

governed by the new CAFO rule has a broader reach than the simple "greater than 1,000" class defined in this analysis. At this time, the extent to which the CAFO regulation covers small and medium sized AFOs is unclear. It is assumed that the coverage is not significant.

Alternative Two: Payment Limits Between \$50,000 and \$450,000

Although actual payment depends on the specific conservation system applied and the cost share rate, an assumed or artificial limit on payments can be used to analyze comparative environmental benefit. Data in the benefit-cost analysis suggests that while the various payment limitations do not have great bearing on the total number of farms that would be affected by the caps, a significant number of animal units could be eligible for funding without payment limitations at the higher cap levels.

At the \$450,000 payment limitation level, only one percent of the remaining livestock farms would still be capped in the costs of implementing animal waste-related conservation practices. However, those large farms control 27 percent of the animal units. These represent the biggest farms with the highest total costs, but lowest cost per animal unit.

Although there are relatively few additional farms that would be funded as payment limitations increase, these farms have a large number of animal units. Increasing the payment limitation from \$50,000 to \$100,000 would allow an additional 9 million animal units to be eligible for funding under the payment limitation. Increasing the payment limitation from \$300,000 to \$450,000 would only increase the number of animal units by fewer than 3 million.

At \$50,000, only 33 percent of the livestock farms' animal units would be eligible for funding without reaching the cap. At \$100,000, half of the nation's animal units would qualify for EQIP funding without reaching the cap, and at the \$450,000, almost three quarters of the nation's animal units would qualify for EQIP funding without reaching the payment limitation cap.

Although legislation allows a maximum payment of \$450,000 per participant, it is assumed that the Agency and states may set lower limitations if necessary based on local market, cultural or economic conditions. The economic analysis indicates, there is no economic gain associated with imposing lower payment limitations. Since the larger farms represent those with the highest number of animal units and greatest cost efficiencies per animal unit, the

program benefits by allowing full participation up to the payment maximum.

Alternative Three: Alternative Application Evaluation Procedures To Ensure Cost-Effective, Environmentally Targeted Fund Allocation

Under the previous program, 65 percent of funds were allocated to specially targeted, geographically defined areas. The NOFA/Proposed Rule eliminates the process of designating funds to conservation priority areas. There is concern that this will have a negative impact on the potential environmental benefits due to the fact that funds may not be targeted to specific geographic areas, and the environmental effects of practice implementation will be diluted by scattering cost share assistance over a much broader area.

Six options for environmentally targeting EQIP funds were compared in this alternative. Results of these comparisons indicate that if technical assistance costs are constant, then adopting some form of spatial evaluation, varying cost share by practice effectiveness, or allocating funds with a formula based on priority resource concerns could all have positive effects on total benefits.

In the case of varying fund allocation to emphasize a particular resource concern, the share of total funds allocated in the NOFA was increased by 5 percent for one category and decreased by 1 percent for the other benefit categories identified in this analysis, with the exception of animal waste. The results of these changes indicate that targeting non-animal waste related nutrient management concerns would yield the greatest net benefits above total costs (\$673 M), compared to net benefits of \$180 Million for the NOFA. When compared to the NOFA, net benefits would increase respectively for each category that was emphasized using the set percentages. When compared to the NOFA, total net benefits would decrease if grazing land productivity or wind erosion categories were to receive an increased share of funds. Although targeting by resource concern can have overall positive effects on benefits, emphasizing one particular resource concern may overlook the relationships between natural resource effects, and fail to capitalize on them.

In the case of varying cost share levels by practice, the National priorities are emphasized by reducing the cost share rates for practices that have primary impacts in the other benefit categories. For the purposes of this analysis, it is assumed that the average cost share for

EQIP is 75 percent in the NOFA. This rate is decreased to 60 percent (mild) and to 50 percent (aggressive) for erosion reduction, grazing productivity, and wildlife habitat improvement. The results indicate that pursuing National priorities with a cost share mechanism can increase total benefits by 5 percent in the "mild" scenario, and by 8 percent for the more aggressive scenario. This rule allows flexibility at the state level to provide higher cost-share rates for practices that impact local resource concerns while reducing cost-share rates for practices that do not optimize benefits at the local level.

In addition to these methods, a holdback of funds for distribution based upon an objective comparison of states using performance criteria can be a useful tool that could increase net benefits and increase program efficiency. Data suggests that in spite of the removal of the requirement for geographically based priority areas, other approaches to targeting of EQIP funds to the most critical natural resource concerns are feasible and will have positive effects on total program benefits. This will ensure that environmental benefits are optimized and program objectives are met, but without excluding participation by persons outside of a designated boundary.

NRCS will revise and enhance this analysis for the final rule. Future analysis will seek to evaluate alternative allocations of program dollars across different conservation practices and quantify and estimate their impacts.

To better implement the program to optimize environmental benefits, as required by the 2002 Act, NRCS seeks public comment, data, or references that can quantitatively or qualitatively enhance its analytical efforts. NRCS especially welcomes comments or data on levels or trends in conservation technology adoption, the on-site and off-site environmental benefits and economic returns to various conservation practices, and other literature about incentive schemes for technology adoption.

List of Subjects in 7 CFR Part 1466

Administrative practices and procedures, conservation, natural resources, water resources, wetlands, payment rates.

For the reasons stated in the preamble, the Commodity Credit Corporation proposes to revise Part 1466 of Title 7 of the Code of Federal Regulations to read as follows: