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Report to the Chairman, Government Information, Justice, and Agriculture Subcommittee, Committee on Government Operations, House of Representatives

January 1992

COMMODITY PROGRAMS

Should Farmers Grow Income-Supported Crops on Federal Land?

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Resources, Community, and
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January 15, 1992

The Honorable Bob Wise
Chairman, Government Information,
Justice, and Agriculture Subcommittee
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In your August 30, 1990, letter, you expressed concern about the government's policy of allowing farmers who lease federal land (federal lessees) to participate in the U.S. Department of Agriculture's (USDA) income support program. USDA's income support program supplements farmers' income if the market price for eligible crops—primarily wheat, feed grains, cotton, and rice—is below a legislated price set by the Congress. Because income-supported crops are sometimes in excess supply, as part of its income support program, the government also provides farmers payments to reduce the production of these crops. Your concern in this area was sparked, in part, by a media report that a Tennessee farmer received income support payments for not growing crops on federal land.

This report describes the basis for the government's policy of allowing federal lessees to participate in the income support program and estimates the payments USDA made to lessees during crop years 1988 and 1989.

Results in Brief

Since 1974 the government's policy has been to allow federal lessees to grow crops that are eligible for government support payments. This policy was put in place because demand for U.S. crop exports was strong and the government wanted to encourage increased production to meet this demand. In 1982 USDA reassessed this policy and concluded that production from federal lands was no longer needed to meet this demand; in fact, a surplus of income-supported crops existed at the prevailing prices. However, at that time the government continued this policy because it recognized that the small amount of production from federal land would not affect national supplies and that with the overall agricultural industry in a downturn, rural communities depended on the income received by these farmers.

Since the 1982 analysis, changes have occurred. The United States continues to overproduce income-supported crops, which has caused USDA to initiate acreage reduction programs to remove farm land from production. Moreover, increased concern about the effect of farming on the environment, especially soil, has spurred the development of other USDA programs that also remove land from production. Finally, rural communities now are generally less dependent on farming income than they were in the early 1980s.

The government's federal lessees policy conflicts with the objectives of USDA's acreage reduction and environmental programs—the policy makes more farm land available for production, whereas the USDA programs remove farm land from production. In crop years 1988 and 1989, the government paid $3.2 million in supplemental income to federal lessees for growing crops that are not needed and that the government is trying to reduce. A more consistent policy would be for the government to prohibit federal lessees from growing these type of crops.

Furthermore, during crop years 1988 and 1989, the government paid about $350,000 to federal lessees who agreed not to produce income-supported crops. Even though paying lessees not to grow crops is consistent with USDA's acreage reduction and environmental goals, the government is paying more than necessary to achieve these goals. Because the government owns the land, it does not need financial incentives as leverage to encourage federal lessees to reduce production, and the government can prohibit production by modifying its current policy.

If the government determines that modifying its federal lessees policy would have a material affect on rural communities that are located near federal facilities, several alternatives are available to mitigate this impact. These alternatives include (1) implementing a transition period to allow federal lessees to adjust to the new policy and (2) allowing the lessees to grow nonprogram crops.

Background

The federal government owns about 690 million acres of rural land, located at installations throughout the nation. Federal agencies, such as the U.S. Army and the Department of the Interior's Fish and Wildlife Service, use this land for training and housing military troops, for preserving wildlife, for public recreation, and for many other purposes. However, sometimes federal agencies need only part of the land under their jurisdiction and they lease the remainder of this land to farmers for agricultural purposes. During crop years 1988 and 1989, 10 federal agencies leased about 101,000 acres to farmers who received USDA income support payments (see app. I). In addition to receiving revenues from leasing, these agencies also received land maintenance services—such as mowing and fencing—as part of the lease agreements.

The Office of Management and Budget (OMB) sets the government's policy concerning whether federal lessees should be allowed to grow income-supported crops. USDA recommends to OMB whether federal agencies should allow lessees to grow these crops and administers the government's income support program. Unless OMB issues a governmentwide policy prohibiting the practice, federal agencies that lease agricultural land have the discretion to allow lessees to grow income-supported crops.

USDA's income support program includes several features designed to control surplus production of supported crops. For example, USDA can require farmers to reduce the acreage planted to income-supported crops as a requirement to participate in its income support program. The Secretary of Agriculture also has discretionary authority to pay farmers for voluntarily diverting additional land from production if the Secretary determines that such diversions are necessary to control projected crop surpluses.

The government's policy toward federal lessees has evolved over the last 35 years. A 1956 executive order prohibited federal lessees from growing income-supported crops that were in surplus supply. The stated purpose of the restriction was to be consistent with the administration's determined efforts to reduce price-depressing surpluses and to bring agricultural production in line with markets. This policy continued for 18 years, until 1974, when world demand for the nation's agricultural goods seemed insatiable at prevailing prices and the government encouraged farmers to plant "fence row to fence row." Because of these conditions, the administration determined that the earlier prohibition was no longer needed and suspended the 1956 executive order. The government's 1974 decision allowed federal lessees to produce income-supported crops, which entitled them to receive payments under USDA's income support program.

By 1982 world demand for U.S. crops had decreased, and USDA conducted an analysis of the 1974 policy. This analysis recognized that production from these lands was no longer needed to satisfy world demand for U.S. crops; however, USDA concluded that federal lessees should be allowed to continue to grow income-supported crops because these farmers leased less than 1 percent (about 260,000 acres) of the nation's total available cropland, and these farmers could not produce enough crops to significantly affect national supplies. Furthermore, USDA observed that, if farmers were prohibited from growing income-supported crops, the rural communities located near these farmers would lose the USDA-related income they had been receiving since 1974. The Department, however, did not estimate the number of rural communities that might be affected by changing the policy or the severity of the financial impact.

The 1982 analysis changed the criteria used to decide whether federal lessees should be allowed to grow income-supported crops. In the past the decision was based on consistency with the government's overall agricultural policy on whether to encourage production. In 1982, by contrast, the decision not to recommend a change in the policy was based on two factors: (1) federal lessees' financial and economic conditions and (2) the fact that the amount of federally leased farmland was not considered significant enough to affect national supplies.

Policy Allows Payments to Federal Lessees

The government's current policy is to allow federal lessees to participate in the income support program. According to USDA officials, the income support program is an entitlement program, and all farmers who meet the program's qualifications are legally entitled to support payments. These income support payments supplement the income that farmers receive from selling crops. Generally, in order to qualify for payments, the lessee must (1) lease land that has a history of having been planted with a certain crop, (2) comply with any acreage reduction requirements, and (3) agree to conform to other administrative requirements.

The key factor that determines whether federal lessees are entitled to income support payments is whether the government allows federal lessees to grow income-supported crops. For example, the government could allow federal lessees to grow only crops or commodities that are not eligible for income support payments (e.g., nonprogram crops such as tomatoes, potatoes, and cabbage). Although we did not determine the extent to which federal lessees participate in other USDA programs (e.g., loans and disaster assistance), once the government decides that federal lessees can grow supported crops, the lessees are generally entitled to these other government benefits.

Agricultural Conditions Have Changed

Production of income-supported crops and environmental and economic conditions have changed since 1974, when the government allowed lessees to grow income-supported crops, and 1982, when USDA reexamined the policy. The Department has not considered whether, in light of these changes, the government should again prohibit farmers leasing federal land from growing income-supported crops.

Since 1982 the Secretary of Agriculture has implemented acreage reduction programs to help control crop surpluses and has required farmers to comply with these programs in order to receive income support payments. Although USDA used these programs in previous years, the consistent need for such supply control programs since 1982 suggests that the nation has sufficient farmland and production capacity that it does not need production from federally owned land to meet domestic and international demand.

