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Report to the Chairman, Committee on the Budget, House of Representatives

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COMMODITY PROGRAMS

Freedom-to-Farm Approach Will Reduce USDA's Personnel Costs

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United States
General Accounting Office
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Resources, Community, and
Economic Development Division

B-271582

May 22, 1996

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

On April 4, 1996, the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127) was enacted, fundamentally changing farm programs in place since the 1930s. Under the provisions of the new farm bill, farmers receiving federal support for agriculture will operate with fewer federal controls over which crops to plant and how much acreage to put into production. This new approach to farm programs is known generically as "freedom to farm."

Prior to the enactment of this legislation, you asked us to examine the level of personnel reductions and associated cost savings that the U.S. Department of Agriculture (USDA) could achieve if freedom-to-farm provisions were put in place.[1] The freedom-to-farm approach was first presented in H.R. 2195, introduced by the Chairman of the House Committee on Agriculture on August 4, 1995. This proposal, with certain changes, was then incorporated into H.R. 2491, the proposed Balanced Budget Act of 1995, which was vetoed by the President. The freedom-to-farm attributes contained in H.R. 2195 and the proposed Balanced Budget Act are similar to, but differ in several important aspects from, those enacted in the 1996 farm bill.

This report discusses the personnel reductions that could have been achieved by implementing the freedom-to-farm approach as set forth in H.R. 2195 and the proposed Balanced Budget Act. Under the provisions of the farm bill ultimately enacted, reductions in USDA's personnel will still be possible but probably to a lesser degree than would have occurred if the provisions originally proposed had been put in place. This change occurs because, compared with the earlier freedom-to-farm proposals, the new act adopted various program provisions that changed some of the assumptions used by USDA when estimating workload impacts and delayed implementation of crop insurance changes that will reduce USDA personnel requirements. On the other hand, if USDA reduces its staffing under the new

[1]Budgetary savings would only occur if the Congress captured the savings from personnel reductions by reducing appropriations.

farm bill, it may be able to achieve further savings by closing or consolidating county offices.

Results in Brief

The freedom-to-farm provisions set forth in H.R. 2195 would have enabled USDA to realize significant savings in personnel because the proposal would have required fewer program activities than the commodity programs in effect under previous farm bills, and, as a result, USDA would have needed fewer staff. Specifically, using USDA's assumptions about personnel savings, we found that USDA's Farm Service Agency (FSA), which is responsible for administering the commodity programs, could have reduced personnel by 1,823 staff years and saved a total of about $332 million between 1997 and 2002. The reduction in staff years would have represented about 9 percent of FSA's total staff years. Most of FSA's personnel savings would have occurred at the county office level.

While the freedom-to-farm provisions under the proposed Balanced Budget Act would have achieved savings similar to those under H.R. 2195, the personnel savings would have been greater because the act included changes in areas not addressed by H.R. 2195. The act would have resulted in a net reduction of 2,719 staff years, which represents about a 13-percent decrease in FSA's total staff from the fiscal year 1995 level. Most of these additional reductions would have resulted from transferring certain activities from FSA to the private sector, such as signing up farmers for crop insurance. However, USDA would not have realized any dollar savings from this additional reduction because crop insurance program staff are supported by offsetting collections—funds collected from the fees farmers pay to sign up for the crop insurance program.

Background

In general, freedom-to-farm proposals allow farmers who have participated in the commodity payment programs to plant whatever crops they wish. The proposals in H.R. 2195 and the Balanced Budget Act of 1995 would have ended the 60-year-old requirement for farmers to idle farmland in order to qualify for federal support payments. Farmers would have been expected to plant for the marketplace, and the federal government would have gradually reduced its role in agriculture.

Under H.R. 2195, farmers would have entered into 7-year market transition contracts and received fixed annual payments based on their production.[2]

[2]For contract payments, production is defined as a farmer's 1995 historical average of a crop planted for harvest (the farmer's 1995 acreage base) multiplied by the farmer's 1995 program yield per acre.

The proposal would have placed a limit on total payments under the program and allowed farmers greater flexibility in planting decisions. The program's total expenditures would have been limited to $43.2 billion over the 7-year period. The program's annual expenditures would likewise have been limited, and the crops covered by the proposal would have been allocated a percentage of these total annual expenditures. Similar provisions were included in the proposed Balanced Budget Act of 1995.

