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Appropriations

FARM SERVICE AGENCY

Statement of Juan Garcia, Administrator

Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to provide information on Farm Service Agency (FSA) programs and funding. Our Fiscal Year (FY) 2014 budget emphasizes our commitment to customer service, efficiency and continued investments in modernizing our operations to the benefit of farmers and ranchers.

AGENCY OPERATIONS

FSA delivers its programs through 2,119 county level USDA Service Centers, 50 State offices, and an office in Puerto Rico. FSA has headquarters offices in Washington, DC, Kansas City, Salt Lake City, and St. Louis. At the end of FY 2012, FSA's permanent, full-time, end-of-year Federal employment was 4,322. FSA non-Federal permanent employment in USDA Service Centers was 7,716. FSA employees totaled 12,038, of which 10,896 were in State and county level offices. This represents an 8 percent reduction in FSA's staff levels from 2011.

Since 2003, staffing levels at FSA have declined over 32 percent, a reduction of 5,857 employees. In 2013, further staff reductions will continue to be achieved through Voluntary Early Retirement Authority and Voluntary Separation Incentive Payments, if approved, to meet FSA's FY 2014 budget allocation.

Business Processes and IT

FSA continues to make progress toward replacing outdated technology with more modern functionality and re-engineering old business processes. Both of these will provide timelier and more reliable delivery of benefits to producers. This fiscal year, we will reach our target of 76 percent of programs with web-enabled applications, with the addition of Noninsured Crop Disaster Assistance Program (NAP) and Conservation Program processes. FSA plans further efforts in FY 2014 to reach its next target of 88 percent, including modernization of the Farm Storage Facility Loan Program (FSFL) and Farm Loan Program (FLP) systems, streamlining direct and guaranteed loan reporting capabilities and reducing the high cost of reporting from mainframe systems. Our efforts to replace outdated program delivery information technology should be completed by FY 2015.

Additionally, the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) project is expected to provide business improvements in 2013 and 2014. The first phase of MIDAS has been released this spring, and includes deployment of customer data, farm records with GIS mapping capability and crop table data. Additional planned deployments will provide acreage reporting with GIS mapping capability and will establish common processes that can be leveraged for FSA farm programs. For the first time, FSA staff will have access to this data through a single operating system, eliminating the need for staff to re-enter data because the systems were not interlinked. This change alone will speed the application process, reduce input errors, and improve program compliance and integrity.

FSA has also completed the consolidation of geospatial data into a centralized database, eliminating dependency on outmoded servers and extending the GIS functionality for FSA's service center personnel. Together, GIS modernization and MIDAS enable FSA to enhance program delivery and support, allow for timelier implementation of programs, and enable the integration of geospatial data with business operations.

We are also upgrading and replacing outdated components of our IT infrastructure, an effort known as the Common Computing Environment (CCE). Network optimization that began in FY 2012 and FY 2013 continues to streamline network traffic so that it can handle the increased activities of our new program applications. These will help centralize county office data, support the modernized systems and ensure the integrity of information.

PROGRAM UPDATE

The American Taxpayer Relief Act of 2012 (ATRA) extends authority under the Food, Conservation, and Energy Act of 2008 (the 2008 Farm Bill) for select programs, including the Direct Payment program. Eliminating that program, as proposed in the FY 2014 President's Budget, would save $3.3 billion annually.

Among other FSA programs extended by ATRA are Marketing Assistance Loans (MALs) and Counter-Cyclical Payments (CCPs) for crop producers, and the Milk Income Loss Contract (MILC) program for dairy producers. Given the high crop prices of recent years, MAL net outlays have been, and are expected to remain, minimal. Continued high prices mean that no

CCPs are expected for the 2012 and 2013 crop years. MILC payments are expected to decrease in FY 2013 to $370 million.

The Average Crop Revenue Election (ACRE) program, an alternative to the traditional CCP program, also was extended by ATRA through 2013. ACRE was first authorized by the 2008 Farm Bill and is based on revenue risk rather than just price risk. ACRE participation is low relative to traditional Direct and CCP payments (DCP). In 2012, 1.56 million farms were enrolled in DCP as compared to 142,000 farms in ACRE.