In addition, farming has increasingly become linked to soil erosion, surface water problems, and groundwater contamination. The 1985 Farm Bill reflected such environmental concerns and, in response, USDA initiated a 10-year Conservation Reserve Program to withdraw 45 million acres of privately owned agricultural land from production. Although the primary purpose of the program is to preserve resources, it also reduces the amount of land available for crop production. As such programs remove increasing amounts of private land from production, it becomes increasingly inconsistent for the government to justify allowing federal lessees to produce income-supported crops on government land. This situation is especially true when the government leases farmland that sometimes has the same erosion characteristics as land currently enrolled in the conservation reserve program.

After the 1985 Farm Bill, USDA added a new option to its income support program partly as a response to continued crop surpluses and environmental concerns. The option allows the Department to pay farmers up to 92 percent of their projected income support payment if they agree to reduce the amount of land planted in income-supported crops. USDA requires the farmer to maintain the land by planting a cover crop and keeping it mowed.

The farm economy has also changed since USDA last examined the government's policy in 1982. Crop prices and farm incomes generally rose during the late 1980s, signaling a possible improvement in the financial well-being of rural economies. Although USDA has not analyzed how much individual communities that are located near federal facilities depend on income support payments, rural economies are now generally less financially dependent on farming income than they were during the early 1980s. Thus, rural farming communities may not suffer the financial impacts that USDA anticipated in 1982 if the government restricts federal lessees from growing income-supported crops.

The combined effect of these factors is to create an agricultural policy environment that is very different from that which shaped USDA's 1982 analysis. Furthermore, since 1974, when the policy first went into effect, agricultural market conditions have changed from a condition of excess demand to one of excess supply. As a result of these changes, the government is implementing a lessees policy that is inconsistent with federal agricultural production and environmental policies.

Government Does Not Need the 92-Percent Option for Federal Lessees

USDA makes 92-percent income support payments to provide farmers a financial incentive to voluntarily remove agricultural land from production. However, because the government owns the land, it does not need financial incentives as leverage to encourage federal lessees to reduce production, and the government can prohibit production by modifying its current policy. Because the government has not examined its overall policy toward federal lessees since 1982, the government is paying more than necessary to achieve its 92-percent crop production and environmental goals.

The following are two examples to illustrate that USDA's 92-percent income support option is not the least costly alternative to discourage production on federal land. In the case of the farmer cited by the Tennessee television network that we discussed earlier, the farmer paid about $1,375 during 1990 to lease about 275 acres of federal land from the U.S. Army Corps of Engineers. However, because this land was eligible for the 92-percent option, the farmer received about $5,000 from USDA in income support payments for not growing feed grains. Net cost to the government to remove the land from production during 1990 was $3,625 (this does not reflect the value of land maintenance services that the government received).

We also identified another case of federal lessees who contracted with the Corps to lease 375 acres for $50 per year. The Corps leased the property for a reduced amount because its appraisal had determined that although the land was best suited for growing hay, it would cost the government more to grow hay than the crop was worth. During 1989 and 1990, the lessees received about $23,200 from USDA in income support payments for not planting feed grains on about 260 acres of this land. Net cost to the government to conserve the land during these years was $23,150 (this does not reflect the value of services—such as mowing to control weeds—that the government received in accordance with the lease agreement).

The government can avoid situations in which it incurs such a net cost by modifying its policy to prohibit lessees from receiving 92-percent payments. Furthermore, USDA officials believe that this prohibition would eliminate a perception that federal lessees who receive 92-percent income support payments for not growing crops on federal land are getting more than what's fair because the farmers perform only minimal amounts of work on the land. If the government determines that a prohibition would materially affect rural communities that are located near federal facilities, several alternatives are available. For example, the government could allow lessees to supplement their farm income by growing nonprogram crops to the extent that this is consistent with environmental goals. Furthermore, the government could provide a transition period to allow federal lessees to adjust to the prohibition.

Lessees' Income Support Payments

USDA's most current information concerning federally owned farmland indicates that as of August 1990, about 1,600 farmers were growing one or more income-supported crops on federal property. During crop years 1988 and 1989, USDA paid $3.6 million in income support payments to these farmers. Of this amount, the Department paid about $3.2 million to farmers who produced supported crops and about $350,000 to farmers who reduced their production of these crops. Farmers renting land from two federal agencies—the Department of the Army's Corps of Engineers and the Department of the Interior's Fish and Wildlife Service—received about 70 percent of the income support payments that USDA made to federal lessees during these years.

According to USDA's information, as of August 1990, 10 federal agencies leased land to farmers who received USDA income support payments. During crop years 1988 and 1989, these agencies leased about 101,000 acres to farmers who participated in USDA's income support program. Farmers used about 56,000 acres of the 101,000 acres to qualify for the Department's income support program.

Conclusions

Continuance of the current policy of allowing federal lessees to grow income support crops is questionable because of substantial changes since this policy went into effect. Production of income-supported crops grown on federal land is no longer needed to meet domestic and international demand for American crops, and legislation governing production, environmental, and conservation concerns suggests that conditions have changed considerably. Except for USDA's 1982 analysis, the government has not considered these changes. As a result, the government makes land available for agricultural purposes, while at the same time USDA is trying to reduce the amount of land used to produce income-supported crops. This leads to inconsistencies between USDA's overall policy to reduce surpluses of income-supported crops and the government's policy to allow federal farmers to grow these crops and increases the Department's total budget for income support payments.

Because the government has not examined its overall policy toward federal lessees since 1982, the government is also paying more than necessary to achieve its 92-percent crop production and environmental goals. The government could remove federal land from production at less cost by modifying its policy to prohibit farmers from growing income-supported crops. Because lessees can still qualify for 92-percent income support payments if there is a history of growing crops on the land, the government needs to also prohibit federal lessees from receiving 92-percent income support payments. If the government finds that such modifications severely affect the economies of rural communities that are located near federal facilities, it can allow federal lessees to grow non-program crops and provide a transition period for lessees to adjust to the modified policy.

Recommendation

We recommend that the Director of the Office of Management and Budget modify the government's federal lessees policy to (1) prohibit lessees from growing income-supported crops whenever a prohibition is consistent with national agricultural production and environmental goals and (2) prohibit federal lessees from receiving 92-percent payments for not growing crops on federal land. In implementing these policy changes, the Director should determine if a transition period is needed for federal lessees to adjust to the changes.

We discussed the information contained in this report with USDA and OMB officials, who agreed with the facts presented. We have incorporated their comments where appropriate. However, as agreed, we did not obtain written agency comments on this report.

We conducted our review from October 1990 through October 1991 in accordance with generally accepted government auditing standards. Additional details concerning the review's scope and methodology are presented in appendix II.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the appropriate congressional committees; interested Members of Congress; the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

This report was prepared under the direction of John W. Harman, Director, Food and Agriculture Issues, who can be reached at (202) 275-5138. Other major contributors to the report are listed in appendix III.

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

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Abbreviations

OMB	Office of Management and Budget
USDA	United States Department of Agriculture

USDA Crop Payments to Farmers Who Lease Federal Land

Table I.1 summarizes the agricultural acres leased by federal agencies to individuals who received USDA income support payments during crop years 1988 and 1989 and the income support payments paid to these individuals.

Table I.1: GAO Estimates of Leased Federal Land and USDA Income Support Payments to Federal Lessees for Crop Years 1988 and 1989

Leasing federal agency	Average 1988-89 crop acres leased	Average 1988-89 acres enrolled with USDA	Income support payments[a] 1988	Income support payments[a] 1989
U.S. Army	35,400	19,900	$822,800	$659,200
Fish & Wildlife	22,200	12,100	565,100	468,400
Bureau of Reclamation	19,200	11,400	200,400	120,400
Department of Energy	7,400	4,800	56,700	84,000
Tennessee Valley Authority	4,500	1,800	65,800	95,000
National Park Service	2,200	800	36,000	57,100
Bureau of Land Management	2,200	900	48,500	75,700
Other agencies[b]	7,600	4,100	112,400	98,200
Total[c]	**100,700**	**55,900**	**$1,907,600**	**$1,658,000**

[a]Includes about $223,500 and $124,300 in income support payments for land taken out of production during crop years 1988 and 1989, respectively.