FSA is the agency principally responsible for administering payments to the farmers who receive federal agricultural assistance. FSA calculates payments to farmers under the federal agricultural assistance programs. FSA also monitors compliance with the programs' requirements, including the environmental requirements. In addition, the agency administers the federal crop insurance program and provides credit to farmers under the agricultural credit programs. In fiscal year 1995, FSA had the equivalent of 20,905 full-time employees, including 13,432 county-based employees. FSA employs 11 percent of USDA's staff in the Washington, D.C., area and 18 percent of USDA's staff outside that area.

FSA's county office staff perform a series of complex tasks to compute acreage bases and calculate and distribute payments to farmers. FSA tracks the workload in its field offices through a system that measures the amount of time staff take to complete tasks. The agency uses this information to project personnel and budget needs. During fiscal year 1995, five major tasks—administrative functions, compliance activities, commodity program payments, crop insurance activities, and maintenance of basic farm records—represented 70 percent of the field offices' workload.

Savings Under the Freedom-to-Farm Proposal in H.R. 2195

Adopting the freedom-to-farm provisions set forth in H.R. 2195 would have enabled USDA to realize significant personnel savings because the proposal would have required fewer program activities than the commodity programs in effect until the enactment of the 1996 farm bill. As a result, USDA would have needed fewer staff. All of the personnel savings would have occurred in FSA, most of it at the county office level.

Personnel Savings

Under the provisions of H.R. 2195, USDA could have reduced FSA personnel by 1,823 staff years and saved approximately $332 million between 1997 and 2002, using USDA's assumptions about personnel costs. USDA would not have realized dollar savings from the reduction of 197 of these staff years.

These 197 staff years are associated with farm-measurement services, which are supported by the funds collected from the fees that farmers pay for the services. The savings would essentially have begun in fiscal year 1997—the second year of implementation—and continued through fiscal year 2002—the final year of implementation.

The staff year workload would not have decreased in fiscal year 1996, the first year of implementation, because of the increased workload associated with implementing the new program. For example, FSA's staff would have had to sign up owners and operators[3] for the program and inform them of the new program's provisions. FSA would also have needed to inform participants how these provisions would affect their operations and payments. Furthermore, although staff reductions would have begun in fiscal year 1997, the savings during that year would have been partially offset by $28 million in employee separation costs.[4] The personnel reductions would have decreased FSA's total staff by about 9 percent over the period.

According to USDA officials, because of the timing of the enactment of the 1996 farm bill, the full savings related to its freedom-to-farm and crop insurance provisions may not occur until 1998.

Program Activities Affected by Personnel Reductions

Most of the personnel reductions resulting from H.R. 2195 would have occurred in FSA's county staff,[5] particularly in five functional areas—payments under the commodity programs, maintenance of basic farm records, compliance activities, reimbursable farm-measurement services, and the establishment of bases and yields. USDA anticipated that additional staff reductions would occur in FSA's headquarters, state offices, and technical offices. Table 1 shows our analysis of the changes in staff years by work function.

[3]The term "operator" refers to the person or persons who farm the land but may or may not own the land.

[4]According to USDA, some separation costs will also occur in fiscal years 1998 and 1999, reducing savings in those years.

[5]County-based FSA employees are not federal employees. However, they are paid from FSA's Salaries and Expenses Account.

Table 1: Reductions in Staff Years by Function, 1997-2002

Function	Reductions in staff years
County employees	
Payments under commodity programs	553
Maintenance of basic farm records	296
Compliance activities	261
Reimbursable farm-measurement services	197
Establishment of bases and yields	159
Loan activities	29
Subtotal—county employees	1,495
Federal employees	
Headquarters and related activities	328
Total staff years	**1,823**

Source: GAO's analysis of USDA's data.

Regarding payments for commodity programs, reductions would have occurred primarily because farmers would have signed up for the program only once, by entering into a contract at the start of the 7-year period. Consequently, FSA would have performed the notification and recordkeeping associated with enrollment only once. In contrast, under the 1990 farm bill, farmers had to sign up annually for program payments. Regarding basic farm records, staff reductions would have occurred because less recordkeeping would have been required for changes pertaining to owners' and operators' relationships. Under the 1990 farm bill, the relationships between owners and operators could change annually. Under H.R. 2195, owners and operators would have been less likely to change their relationships because they would have signed 7-year contracts with USDA. As a result, FSA staff would have performed less work to keep the records on owners and operators updated. According to USDA officials, contrary to the initial assumptions made for H.R. 2195, under the 1996 farm bill, changes to owner-operator relationships may continue at the same level as in the past.

