

**Statement by
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Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations, U.S. House of Representatives
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Mr. Chairman, Members of the Committee, it is an honor for me to appear before you today to discuss the 2005 budget for the Department of Agriculture (USDA). I have with me today Deputy Secretary Moseley; Chief Economist, Keith Collins; and our Budget Officer, Steve Dewhurst.

I want to thank the Committee again this year for its support of USDA and for the long history of effective cooperation between this Committee and the Department in support of American agriculture. I look forward to working with you, Mr. Chairman, as well as the other Members to make progress on these issues during the 2005 budget process and ensure strong programs for our Nation's farm sector -- but as well -- the many other USDA mission areas.

The 2005 budget calls for \$82 billion in spending, an increase of \$4 billion, or about 5 percent, above the level for 2004. Discretionary outlays are estimated at \$20.8 billion, a decrease of \$720 million, over 3 percent below the 2004 level. The Department's request for discretionary appropriations for 2005 before this Committee is \$16.2 billion. Due to some user fee proposals and other adjustments reflected in the budget the net amount requested is \$14.9 billion.

The Department's budget for 2005 is consistent with this Administration's policy book "Food and Agricultural Policy for the 21st Century" and it supports the USDA's Strategic Plan. Both are designed to enhance economic opportunities for agricultural producers; support increased economic opportunities and improved quality of life in rural America; protect America's food supply and agriculture system; improve nutrition and health; and conserve and enhance our natural resources and environment.

As you know, we are in a time of fiscal constraint. The President has proposed a responsible budget across the Federal Government which holds non-defense and non-homeland security discretionary spending increases to less than one percent. At the same time, the budget funds key priorities, such as the continuing War on Terror, protecting Homeland Security, strengthening the economy and jobs as well as health care affordability. It puts the Nation on track to reduce the deficit by one-half within 5 years.

The budget for USDA faces those same fiscal realities. Because the budget is constrained, the Department's request is focused on key priorities which include:

- Ensuring a safe and wholesome food supply and safeguarding America's homeland.

- Continuing administration of the 2002 Farm Bill -- the major provisions of which we have implemented in the past year -- and includes providing historic increases for conservation funding.
- Providing record funding for a food and nutrition safety net.
- Expanding agricultural trade.
- Providing housing for rural citizens and investing in America's rural sector.
- Providing continued support for basic and applied sciences in agriculture.
- Improving USDA's program delivery and customer service.

With this as an overview, I would now like to focus on the specific budget proposals for 2005.

Food and Agriculture Defense

The infrastructure developed in response to September 11, 2001, has enabled the Department to become a strong partner in the Administration's biodefense initiative. The Department has worked closely with other Government agencies participating in the Homeland Security Council to prepare for any potential bioterrorist acts. The 2005 budget funds an interagency initiative to improve the Federal Government's capability to rapidly identify and deal with such threats. This initiative will improve national surveillance capabilities in human health, food, agriculture, and environmental monitoring. It will promote data sharing and joint analysis among these sectors at the Federal, State, and local levels and also will establish a comprehensive Federal-level multi-agency integration capability led by the Department of Homeland Security (DHS) to rapidly compile these streams of data and preliminary analyses and integrate and analyze them.

The highlights of the \$381 million USDA request to support the Food and Agriculture Defense Initiative include:

Strengthening food defense by requesting increases totaling \$38 million to:

- Establish a Food Emergency Response Network (FERN) with participating laboratories, including implementation of the Electronic Laboratory Exchange Network (eLEXNET) and an electronic methods repository;

- Develop diagnostic methods to quickly identify pathogens and contaminated foods;
- Improve surveillance and monitoring of pathogens and other hazards in meat, poultry and eggs and establishing connectivity with the integration and analysis function at DHS; and
- Upgrades laboratories, improve physical security; and enhance biosecurity training and education.

