these facilities' participation in SNAP was due to questions concerning whether state licensing is required for such participation, according to FNS officials. Prior to this change, treatment programs faced certification requirements that they were state-licensed before being authorized to participate in SNAP. In September 2005, the Secretary of Agriculture and the Secretary of the Department of Health and Human Services co-signed a letter to all the governors noting that state licensing is not required for participation by faith-based rehabilitation facilities.
Foreign Agricultural Service (FAS)	**GSM-102 Export Credit Guarantee Program** This program provides credit guarantees to encourage financing of commercial exports of U.S. agricultural products for periods not to exceed 3 years, while providing competitive credit terms to buyers. The program guarantees credit by the private banking sector (or the exporter) in the United States to approved foreign banks using dollar-denominated, irrevocable letters of credit for purchases of U.S. food and agricultural products by foreign buyers. CCC underwrites the guarantees and approves which countries and banks may participate and the agricultural commodities and products that are eligible. CCC must qualify exporters to participate in the program before they can submit a guarantee application. Once qualified, exporters submit a guarantee application along with a fee calculated on the dollar amount guaranteed.	**Implementation of risk-based approach** Total decrease: $695.0 million, fiscal years 2006-2010 Between 2004 and 2006, FAS made changes to the GSM-102 program partly to settle a long-standing dispute filed with the World Trade Organization concerning export programs for upland cotton. In July 2005, FAS implemented a risk-based fee schedule, with fees based on level of country risk.[h] FAS also ceased programming for certain countries classified as higher risk and ceased operation of its medium term credit guarantee program (3 to 7 year guarantees), GSM-103. Beginning in fiscal year 2006, FAS ceased operation of the Supplier Credit Guarantee Program. The 2008 Farm Bill repealed specific statutory authority for both the Supplier Credit Guarantee Program and the GSM-103 program. The Farm Bill also repealed a 1-percent cap on fees that could be charged under the GSM-102 program.[i]
Forest Service	**Knutson-Vandenberg Trust Fund** To fulfill its reforestation responsibilities, the Forest Service uses both appropriations and monies from trust funds, the largest being the Knutson-Vandenberg Trust Fund. This trust fund was established by the Knutson-Vandenberg Act of 1930 to collect a portion of timber sale receipts to cover the cost of reforesting the area from which the timber was cut.	**Change in Trust Fund spending** Total increase: $69.0 million, fiscal years 2006-2007 **Increase timber and payment to state receipts** Total decrease: $51.0 million, fiscal year 2006 Congress, in the Department of the Interior, Environment, and Related Agencies Appropriations Act, 2006, modified limitations in the use of Knutson-Vandenberg receipts. In order to offset the increase in mandatory spending, the Forest Service, through two agencywide policy memos, rescinded its earlier policy and instructed regions that at least 25 percent of regional timber sale receipts are to be deposited into the National Forest Fund. In addition, the Forest Service directed that 25 percent of all national forest receipts be deposited into the National Forest Fund for payment to states' obligations. National forest receipts can come from several classes of

Agency	Program	Administrative action
		receipts, including timber, grazing, recreation special uses, energy, minerals, and recreation user fees. These policies are still in place and part of normal operations.
Risk Management Agency (RMA)	**Federal Crop Insurance Program** RMA operates and manages the Federal Crop Insurance Program on behalf of the Federal Crop Insurance Corporation (FCIC), a government corporation managed by a board of directors and subject to the general supervision of the Secretary of Agriculture. The federal crop insurance program provides crop insurance on more than 100 crops to U.S. producers. RMA, through FCIC, develops and/or approves the premium rate; administers premium and expense subsidies; approves and supports products; reinsures companies; and sponsors educational and outreach programs and seminars on the general topic of risk management. The federal government encourages farmers' participation by subsidizing the insurance premiums and acting as the primary reinsurer for the 17 private sector insurance companies that sell and service the policies. These companies achieve underwriting gains when insurance premiums exceed the claims they must pay farmers for crop losses, and they incur underwriting losses if claims paid on the policies exceed the premiums. To cover the expenses of selling and servicing crop insurance policies, the federal government pays companies an administrative and operating (A&O) expense allowance. In turn, insurance companies use this money to cover, among other things, their overhead expenses, such as payroll and rent, and to pay commissions to insurance agencies and agents. Companies also incur expenses associated with verifying (i.e., adjusting) the amount of loss claimed. These loss adjustment expenses include, for example, travel expenses to farmers' fields.	**Factor removal** Total increase: $11.4 million, fiscal years 2008-2010 The FCIC Board authorized a revision to how indemnities are calculated for the Vegetation Index used in insurance coverage for the Pasture, Rangeland, and Forage (PRF) Insurance Program, effective for the 2010 crop year. The revision removed temperature constraints that added complexity to the calculations and added little benefit. A simpler adjustment to the indemnity calculation was also introduced. The $1.6 million-per-year estimate of the program cost was based on policy data from the most recent year for which data were generally available. The cost estimate was based on a recalculation of the policy premiums that would have occurred had the changes been in place. **Crop coverage expansions** Total increase: $13.4 million, fiscal years 2009-2010 The FCIC Board authorized the expansion of regulatory crop insurance programs to additional counties. Expansions are based on demand for coverage as evaluated by RMA's regional offices and included a number of crops and counties. The cost of expansion is based on estimates of demand by RMA's regional offices.
	Pasture, Rangeland, and Forage Insurance Program: PRF is a pilot program that uses two separate basic provisions: a Rainfall Index, which covers a single peril—lack of rain, and a Vegetation Index, which is based on data that measure vegetation greenness. Basic provisions are the terms and conditions included in all polices under these plans. These pilot programs are based on vegetation greenness and rainfall indices, and are designed to give forage and livestock producers the ability to buy insurance protection for losses of forage produced for grazing or harvested for hay. These two indices are being tested in select counties and states. The indices do not measure a producer's production or loss, but the producer is insuring a rainfall or vegetation index that is expected to estimate his production.	**Pasture, Rangeland, and Forage Rainfall Index in Montana** Total increase: $98.7 million, fiscal years 2009-2013 The FCIC Board authorized the expansion of PRF to Montana, effective for the 2009 crop year. The estimate of the cost was based on an assumed participation rate of about 10 percent. Given that level of participation, estimates of premium and program cost factors were calculated at about $23 million per year. This action was taken in conjunction with the action on terminations not previously counted described below. **Terminations not previously counted** Total decrease: $98.7 million, fiscal years 2009-2013 The FCIC Board terminated the Group Risk Program for rangeland in Montana and Wyoming effective for the 2009 crop year because of performance issues and for replacement by the

Agency	Program	Administrative action
		newly developed PRF product. RMA also terminated insurance coverage for a number of crops, such as strawberries, Asian citrus canker in Florida, apples, winter squash, cucumbers, onions in Michigan, mangoes and avocados in Florida, and fresh market beans. This action was taken in conjunction with the Pasture, Rangeland, and Forage Rainfall Index in Montana action.
		Standard Reinsurance Agreement Total decrease: $2.0 billion, fiscal year 2010 In the 2008 Farm Bill, Congress revised the Federal Crop Insurance Act to allow FCIC the option to renegotiate the terms of the Standard Reinsurance Agreement (SRA) effective for the 2011 reinsurance year. FCIC elected to exercise this option in order to revise the terms of compensation provided to insurance companies and to make other technical changes to improve the operation of the crop insurance program. The SRA determines the amount of A&O reimbursement paid to insurance companies in exchange for selling and servicing crop insurance policies. The renegotiated SRA prescribes a maximum amount of A&O that could be paid to companies for most crop insurance policies, which produces savings for the federal government. The expected savings is about $350 million per year. The SRA also determines the terms of the reinsurance provided by FCIC to insurance companies. The renegotiated SRA outlines reinsurance terms that are generally less generous than the previous SRA and are expected to produce a lower average return to insurance companies, which produces savings for the federal government, according to RMA officials. The total estimated savings from the renegotiated SRA is about $600 million per year. The savings is expected to continue until the SRA is renegotiated. This action was taken in conjunction with the CRP and crop insurance program initiatives.
		Initiatives Total increase: $1.5 billion, fiscal year 2010 RMA expanded crop insurance to a number of new crops and initiated new product development efforts. The single largest expansion extended the PRF program to 19 states. The costs estimates are generally based on evaluations of likely levels of participation and premium volume. This action was taken in conjunction with the CRP initiatives and the renegotiation of the Standard Reinsurance Agreement.

Source: GAO analysis of USDA data.

Note: USDA took no administrative PAYGO actions in fiscal year 2005.

[a] Food, Conservation, and Energy Act of 2008 (2008 Farm Bill), Pub. L. No. 110-246, 122 Stat. 1651.

[b] 73 Fed. Reg. 79.284 (Dec. 29, 2008) (amending 7 C.F.R. pt. 1412).

[c]The “open fields” initiative was later replaced by the Voluntary Public Access and Habitat Incentive Program, which section 2606 of the 2008 Farm Bill directed the Secretary of Agriculture to establish.

[d]The four initiatives are floodplain wetlands, non-floodplain and playa wetlands, bottomland hardwoods, and duck-nesting habitat.

[e]The five CREP agreements are with the states of Arkansas, Colorado, Hawaii, Louisiana, and Maryland. The CREP agreement with Colorado has not yet been implemented.

[f]Amendment 1 of CRP-2 (Rev. 5), dated July 28, 2010.

[g]73 Fed. Reg. 79.284 (Dec. 29, 2008) (amending 7 C.F.R. § 1412.45).

[h]73 Fed. Reg. 76.568 (Dec. 17, 2008) (amending 7 C.F.R. pt. 1413).

[i]Pub. L. No. 110-246 § 3101.

Enclosure III: GAO Contact and Staff Acknowledgments

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Staff Acknowledgments

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