Also extended by ATRA is the Conservation Reserve Program (CRP), which now has 27 million acres enrolled, nearly 10 million acres below the peak enrollment level of 36.8 million acres in 2007. With contracts on 3.3 million acres scheduled to expire at the end of FY 2013, Secretary Vilsack recently announced that a new CRP general sign-up will begin on May 20 and end on June 14, 2013. In addition to CRP general signup, FSA offers year-round “continuous” signup, which has become a larger portion of overall enrollment and now constitutes about 20 percent of total enrolled acreage. We are working to promote continuous programs and target acreage that optimizes environmental benefits.

Revenue growth from high commodity prices has contributed to rising land values and rental rates, making CRP increasingly costly. In light of current economic realities and the need to reduce the federal deficit, the President’s Budget proposes capping maximum allowable CRP acreage at 25 million acres, saving about $2.2 billion over 10 years compared to the FY 2014 budget's baseline.

USDA strongly supports disaster assistance programs that protect farmers in their time of greatest need. The 2008 Farm Bill authorized the following programs, which cover losses having occurred on or before September 30, 2011: Livestock Indemnity Program (LIP); Livestock Forage Disaster Assistance Program (LFP); Emergency Assistance for Livestock, Honeybees, and Farm- Raised Fish Program (ELAP); Tree Assistance Program (TAP); and the Supplemental Revenue Assistance Payments Program (SURE). These programs provided financial assistance to producers when they suffered a loss of livestock or the ability to graze their livestock, loss of orchard trees, and other losses due to diseases or adverse weather. While ATRA extended the authority for these programs, with the exception of SURE, funds have not been appropriated for their delivery, leaving the Noninsured Crop Disaster Assistance Program (NAP) as the only FSA disaster program currently available to producers. To strengthen the safety net, The President's Budget proposal extends LIP, LFP, ELAP, and TAP for 2014 to 2018 through the Commodity Credit Corporation, at an estimated cost of approximately $3 billion over 10 years.

Because of the absence of livestock disaster program funding, and due to the extreme drought of this past summer, the Department assisted affected producers by using other authorities. For example, USDA expanded lands in the CRP that would be eligible for emergency haying or grazing, opening 2.8 million acres to provide up to $200 million in forage value. In addition, USDA simplified the process for Secretarial disaster designations, reducing processing time for counties affected by disasters almost by half. Other actions included a reduced interest rate for emergency loans and a change to the payment reduction from 25 to 10 percent on CRP lands qualified for emergency haying and grazing in 2012.

Other FSA programs help producers in times of need. The Emergency Conservation Program (ECP) provides emergency funding and technical assistance for rehabilitation of farmland damaged by natural disasters. During FY 2012, ECP allocated $148.9 million in "regular" (non-Stafford Act) ECP funding to 43 States and Puerto Rico. FSA currently has $8 million in requests on the waiting list for ECP that will be funded by the recently enacted Appropriations Act, and has about $22 million available in Stafford Act funds that can be distributed to States for additional requests that qualify. In addition, FSA is allocating $15 million in ECP funds that were provided for Hurricane Sandy relief.

The Emergency Forest Restoration Program (EFRP) helps owners of non-industrial private forest land carry out emergency measures to restore land damaged by a natural disaster. FSA has a growing backlog of unfunded requests totaling over $16 million from States for regular (non-Stafford Act) EFRP funding. Some of these requests will be addressed with the $14 million in funds appropriated in the recent Appropriations Act. We currently have over $23 million in a growing backlog of unfunded requests for Stafford Act counties. In addition, FSA is allocating $23 million in EFRP funds that were provided for Hurricane Sandy relief.

Through the Agricultural Credit Insurance Fund, demand for direct USDA loans in FY 2011 and FY 2012 continued at record levels. FSA's direct farm loan programs are some of USDA's largest investments in beginning farmers. In FY 2012, 66 percent of FSA direct lending – just over $1.1 billion – went to beginning farmers. That year, FSA also assisted beginning farmers with an additional $638 million in credit through loan guarantees. FSA now lends 63 percent more dollars to beginning farmers than in FY 2006.

The FSA loan portfolio continues to perform well. As of December 31, 2012, the direct loan delinquency rate stood at 5.50 percent and the guaranteed farm loan delinquency rate stood at 1.15 percent.

Sequestration

FSA is approaching sequestration in a manner that provides the least disruption to producers, particularly those who have already received or are seeking disaster assistance through SURE and NAP. Specifically, USDA has proposed to use the Secretary's interchange authority to transfer funds from the Direct Payment program to SURE (2011 payments are in process), the Tobacco Transition Payment Program, Marketing Assistance Loans, Loan Deficiency Payments, storage and handling, NAP, and MILC to backfill the amount sequestered. This will avoid the costly and disruptive process of FSA having to collect back portions of payments already made to producers on these programs to comply with sequestration. For appropriated programs, funds will be reduced to achieve the required sequestration savings.

BUDGET REQUESTS

Commodity Credit Corporation (CCC)

CCC FY 2014 baseline expenditures are projected to be $9.1 billion, a decrease from approximately $10.1 billion forecast for FY 2013, which is primarily due to lower milk payments and lower net lending. In FY 2012, $7.9 billion was expended as compared to a record high of $32.3 billion in FY 2000. Commodity prices are expected to remain relatively robust into FY 2014, resulting from increased demand for bio-energy production and strong exports.

CCC is authorized to replenish its borrowing authority, as needed, through annual appropriations up to the amount of net realized losses recorded in CCC's financial statements at the end of the preceding Fiscal Year. In FY 2013, the CCC received $9.1 billion for reimbursement of 2012 losses.

Appropriated Programs

For FY 2014, the Budget proposes a total Farm Loan Program level of about $5.5 billion – over $1.9 billion for direct loans and nearly $3.65 billion for guaranteed loans. Only $91.6 million in budget authority will be necessary to garner this level of assistance. For Direct Farm Ownership Loans the Budget proposes an increased loan level of $575 million to help beginning farmers achieve a base level of operation. For Direct Farm Operating Loans the Budget proposes a loan level of $1.22 billion to assist family farmers in maintaining productive farming operations. At least 75 percent of the amount appropriated for Direct Farm Ownership Loans and at least 50 percent of the amounts appropriated for Direct Farm Operating Loans will be reserved for qualified beginning farmers and ranchers during the first 11 months of the fiscal year.

For Guaranteed Farm Ownership Loans in FY 2014, the Budget proposes a loan level of $2 billion. The requested loan level is expected to meet the increased demand for this program. For Guaranteed Farm Operating Loans we propose an FY 2014 program level of approximately $1.5 billion.

A portion of both direct and guaranteed farm operating and ownership loan funds is targeted to socially disadvantaged borrowers, based on county level demographic data. The statutory targets vary by loan program.

For Emergency Disaster Loans FSA is requesting $1.7 million to support a $35 million program level. Funding has historically been provided through supplemental appropriations. However, prior supplemental appropriations were drawn down by 2013 and funding is requested to ensure available support in the event of a natural disaster. In addition, the Budget proposes program levels of $2 million for Indian Tribal Land Acquisition Loans and $60 million for Boll Weevil Eradication Loans.

FSA also requests funding for two farm loan programs authorized under the 2008 Farm Bill – Guaranteed Conservation Loans and the Indian Highly Fractured Land Program. The FY 2014 budget requests $150 million for Guaranteed Conservation Loans and $10 million for the Indian Highly Fractured Land Program, which is a direct loan program that provides authority to make and insure loans to eligible purchasers of highly fractionated land under the Indian Land Consolidation Act.

For State Mediation Grants, the FY 2014 budget requests $3.782 million for 40 States to assist in continuing cost-effective alternative dispute resolution programs that deal with disputes involving a variety of agricultural issues.

FSA Salaries and Expenses

The FY 2014 Salaries and Expenses Budget requests $1.486 billion from appropriated sources, including credit reform transfers.

This request for administrative support within FSA reflects our continuing focus on administrative cost savings in light of reductions to FSA's Salaries and Expenses appropriation. In the past year, FSA has taken several notable steps to reduce costs, including an initial staff ceiling reduction and subsequent hiring freeze, reduction of certain IT contracts, and continued reduction of other administrative expenses. The consolidation of 125 offices nationwide in the past year will concentrate our resources in the remaining service locations, ensuring our customers receive quality service while reducing infrastructure and related expenses.

The IT request includes funding to continue contract services that support modernization, development and maintenance of applications systems, and deployment support (e.g. data and database administration, testing and certification, and security). These funds will enable FSA to maintain essential program delivery and operations in the field, as well as provide support for improvements.

The IT request also includes a decrease of $21.1 million to the base funding of $86.6 million for the MIDAS initiative. The remaining balance of $65.5 million provides funding for the continued implementation, support and operations of the MIDAS solution. MIDAS is expected to have positive business impacts for producers and FSA employees beginning in FY 2013, and FSA will continue to closely align future development with other Agency and Department-wide modernization efforts.

Mr. Chairman, this concludes my statement. I will be happy to answer your questions and those of the other Subcommittee Members.

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