Strengthening agriculture defense by requesting increases of:

- \$178 million to complete the consolidated state-of-the-art biosafety level-3 (BSL-3) animal research and diagnostic laboratory at Ames, Iowa;
- \$50 million for the Animal and Plant Health Inspection Service (APHIS) to substantially enhance the monitoring and surveillance of pests and diseases of plants and animals, increase the availability of vaccines through the national veterinary vaccine bank, increase State Cooperative Agreements to better identify plant and animal health threats, provide biosurveillance connectivity with the integration and analysis function at DHS, and establish a system to track select disease agents of plants.

- \$27 million for the Cooperative State Research, Education, and Extension Service (CSREES) to expand the Regional Diagnostic Network, and to establish a Higher Education Agrosecurity Program that will provide capacity building grants to universities for interdisciplinary degree programs to prepare food defense professionals.
- \$9 million for the Agricultural Research Service (ARS) to establish a National Plant Disease Recovery System that will quickly coordinate with the seed industry to provide producers with resistant stock before the next planting season, and to conduct research on identifying, preventing and controlling exotic plant diseases.

BSE Related Activities

The Department has taken aggressive actions to deal with the recent detection of a cow that tested positive for bovine spongiform encephalopathy (BSE) in the State of Washington. The actions taken were based on a BSE response plan which has been in place since 1990 and has been continuously updated to reflect the latest available knowledge about this disease. As late as August 2003, Harvard University reaffirmed the findings of an initial 2001 study that the risk of BSE spreading extensively within the U.S. is low because of the firewalls already in place. In general, we have effectively responded to this incident.

- Our tracing efforts were remarkably successful. After an international panel of experts indicated that the Department had done a comprehensive and thorough epidemiological investigation, our investigation was concluded on February 9. The panel also indicated that actions the Department announced on December 30 and subsequent the Food and Drug Administration announcements have further enhanced the protections for human and animal health.
- We also traced the products from the slaughter of these animals and determined that high-risk products such as brain and spinal cord did not enter the food system. Nevertheless, all of the beef that came out of that plant on the day in question was recalled.
- Throughout the investigation, we regularly held briefings to inform the public about the incident. In one week's time we announced a series of actions to further enhance the Department's already strong safeguards. These included, among other actions, an immediate ban on nonambulatory or so-called downer animals from the food system and further restrictions on specified risk materials such as brain and spinal cord from entering the food supply. Retailers and food service outlets are reporting virtually no adverse effects on consumer demand as a result of the BSE finding.

- The Department's Chief Information Officer is overseeing the design of a National Animal Identification Program. Every effort is being taken in the design of this system to ensure it is technology neutral, cost effective, and does not place an undue cost burden on the producer.
- We are also in the process of approving the use of BSE rapid test kits to enhance our national surveillance efforts.
- We have continued to work with trading partners. Regaining export markets is a top priority for the Administration, and the international response must reflect what science tells us. Unfortunately, most export markets for U.S. beef, including key buyers – Japan, Mexico, Korea and others – immediately closed their markets to U.S. beef, accounting for 10 percent of U.S. beef production that now must be absorbed in the domestic market. The loss of exports had an immediate impact on the cattle market, resulting in an initial drop of 15 to 20 percent in cattle prices on cash and futures markets while remaining above year-ago levels. Despite this decline, USDA's current fed cattle price forecast of \$72 to \$77 per hundredweight remains above the previous 5-year average and would be the second highest average price in the past 11 years.

As part of the President's Budget for 2005, we are requesting \$60 million, an increase of \$47 million which will permit us to:

- Further accelerate the implementation of a verifiable National Animal ID System;
- Increase the current BSE surveillance program;
- Conduct advanced research and development of BSE testing technologies;
- Strengthen the monitoring and surveillance of compliance with the regulations for specified risk materials and advanced meat recovery; and
- Dispatch rapid response teams to markets experiencing BSE related complaints regarding contracts or lack of prompt payment.

