



August 6, 1987

NATIONAL BULLETIN NO. 390-7-11

SUBJECT: PDM - NORMALIZED PRICES

SEP 4 REC'D

Purpose. To distribute instructions received on the applicability of normalized prices free of subsidy effects.

Expiration Date. This bulletin expires September 30, 1987. Please retain the enclosures for references.

Enclosed is a letter dated June 2, 1987 to Secretary of Agriculture, Richard E. Lyng, from the Director of the Office of Management and Budget (OMB), James C. Miller III, establishing guidelines for governmentwide implementation of subsidy-free prices. Also enclosed is the "statement of procedures" approved by the Departments of Agriculture, Army, and Interior and the Tennessee Valley Authority (TVA) for implementation of the normalized prices as issued under Section 2.3.3(b) of the Principles and Guidelines for Water and Related Land Resources Implementation Studies (P&G). This "statement of procedure" is self explanatory.

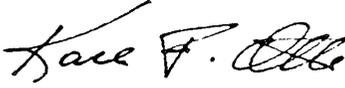
Two parts of the letter affect watershed projects for which we have received clarification from OMB:

1. The P&G require all water resource agencies including SCS to use normalized prices as released each fiscal year by the Department of Agriculture for planning water resource projects. Thus, all projects signed by state conservationists since October 1, 1986 must use the normalized prices for use during fiscal year 1987 which reflect subsidy-free prices. As such, projects submitted to OMB for transmittal to Congress should already be in compliance with item 1 if the watershed plan agreement was signed in fiscal year 1987 and the proper price base was used.
2. Item 2, applies retroactively to operational projects for which a construction start has not yet been granted. These projects are grandfathered until October 1, 1988, and will not have to be reevaluated using the new prices provided landrights are obtained for one project feature. If the sponsors do not obtain any landrights by that date, the projects will need to be reevaluated using the normalized prices that will be in effect for fiscal year 1989.

DIST: L, S, T (enclosure per attached list)
MORE



Contact. Please contact Carl E. Bouchard, Watersheds Planning Program Coordinator, Project Development and Maintenance Division at (202) 382-8770 if there are any questions about this bulletin or its enclosures.

 Acting

HOWARD C. TANKERSLEY
Director, Project Development
and Maintenance Division

Enclosure

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2 JUN 1987

JUN 12 10:45 AM '87

Honorable Richard E. Lyng
Secretary of Agriculture
Washington, D.C. 20250

Dear Dick:

We commend the Department of Agriculture for the leadership shown in reforming the calculation of normalized prices, free of subsidy effects, to be used in the estimation of agricultural benefits from water resource projects. This letter establishes guidelines for Government-wide implementation of this needed change.

The purpose of these new prices is to reflect resource scarcity undistorted by agricultural price and income maintenance programs. While no system will meet all objections, we believe that the new prices are a significant improvement over past practice and are worthy of support by all concerned agencies. Use of these prices will assure that only those agricultural development water resource projects that actually produce a net increase in the real output of the Nation are constructed by the Federal Government.

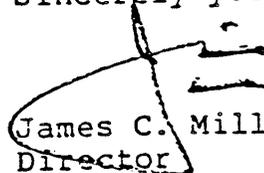
It is always difficult to make a transition to a new procedure, but it is especially difficult when expectations have been built up at the local level by use of the old procedures. However, the problems besetting the agricultural economy are such that a long transition period is not desirable. Therefore, to ensure that the Administration supports only economically justified projects, we request that:

- (1) beginning immediately, all agricultural development projects submitted to OMB for authorization or new-start appropriation reviews pursuant to Executive Order 12322 be evaluated on the basis of the new prices; and
- (2) all agricultural development projects funded as new-starts, but not previously reviewed using the new prices under (1) above and not under construction by October 1, 1988, be re-evaluated using the new prices. These re-evaluations should be submitted to OMB before construction begins.

A Soil Conservation Service project will be considered under construction if the Federal Government has signed a watershed plan agreement with the local sponsor covering that project and land needed for at least one project feature pursuant to the agreement has been acquired.

Similar letters are being sent to the Departments of the Interior and Army and the Tennessee Valley Authority. Again, thank you for your Department's leadership in this matter.

Sincerely yours,



James C. Miller III
Director

c:
George S. Dunlop
Assistant Secretary for Natural Resources and Environment
Department of Agriculture



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

STATEMENT OF PROCEDURES

(JUNE 1987)

Pursuant to Section 2.3.3(b) of the Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies (March 10, 1983), Federal water resource agencies use normalized commodity prices issued periodically by the Department of Agriculture to evaluate the National Economic Development (NED) agricultural benefits of water projects. This joint statement sets forth procedures to be used by the Departments of Agriculture, Army, and Interior, and the Tennessee Valley Authority (TVA) for implementation of Agriculture's new normalized prices issued under Section 2.3.3(b) of the Principles and Guidelines.

PURPOSE

The Department of Agriculture provides commodity prices to Federal water resource agency planners for the purpose of estimating benefits from water projects. In the past, these prices included an upward bias, reflecting the impact of the Government's own price support programs for surplus crops. In

the 1970's, this was small. Today, as all of us are aware, the bias has become significant. This results in project benefits to society from production of surplus crops being overestimated, making uneconomic projects appear economically justified.

The Department of Agriculture has the necessary analytical capabilities, combining both sophisticated models and mathematical techniques, to remove the effects of Federal subsidies from the prices of agricultural commodities. The new prices will help to assure that only those agricultural development water projects that actually produce a net increase in the real output of the Nation are supported for construction.

Agriculture first promulgated a list of its new normalized prices on March 31, 1987. By June 30, the Department will revise and reissue this list to show prices with and without subsidy effects for all displayed commodities.

IMPLEMENTATION

Effective immediately, Agriculture, Army, Interior, and TVA will use the new normalized prices to evaluate all unstarted Federal water resource projects with agricultural development benefits, consistent with the schedule and definitions contained in the Office of Management and Budget's June 2, 1987, letter to each agency.

Project outputs (benefits) from "program commodities" will be evaluated using the program-free prices. Outputs from "non-program commodities" will be evaluated using the prices

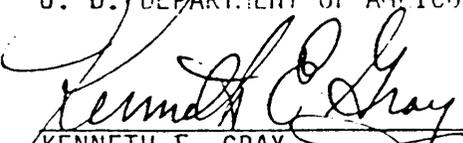
based on long-run market prices with Government programs. Program commodities are defined as commodities for which a Department of Agriculture acreage-reduction, price-support, marketing loan, or deficiency-payment program is in effect for the year when the normalized prices are promulgated.

All agencies should use the normalized prices based on market conditions with Government programs for all commodities (program and non-program) to (1) establish the "with" and "without" project conditions, as called for under the Principles and Guidelines, and (2) calculate a farmer's or irrigator's "ability to pay," where required to make this calculation under current law.

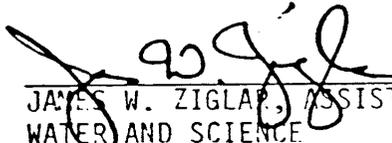
FUTURE ACTIONS

The agencies will continue to advise and consult on revisions improving the accuracy, reliability, and consistency of Agriculture's normalized prices and on use of program-free price estimates in benefit evaluations involving non-program commodities, like hay and beef cattle.


GEORGE S. DUNLOP
ASSISTANT SECRETARY
NATURAL RESOURCES AND ENVIRONMENT
U. D. DEPARTMENT OF AGRICULTURE


KENNETH E. GRAY
WASHINGTON REPRESENTATIVE
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