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Chief Bruce Knight
Natural Resources Conservation Service
U.S. Department of Agriculture
14th and Independence Ave., SW
South Building, Room 5105-A
Washington, D.C. 20250

VIA HAND-DELIVERY & FACSIMILE

August 27, 2002

RE: EQIP - - Optimization of Environmental Benefits & Cost Effectiveness

Dear Chief Knight:

As you consider regulatory and procedural changes to the Environmental Quality Incentives Program (EQIP), we are providing these recommendations on achieving the 2002 Farm Bill's directives to optimize the program's environmental benefits and encourage the use of cost effective cropping and livestock systems and practices.

Most of these recommendations are based on two principles for EQIP's implementation. The **first principle** is that NRCS should provide a framework for incentives, targets, and performance goals for the program which can be used by NRCS State Conservationists, and their advisors on State Technical Committees and local working groups, in implementing the program at the state level. The **second principle** is that of collaboration. The 2002 Farm Bill provides increased opportunity for NRCS and its State Conservationists to undertake collaborative efforts with federal, state and local partners, both public and private. Where possible, EQIP funds should be used in combination with other programs and funding to achieve a higher level of environmental improvement and protection of the nation's natural resources.

By combining these two principles, NRCS can avoid implementing a program that becomes a disjointed give away of public funds, administered with little regard as to whether it encourages excellence or mediocrity. Instead, NRCS should create a framework through regulation and program guidance that will allow the public to see demonstrable environmental and conservation improvements.

RECOMMENDATIONS

- **Create Incentives for States to Optimize Environmental Benefits through Targeting.**

While a baseline amount of EQIP funds should continue to be allocated by formula to the states based on resource needs, the rule and program guidance should provide a new, additional formula for distributing a significant share of funds on the basis of performance. These special allocation incentives should include: rewards for effectively addressing national, state, and local resource concerns; focusing concentrated attention on special resource areas; developing exceptional educational outreach and assistance initiatives; coordinating with stakeholder groups; creating specialized programs to address such concerns as drinking water source protection or restoring habitat for threatened and endangered species; supporting outstanding initiatives using Partnerships and Cooperation approaches or Conservation Innovation Grants; and other performance and outcome-based considerations. Consistent with the Government Performance and Results Act and with the EQIP purposes, this two-part allocation system would improve the effectiveness of the program.

- **Distribute Water Conservation Funds Nationwide Based on Need.**

For 2003, the special funding through EQIP for water conservation should be allocated to states on a nationwide basis, based on a sound analysis of need using NRI and other available data. In subsequent years, this allocation system should continue, modified only by performance indicators as described in the recommendation above. In the future, funds should not be restricted to one geographic region as they were in 2002, which resulted in the exclusion of states such as California which clearly need to improve water conservation measures.

- **Continue the Conservation Planning Requirement.**

The 2002 Farm Bill continues to require a conservation plan as the basis for EQIP eligibility and contracts. In order to fulfill the statutory mandate to optimize environmental benefits and promote cost-effective conservation systems and practices, it is imperative that the conservation planning requirement from the previous rule and program manual be continued. Any slippage on this front would be extremely detrimental to the environmental quality goals of the program. Continuing the planning requirement is of utmost importance to the integrity of the program.

In addition, the increase in EQIP funding means that more incentive payment and cost-share money is available for farmers and ranchers to develop more comprehensive conservation plans. NRCS should encourage program applicants to assess all their environmental and conservation needs and develop comprehensive conservation plans.

- **Emphasize the Importance of Cost Effectiveness.**

The 2002 Farm Bill removed language that in some cases resulted in larger or wealthier farms or ranches being able to outbid smaller operations by agreeing to lower cost share rates for a given conservation practice. We supported the elimination of the bid down process which had allowed

producers to bid down the overall amount of cost-share on an individual contract basis by agreeing to a cost-share amount lower than the rate set for a particular practice. We also support the provisions in the 2002 Farm Bill that *retain a paramount consideration for program level cost-effectiveness* by elevating it to one of just two priorities for evaluation of offers and payments.

Unfortunately, we believe there has been confusion by NRCS state and field staff on this matter, with an erroneous interpretation holding that the “no bidding down” revision means cost effectiveness can no longer be a consideration in evaluating contract offers and payments. This interpretation clearly flies in the face of the 2002 Farm Bill's statutory directive and should be clarified immediately in communications with State Conservationists and set to rest in the revised EQIP rule and program manual. Cost effectiveness should be a primary consideration *in both ranking offers and setting payment rates for conservation practices*.

In ranking offers, NRCS should look at the costs of implementing the practices in relation to the environmental and natural resource improvements achieved. Applications from producers who plan to use low cost practices that achieve significant improvement in environmental and natural resource indicators should be favored. Applications for high cost practices, such as expensive infrastructure or equipment, should be ranked lower. This ranking method for offers will result overall in a cost-effective program that gives the most environmental and natural resource protection and improvement for the lowest amount of money - a prudent use of public funds.