Better Nutrition for a Healthy US

USDA is also working on the Nation's fastest growing public health problem – obesity. The Department has a special responsibility to ensure that participation in nutrition assistance programs such as the School Lunch and Breakfast programs, the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) and Food Stamps, contributes as much as it can to healthier diets and improved health outcomes. USDA research is essential in understanding the role of the diet in obesity and healthy weight management. USDA along with its Federal partners at the

Department of Health and Human Services (DHHS) is responsible for developing the revised *Dietary Guidelines for Americans* to be issued jointly by USDA and DHHS in January 2005. On a parallel track, the Department is undertaking a complete reassessment and update of the *Food Guide Pyramid*. These documents are the cornerstone of Federal nutrition promotion efforts directed at all Americans. With these efforts, USDA plays a key role in the President's *Healthier US* initiative. And as part of this, USDA is working closely with DHHS to promote good nutrition and adequate physical activity.

The Department's 2005 budget includes about \$700 million for nutrition research, education, and promotion programs, including an increase of \$33 million which is focused mainly on obesity-related initiatives. Spending for nutrition education and promotion programs accounts for the largest share of this spending, over \$540 million or almost 80 percent in 2005. These Federal funds are augmented by significant spending by State and local partners who conduct a wide range of nutrition education and promotion activities designed by local officials to meet local needs.

Spending for basic research on nutritional requirements, monitoring food consumption patterns, analyzing social and behavioral factors affecting diets, and conducting demonstration projects accounts for the rest of our spending. We are a partner with the National Center for Health Statistics for the food consumption data that supports research on diets conducted by the growing number of Federal and non-Federal scientists looking at the causes and possible ways to curb the obesity epidemic.

FARM AND FOREIGN AGRICULTURAL SERVICES

Currently, major sectors of the diverse farm economy are experiencing favorable market conditions. Net cash farm income was at a record level in 2003. The President's budget for 2005 supports continued administration of the Farm Bill which has now been largely implemented, although work is proceeding on the substantial expansion of the conservation programs provided by the bill. In addition, the budget supports a strong crop insurance program and an aggressive international trade program that will be critical to the continued improvement on farm economy in the next few years.

Farm Program Delivery

The Farm Service Agency (FSA) salaries and expenses are funded at \$1.3 billion in 2005, an increase of \$50.9 million over 2004. This would support staffing levels of about 6,000 Federal staff years and nearly 10,300 county non-Federal staff years, including about 1,000 temporary staff years. Temporary staff will be reduced from the high levels required in 2003 and 2004 because the heavy workload associated with the initial implementation of the new farm programs has been completed. However, we expect the ongoing workload for FSA to remain at significant levels in 2005. Therefore, permanent county non-Federal staff levels are maintained at current levels. In addition, the budget provides for an additional 100 Federal staff years to improve service provided to farm credit borrowers. The budget also requests continued funding for

FSA's information technology (IT) efforts related to the Service Center Modernization Initiative.

International Trade

Trade is vitally important for American agriculture. The United States is the world's largest agricultural exporter. The value of our agricultural exports equals nearly one-fourth of farm cash receipts, making the agricultural sector twice as dependent on trade as the overall U.S. economy. With gains in productive capacity continuing to outpace growth in demand here at home, the economic growth and future prosperity of America's farmers and ranchers depend heavily upon our continued success in reducing trade barriers and expanding overseas markets. Accordingly, the expansion of international market opportunities is one of the key objectives set forth in the Department's strategic plan.

The 2005 budget proposals fully support the Administration's commitment to export expansion and overseas market development by providing a program level of over \$6.6 billion for the Department's international programs and activities. These programs have increased significantly since this Administration took office and have increased by more than \$1.4 billion, or 27 percent, since 2001.

The Foreign Agricultural Service (FAS) is the lead agency for the Department's international activities. Through its network of 80 overseas offices and its headquarters

staff here in Washington, FAS carries out a wide variety of activities that contribute to expanding and preserving overseas markets. Our budget requests \$148 million for FAS activities in 2005. This is an increase above the 2004 level of nearly \$12 million and is designed to ensure the agency's continued ability to conduct its activities effectively and provide important services to U.S. agriculture. This funding would enable FAS to meet higher overseas operating costs, improve telecommunications systems, and implement a high priority initiative to modernize the agency's IT systems and applications.

The Department's export promotion and market development programs, which FAS administers, play a key role in our efforts to expand international market opportunities. Commodity Credit Corporation (CCC) export credit guarantees are the largest of these programs. As overseas markets for U.S. agricultural products continue to improve, that improvement will be reflected in export sales facilitated under the guarantee programs. For 2005, the budget projects a program level of \$4.5 billion for the guarantee programs, an increase of just over \$250 million above the current estimate for 2004.

The budget continues funding for the Department's market development programs, including the Market Access Program and Cooperator Program, at the current level of \$173 million. It also includes \$53 million for the Dairy Export Incentive Program and \$28 million for the Export Enhancement Program.

The efficiency and productivity of our producers allows the United States to be a leader in global food aid efforts. For 2005, the budget supports a program level of over \$1.5 billion for U.S. foreign food assistance activities. This includes \$1.3 billion for the P.L. 480 Title I credit and Title II donation programs. For the McGovern-Dole International Food for Education and Child Nutrition Program, funding is increased to \$75 million, a 50 percent increase over 2004. The budget also includes an estimated program level of \$149 million for the CCC-funded Food for Progress program, which is expected to support 400,000 metric tons of assistance as required by the authorizing statute.

Farm Credit

The budget supports a program level of about \$3.8 billion in farm credit programs to enhance opportunities for producers to obtain, when necessary, federally-supported operating, ownership, and emergency credit. The program level is about \$300 million higher than last year. Due to lower subsidy costs for the direct loan programs, the amount of subsidy requested is less than for 2004. In addition, funding has been realigned to better accommodate the actual demand in these programs. The budget also includes a request of \$25 million for the emergency loan program. Also, any unused funding from prior year appropriations will carry over for use in 2005.

Crop Insurance

The budget provides full funding for the crop insurance program. The budget includes “such sums as may be necessary” for the mandatory costs associated with program delivery and the payment of indemnities. The current estimate of the mandatory costs is about \$3.7 billion.

The budget includes a request of \$92 million for the discretionary costs of the Rural Management Agency (RMA), an increase of \$21 million above the level provided in 2004. The increased funding is urgently needed for the modernization of the RMA IT infrastructure as well as to provide for 30 additional staff years. The additional staffing will be used, in part, to monitor companies and producers participating in the crop insurance program, to detect and prevent fraud, waste, and abuse.

MARKETING AND REGULATORY PROGRAMS

Marketing and Regulatory Program agencies provide basic infrastructure to protect and improve agricultural market competitiveness for the benefit of both consumers and U.S. producers.

Pests and Diseases

Helping protect the health of animal and plant resources from inadvertent as well as intentional pest and disease threats is a primary responsibility of APHIS. The 2005 budget requests an appropriation of \$828 million for salaries and expenses, an increase of about \$112 million (16 percent) above the 2004 estimate. The majority of this increase is for the Food and Agriculture Defense Initiative and for BSE related activities.

Increases are also requested for efforts to deal with low-pathogenic avian influenza, emerging plant pests (especially citrus canker and Emerald Ash Borer), Mediterranean fruit fly, tuberculosis, scrapie and a \$6.6 million increase is requested to enhance the Department's ability to strengthen its regulatory system for the testing of biotechnology based crops.

Marketing

For 2005, the Agricultural Marketing Service (AMS) budget proposes a program level of \$732 million, of which \$87 million or 12 percent, is funded by appropriations and the remainder through user fees and Section 32. AMS, in cooperation with the Food and Nutrition Service and FSA, purchases commodities to meet the needs of domestic feeding programs and to help stabilize market conditions. The 2005 budget includes an increase of \$10 million in appropriated funds to begin the critically needed replacement

of our outdated IT systems used by three USDA agencies to manage and coordinate commodity orders, purchases, and delivery.

Another important proposal in the marketing and regulatory programs area involves the Grain Inspection, Packers and Stockyards Administration (GIPSA). For 2005, the budget proposes a program level for salaries and expenses of about \$44 million. Of this amount, \$20 million is devoted to grain inspection activities for standardization, compliance, and methods development and \$24 million is for Packers and Stockyards Programs. The 2005 budget includes \$7.7 million in increases to:

- Conduct market surveillance and ensure that marketing and procurement contracts are honored in the aftermath of the BSE finding.
- Significantly upgrade the agency's IT functions, including the ability to securely accept, analyze, and disseminate information relevant to the livestock and grain trades.
- Monitor the various technologies that livestock and meatpacking industries use to evaluate carcasses to ensure fair and consistent use of those technologies. Producer compensation is increasingly dependent not simply on the weight of the animals they bring to slaughter, but the characteristics of the carcasses as well (e.g., fat content).

- Enable GIPSA to better address and resolve international grain trade issues, thus precluding disruption of US exports.

The GIPSA budget includes two user fee proposals which have been submitted to the authorizing committees. New user fees would be charged to recover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. Those who receive, ship, store, or process grain would be charged fees estimated to total about \$6 million to cover these costs. Also, the Packers and Stockyards Programs would be funded by new license fees of about \$23 million that would be required of packers, live poultry dealers, poultry processors, stockyard owners, market agencies, and dealers as defined under the Packers and Stockyards Act.

FOOD SAFETY

USDA plays a critical role in safeguarding the food supply and plays a pivotal role in protecting the Nation's food supply from bioterrorist attack. This Administration believes that continued investment in the food safety infrastructure is necessary to achieve USDA's goal of enhancing the protection and safety of the Nation's agriculture and food supply.

For 2005, the budget for the Food Safety and Inspection Service (FSIS) provides a program level of \$952 million, an increase of \$61 million over 2004. The budget

includes an increase for pay to support 7,690 meat and poultry inspectors, which are necessary to provide uninterrupted inspection services to the industry.

The budget for FSIS requests \$5.0 million to continue the work funded in 2003 and 2004 to fully enforce the Humane Methods of Slaughter Act. With this funding, the agency has allocated 63 staff-years to ensuring the humane treatment of livestock in 900 federally inspected establishments. With the increased emphasis on humane handling verification, the agency was able to increase humane handling inspection procedures from 86,810 performed in 2002 to 111,117 performed in 2003, a 28 percent increase. Although difficult to estimate, FSIS reports that a resultant increase in the number of enforcement actions and violations was the result of training and correlation efforts of FSIS District personnel, Front Line Supervisors and veterinarians to better understand the application of the Agency's rules and enforcement process to inhumane handling situations. As recommended by the General Accounting Office, FSIS will continue to make improvements in the inspection process to ensure proper enforcement of the law and accurate tracking of both verification activities and enforcement actions.

The budget includes an increase of approximately \$33.6 million to support programmatic improvements aimed at achieving FSIS' strategic objective to reduce the prevalence of foodborne hazards from farm to table. The majority of this increase is for the Food and Agriculture Defense Initiative and BSE related activities.

The budget provides an increase of \$7.1 million for a broad-based training initiative for meat and poultry inspection personnel. This is more than a 50 percent increase in the FSIS training budget from 2004. Under this initiative, all entry level inspectors will receive formal classroom training for performing basic inspection duties within one year of employment. Currently, only 20 percent of new employees receive this type of training. In addition, current inspectors will receive supplemental training to improve the enforcement of the Pathogen Reduction/Hazard Analysis and Critical Control Point Systems regulation and food safety sampling. The increased level of training will improve the consistency and effectiveness of inspectors in the performance of their duties and ensure a safer food supply.

The 2004 budget also repropose legislation submitted to Congress in August 2003 to collect an additional \$124 million in user fees annually by recovering 100 percent of the cost of providing inspection services beyond an approved primary shift. Assessing user fees in this manner promotes equity among producers that have enough production for a full second shift paid for by the Government and other establishments that may only have enough production for a partial shift which they must currently pay for themselves. Recovering a greater portion of these funds through user fees would result in savings to the taxpayer. These fees will have a minimal impact on prices received by producers or prices paid at retail by consumers.

FOOD, NUTRITION, AND CONSUMER SERVICES

The budget includes \$50.1 billion for USDA's domestic nutrition assistance programs, an increase of \$2.9 billion, and the highest level ever requested. The budget will ensure access to nutrition assistance for low-income families and individuals as they work toward economic self-sufficiency. USDA is working hard to provide information to help improve nutritional intakes, increase breastfeeding rates, and reduce obesity and overweight among Americans. In addition to its work with the President's *Healthier US* Initiative, USDA will work with nutrition assistance program stakeholders to identify strategies to improve health outcomes for eligibles.

The WIC program is expected to be reauthorized this year and is budgeted at \$4.8 billion. This is a record high funding request, which will help record numbers of low-income, at-risk participants. The request continues special increments to fast track State information systems development, increase breastfeeding rates through the use of peer counselors, and increase support of childhood obesity prevention projects. Ensuring a WIC Program that yields healthy birth outcomes and nutritional habits with the best possible outcomes is a top Administration priority.

The Food Stamp Program, the cornerstone of America's effort to ensure access to an adequate diet for low-income people, is funded at \$33.6 billion. The budget anticipates modest food cost inflation and participation growth of about 1.2 million participants or a 5 percent increase above 2004 estimates. The budget includes a

\$3 billion contingency reserve, \$1.4 billion for Nutrition Assistance for Puerto Rico, \$2.4 billion for the Federal share of State administrative expenses, and about \$300 million to support employment and training. Significant progress has been made in reducing payment errors in the program. In 2002, 91.74 percent of payments were made accurately, with overpayment error at 6.16 percent of benefits. Changes in financial incentives to States for good management as authorized by the 2002 Farm Bill are on track for implementation in 2005. This is the time line anticipated by the Farm Bill, and this will help improve program access as well as program integrity.

Child Nutrition Programs are funded at \$11.4 billion with increases provided for food cost inflation, growth in the number of meals served and program integrity. Also, the budget includes funding for several key provisions that are expiring such as the exclusion of military housing allowances for eligibility determination. The Administration will continue work with Congress on a reauthorization bill this Spring to ensure that all aspects of the program continue without interruption, including those key provisions expiring at the end of March.

The Administration is committed to ensuring that funds for school meals are well targeted to those in need and that any savings achieved in reauthorization will be reinvested in the program.

NATURAL RESOURCES AND ENVIRONMENT

The 2002 Farm Bill represents an unprecedented commitment to conservation and its continued implementation is an ongoing challenge as well as a high priority for the Department. To do this successfully, the budget proposes not only to increase funding for Farm Bill programs but also to continue support for the underlying conservation programs that form the basis for the Department's ability to address the full range of conservation issues at the national, State, local and farm levels.

The 2005 budget request for the Natural Resources Conservation Service (NRCS) includes \$1.9 billion in mandatory CCC financial assistance funding for Farm Bill conservation programs in addition to \$2.0 billion for the Conservation Reserve Program administered by FSA. This represents an increase of more than \$200 million over the 2004 level and includes \$1 billion for the Environmental Quality Incentives Program that will allow nearly 40,000 producers to participate in this vital program. It also includes \$295 million for the Wetlands Reserve Program to enable the Department to enroll an additional 200,000 acres. Another \$209 million will support expansion of the new Conservation Security Program that supports ongoing conservation stewardship and rewards those producers who maintain and enhance the condition of their natural resources. The remaining \$351 million in CCC funding will support the other Farm Bill programs including the Grassland Reserve Program, the Wildlife Habitat Incentives Program and the Farm and Ranch Lands Protection Program.

On the appropriated side, the 2005 budget proposes a total funding level of \$908 million which includes \$604 million for conservation technical assistance (CTA) that forms the base program that supports the Department's conservation partnership with State and local entities. The budget also proposes a separate account totaling \$92 million to fund technical assistance activities in support of the Wetlands Reserve and Conservation Reserve Programs. This would limit the amount of funding that would have to be redirected from other Farm Bill programs and maximize the financial assistance made available to producers. Overall CTA funding will also enable the Department to continue to address natural resource issues such as maintaining agricultural productivity and improving water quality and grazing lands.