Under the initial assumptions made for H.R. 2195, staff reductions would also have occurred in relation to compliance activities because the amount of farmland that participants would have to certify as meeting environmental standards would have decreased.[6] Under the 1990 farm bill, participating farmers had to certify that all of their farmland met certain environmental standards. Under H.R. 2195, participating farmers would

[6]This assumption was also made for the proposed Balanced Budget Act of 1995.

have certified only that the land covered by the market transition contracts met these environmental standards. As a result, FSA would have needed fewer staff because the number of acres subject to environmental standards would have decreased. According to USDA officials, under the 1996 farm bill, this assumption is no longer valid because participants will have to certify all farmland as meeting environmental standards, not just the land subject to the market transition contracts.

Regarding reimbursable services, FSA collects fees for measuring participants' farmland. Measuring farmland helps ensure that farmers report acreage accurately. Under the 1990 farm bill, farmers could request that FSA measure their farmland to avoid the penalties assessed for incorrect reporting. H.R. 2195 would have allowed farmers greater flexibility in deciding not only what crops to plant but also how much of each crop. Because reporting accuracy would not have been as critical under this proposal, farmers may have requested this service less and therefore decreased FSA's workload. However, since farmers pay for this service, the salary savings would have been offset by the loss of these fees.

Regarding establishing bases and yields, FSA's workload would have been reduced under H.R. 2195 because staff would not have needed to update this information annually under the 7-year contracts. Under the 1990 farm bill, FSA annually recalculated and notified operators of changes in crop acreage bases and yields. Under H.R. 2195, contract payments over the entire 7-year period would have been based on 1995 acreage bases and yields. Therefore, FSA would have had to update this information only when an event changed a contract payment, rather than annually. Such events would have included changes in the relationships between owners and operators or land being taken out of the Conservation Reserve Program during the 7-year period.

Savings Under the Provisions of the Proposed Balanced Budget Act

The proposed Balanced Budget Act of 1995 included freedom-to-farm provisions as well as provisions affecting crop insurance, livestock, and conservation programs. While the freedom-to-farm provisions under the proposed Balanced Budget Act would have achieved savings similar to those under H.R. 2195, USDA would have achieved greater personnel savings under the act because it included changes in areas not addressed by H.R. 2195. The act would have resulted in a net reduction of 2,719 staff years, which represents about a 13-percent decrease in FSA's total staff from the fiscal year 1995 level. Reductions in staff beyond those resulting from the freedom-to-farm provisions would have occurred because the

primary responsibility for enrolling farmers in the crop insurance program would have been transferred to the private sector. However, no dollar savings are associated with these reimbursable activities because USDA would have lost, in addition to the staff, the related offsetting collections. In addition, other provisions in the act would have slightly offset the total savings. Table 2 shows the net effect of the provisions of the proposed Balanced Budget Act.

Table 2: Staff Year and Dollar Savings Under the Proposed Balanced Budget Act, 1997-2002

Dollars in millions

Provisions under the proposed Balanced Budget Act	Staff year decrease	Dollar savings
Freedom-to-farm provisions	1,823	$332
Other proposed provisions	896	(28)
Net impact of all proposed provisions	2,719	$304

Source: GAO's analysis of USDA's data.

As the table shows, the proposed Balanced Budget Act included additional provisions that would have had the net effect of reducing FSA's workload by 896 staff years beyond the savings resulting from the act's freedom-to-farm provisions. Most of these additional staff year savings are associated with transferring enrollment for crop insurance from FSA to the private sector. Under procedures in effect until the enactment of the 1996 farm bill, FSA's staff sold basic catastrophic crop insurance to farmers through FSA's county offices. Farmers paid a $50 service fee per crop to sign up for the insurance coverage. FSA retained this fee to cover the cost of administering the enrollment. Transferring the crop insurance function to the private sector would have reduced FSA's workload by 1,022 staff years. Other provisions of the act covering livestock programs, environmental programs, and the reporting of information to reinsured companies would have resulted in a net workload increase of 126 staff years. Thus, the net effect of the personnel savings from crop insurance and other provisions would have been 896 staff years.