In addition, we recommend that NRCS consider cost-effectiveness in setting the cost-share rate for different conservation practices. NRCS should direct State Conservationists to pay a higher rate of the costs for low cost practices with high environmental performance. State Conservationists should pay a lower share of the costs for conservation practices that are based on use of expensive structures and equipment. The recent NRCS decision at the national level to limit the cost share rate to not more than 50% for single practice applications that exceed \$100,000 is a modest step in the right direction, but states should be encouraged to go much further.

- **Optimize environmental benefits through prioritization and accountability.**

The revised rule should continue to provide that each state will create a ranking system that gives priority to their highest resource concerns. NRCS should develop a model ranking process for states to follow. The model should demonstrate how to rank resources of concern and rank different levels of performance of conservation practices. The rule should promote rewarding higher levels of performance by granting higher priority and more assistance to producers implementing cost-effective conservation practices that achieve higher environmental results. The rule and manual should grant highest priority to plans achieving Resource Management System status.

- **Move quickly to re-assess average payment rates.**

We are concerned that the national average payment rates for land management practices eligible for incentive payments indicate that most states are using a multiple factor to offer higher payments for a few select practices, while providing relatively low payments for some of the most environmentally important practices. These differences in payment appear to be without justification. We are also concerned that incentive payment rates are being set in the same fashion as cost-share assistance, which is contrary to the clear intent of the statute. Before issuing a new rule, we recommend that NRCS undertake a thorough review of incentive payment rates and, based on that review, issue revised guidance to the states.

- **Effectively Utilize the New Beginning Farmer Authority.**

Section 2004 of the 2002 Farm Bill authorizes the Department to offer special incentives to beginning and limited resource farmers under EQIP and all other conservation programs in order to foster new farming and ranching opportunities and enhance long-term environmental stewardship. In addition to the prescribed higher cost-share rates in EQIP for beginning and limited resource producers, we recommend that the revised EQIP guidance should encourage states to develop innovative approaches to using conservation assistance and special incentives to help establish new, sustainable farming and ranching operations.

- **Encourage States to Include Incentives for Organic Farming Systems.**

We recommend that new EQIP program guidance should encourage all states to follow the leads of Iowa and Minnesota in offering EQIP options specifically tailored to meet the conservation objectives of organic farming systems. Care should be taken to ensure that such incentives are consistent with requirements of the forthcoming National Organic Program. These incentives should be available to both existing organic producers and new or transitioning organic producers.

- **Foster Strong, Effective Educational Assistance Initiatives.**

Educating producers about conservation conditions, planning, options and maintenance is key to optimizing environmental benefits. Educating producers on alternative systems is also a way to keep down the costs of government and farmers. We recommend that NRCS enter into memoranda of understanding with CSREES (cooperative extension), other appropriate agencies, and non-profit farm and conservation organizations to assist farmers and rural communities. The revised rule and program guidance should require all states to pursue innovative educational assistance efforts. Highly effective program partnerships, such as those in Minnesota and New York, should be held up as models for other states to emulate. Resources should be dedicated to educational assistance and allocations should be reasonable and steady from year to year.

- **Monitor and evaluate to gauge environmental and conservation results.**

Monitoring and evaluating are critical in establishing whether NRCS is optimizing environmental benefits. We recommend that NRCS, in cooperation with federal agencies with expertise in this area, should develop a national monitoring and evaluation protocol. Using the protocol, regional NRCS offices should then select and implement monitoring and evaluation projects in critical areas. NRCS should collaborate with other federal agencies, including USDA's research and extension agencies, the Environmental Protection Agency, US Geological Service, and the U.S. Fish and Wildlife Service, state agencies, educational institutions, and private non-profit organizations, to determine the best locations and strategies. We urge you to adhere to the Statement of the Managers directing that at least \$10 million from the combined technical assistance allocations for all conservation incentive programs be utilized annually for education, monitoring, and evaluation.

- **Improve public access to information about EQIP.**

We are concerned about the lack of information about EQIP on the NRCS website. Basic data about EQIP, such as where EQIP funds are spent and on which practices, is noticeably absent. In contrast, the Farm Service Agency posts a great deal of data about the Conservation Reserve Program on its website. While EQIP is admittedly more complex than CRP, the current state of affairs is clearly deficient. We would appreciate the agency's attention to this matter. With such an enormous amount of money being devoted to this program and such high congressional and public expectations regarding its success, it is important that the public gain access to basic data and information.

We very much appreciate the efforts of NRCS to reach out to the conservation, sustainable agriculture, and environmental communities as you consider changes to the EQIP regulations. We thank you for your attention to these recommendations and look forward to working with you on the EQIP rule. Please contact us if you have any questions or concerns regarding these recommendations.

Sincerely,

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