[b]Includes the Departments of the Air Force and the Interior, the Forest Service, and other federal agencies that USDA records did not individually identify.

[c]Totals do not add due to rounding.

Source: Prepared by GAO on the basis of USDA land ownership and crop payment records for farms that USDA identified as federally owned.

Objectives, Scope, and Methodology

On August 30, 1990, the Chairman, Government Information, Justice, and Agriculture Subcommittee, House Committee on Government Operations, requested that we examine the government's policy of allowing farmers who lease federal land to participate in USDA's income support programs. On the basis of subsequent discussions with the Chairman's office, we agreed to describe the basis for the government's policy of allowing federal lessees to participate in the income support program and to estimate the amount of payments made in crop years 1988 and 1989. This evaluation was restricted to examining only federal land leased for growing crops and did not include federal land leased for grazing, logging operations, or other agricultural purposes. It was also restricted to the government's policy for paying income support to farmers and did not examine its policies for providing other agricultural benefits (e.g., loans and disaster assistance).

We performed our overall audit work by interviewing officials and collecting pertinent information at

- USDA headquarters in Washington, D.C. (specifically USDA's Agricultural Stabilization and Conservation Service, Economic Research Service, and Farmers Home Administration);
- Washington, D.C., headquarters offices of agencies that lease a large portion of the total number of acres that are leased to farmers who participate in USDA's income support program. These agencies included the U.S. Army's Corps of Engineers, the Department of the Interior's Fish and Wildlife Service, Bureaus of Land Management and Reclamation, and the Tennessee Valley Authority; and
- USDA, the Tennessee Valley Authority, the Fish and Wildlife Service, and the Corps of Engineers field offices responsible for making income support payments and for leasing agricultural land in six Tennessee counties.

We interviewed these field officials and reviewed the offices' payment and contracting records because (1) Tennessee ranks among the top 10 states in total number of federally owned acres on which farmers grow income-supported crops, (2) federal land within these counties were managed by a broad spectrum of agencies, and (3) one of the counties was featured in a Tennessee television station's report of federal land leasing and farm policies.

To determine the government's policies for paying income support to federal lessees and the rationale for these policies, we interviewed USDA officials responsible for administering the income support program and for making the 1982 decision to continue these payments. We obtained documentation on the evolution of the government's policy by reviewing historical documents USDA officials had maintained concerning the 1956, 1974, and 1982 policy decisions.

We also interviewed officials of federal agencies' field offices responsible for leasing in Tennessee to obtain a perspective of their leasing activities and their lessees' involvement with USDA's income support program. Finally, we discussed USDA's options for modifying its current income support policy with officials from USDA and leasing agencies.

To estimate the number of federally owned acres that farmers are leasing and the crop payments that USDA is paying to these farmers, we reviewed USDA computerized files and extracted payment and acreage information for all farms that USDA files identified as federally owned. We excluded farms managed by the Farmers Home Administration from our estimates because it manages foreclosed farm properties that it intends to hold only until they can be sold. Our review focused on USDA's policy for paying income support on land that the government uses for long-term purposes.

We tested the accuracy of our acreage and income support estimates for federally owned properties by comparing similar information in several USDA files. However, we could not verify that USDA records include information for all federally leased farms because the Department receives information on only farmers that participate in its income support programs. In addition, we could not find an independent source of information on federally leased agricultural land to compare with the USDA data. Therefore, our acreage and income support estimates are for all farms that USDA believes are federally owned, excluding those leased by the Farmers Home Administration.

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