Although no dollar savings would have resulted from the decrease of these 1,022 staff years, all of which are supported by offsetting collections, USDA would have incurred separation costs of $14 million as a result of these reductions. Similarly, USDA would have incurred additional costs of $14 million for the increased workload of 126 staff years resulting from the Balanced Budget Act's provisions, as discussed above. Combined, these two costs would have lowered the savings under the act by $28 million,

resulting in a net savings of $304 million. The newly enacted farm bill delays the transfer of crop insurance enrollment from FSA to the private sector until crop year 1997, and FSA's county offices will continue to sell insurance in areas where private insurance is not available. Therefore, according to USDA officials, the full impact of the staff year savings and separation costs associated with changes in the crop insurance program will be delayed until 1998.

Other Factors May Affect USDA's Staffing Levels

USDA may have achieved additional organizational changes and related savings as it reevaluated efficiencies in its delivery of services to its customers. For example, the loss of over 2,300 county-office-based staff years could have led to office closures or consolidations. These, in turn, would have resulted in savings of operations and maintenance costs. Until the regulations for the 1996 farm bill become final, similar savings under that legislation will be difficult to estimate.

Agency Comments

We transmitted a draft of this report to FSA for review and comment. In commenting on this report, FSA's Associate Administrator pointed out that the estimates used in developing the savings discussed in this report were based on assumptions that were valid when USDA's analysis was completed. However, with the enactment of the 1996 farm bill, several of these assumptions will have to be reevaluated. For example, he said that the new legislation delays the timing of changes in the crop insurance program, amends the conservation provisions, and changes the assumptions USDA used when estimating its workload for maintaining basic farm records. We made changes in the body of this report to reflect these concerns.

USDA acknowledges that the 1996 farm bill will result in reductions in workload and staffing, but the magnitude of the savings has not been determined at this time. USDA will soon begin evaluating the implications for personnel levels of the new farm bill.

Scope and Methodology

To estimate the reductions in staffing levels under H.R. 2195 and the agricultural provisions of the proposed Balanced Budget Act of 1995, we used the fiscal year 1995 levels of personnel in farm support programs and of workload as a baseline. The estimates of reductions were based on the changes that would have occurred in the work processes under the two proposals.

We reviewed H.R. 2195 and title I of the proposed Balanced Budget Act of 1995 to identify how commodity programs would be affected. We also reviewed the Federal Agriculture Improvement and Reform Act (P.L. 104-127) to determine whether its freedom-to-farm provisions were similar to those in the two legislative proposals.

We reviewed the methodology and workload measurement assumptions that USDA used in making its estimates of the workload and staffing levels that would be needed in its county offices to administer all of the farm support programs under the proposed Balanced Budget Act of 1995. Because the proposed act included freedom-to-farm provisions, USDA's analysis included data on how staff years and work functions would be affected by these provisions. We isolated the work functions related to the freedom-to-farm provisions in H.R. 2195 and estimated the resulting work reductions.

USDA estimated that FSA's staff at headquarters, state offices, and technical offices would be reduced by 10 percent—about the same percentage that resulted from its calculation of the reduction in county office staff. This methodology differs from the analysis of workload statistics that USDA used to estimate the workload changes and staff reductions in the county offices.

To assess the reasonableness of USDA's workload measurement assumptions and estimates, we reviewed and analyzed work processes, tasks, and personnel levels at several field offices. This analysis enabled us to reach an informed opinion on the reasonableness of USDA's methodology and assumptions. We believe USDA's methodology was reasonable. We also reviewed and discussed with USDA officials at headquarters, state, and county levels the impact that freedom-to-farm provisions would have on staffing levels.

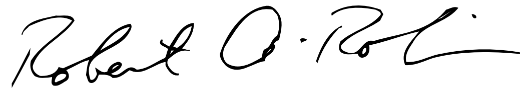
For information on the workload required to administer the commodity programs, we relied heavily on USDA's workload management assumptions and workload measurement statistics. We did not verify the accuracy of USDA's workload measurement data, but we identified how the data were developed, collected, and summarized.

We performed our review from October 1995 through April 1996 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Senate Committee on Agriculture, Nutrition, and Forestry; the House Committee on Agriculture; and other appropriate congressional committees. We are also sending copies to the Secretary of Agriculture, the Congressional Budget Office, and the Office of Management and Budget.

If you or your staff have any questions about this report, I can be reached at (202) 512-5138. Major contributors to this report are listed in appendix I.

Sincerely yours,



Robert A. Robinson
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