In the watershed programs area, the budget proposes reductions in funding for watershed implementation, planning and rehabilitation. This will enable NRCS to redirect some resources to address the more pressing Farm Bill implementation issues while still funding the most critical watershed work. With emergency spending being so difficult to predict, the budget proposes to not seek appropriated funding for emergency work and instead to address disaster funding as emergencies arise.

Finally, the Department's 2005 budget will maintain its support for all 375 Resource Conservation and Development areas that are now authorized. This important activity will continue to improve State and local leadership capabilities in planning, developing and carrying out resource conservation programs.

RURAL DEVELOPMENT

Rural America is home to over 60 million people, most of whom are not farmers. It is a place of employment for workers in numerous industries that contribute to the Nation's wealth. It is also very diverse, including areas that are facing declining population and employment opportunities as well as areas that are growing at a rapid pace and becoming urbanized. Thus, the challenges differ from area to area, and require planning and coordination, to ensure that State and local priorities are served along with national goals. USDA embraces this reality and is committed to supporting increased economic opportunities and improved quality of life in rural America.

The Department's rural development programs are both traditional and forward looking. Many of these programs were created to bring electricity, telephone service and other amenities to the Nation's farms and rural towns. These programs have made enormous contributions to economic productivity and quality of life of rural America. In addition, USDA has played a significant role in providing homeownership opportunities and rental housing for rural residents, and support for rural business and industry.

Modern technology has brought new challenges. Perhaps the most striking example is in the area of telecommunications. Basic telephone service is no longer adequate. High speed broadband communications, including data as well as voice transmission, are needed to stay abreast of the ever changing world of information for

both business and personal use. In addition, new approaches are needed to diversify rural economies, for example, through value-added processing of agricultural products.

The 2005 budget supports \$11.6 billion in loans, grants and technical assistance for rural development. This is a realistic level of support in light of the need to balance budgetary constraint against the demands for program assistance. While it is significantly below the level available for 2004, more than half of the reduction is due to lower projections of the demand for selected loans.

In particular, the 2005 budget reflects a reduction in electric loans from almost \$5 billion in 2004 to \$2.6 billion in 2005. In recent years, Congress appropriated much higher levels for such loans than the Administration requested. The additional funding, including the amount available for 2004, has helped meet the needs of rural electric cooperatives for upgrading their systems. Although more remains to be done, it is anticipated that the high levels of lending in recent years will provide a cushion that will result in fewer applications for 2005.

Also in the electric area, the 2005 budget does not include a \$1 billion add-on by Congress to the 2004 Appropriations Act for guaranteeing electric and telephone notes of certain private lenders. This program was authorized in the 2002 Farm Bill. USDA published a proposed rule for implementing the program on December 30, 2003, with a 60-day comment period. Until the public comments are reviewed and a final rule

published, it is difficult to know the extent of demand for the program and for that reason the program was not included in the 2005 budget.

The 2005 budget also does not include funding for distance learning and telemedicine loans, which accounts for a \$300 million reduction from 2004, because there has been little demand in the past few years for these loans. Further, there is a reduction in discretionary funding for broadband loans from \$598 million in 2004 to about \$331 million in 2005 because there remains a substantial amount of unused mandatory carry-over funding that was provided by the 2002 Farm Bill. Currently, there is about \$1.6 billion available for such loans and about \$1.0 billion in applications, many of which will require additional work before they are complete and can be considered for funding.

For single family housing loans, the 2005 budget includes \$1.1 billion for direct loans and \$2.5 billion in guaranteed loans for purchases and \$225 million in guaranteed loans for refinancing. While there is a proposed reduction in direct loans, guaranteed loans are maintained at the 2004 levels. Further, legislation is being proposed to allow guaranteed loans to exceed 100 percent of appraised value by the amount of the fee on such loans. This proposal will make the program more accessible to families with limited resources for paying closing costs and will contribute to the President's Initiative to Increase Minority Homeownership. The combined level of almost \$3.8 billion in direct and guaranteed loans is expected to provide up to 40,000 homeownership opportunities for rural residents. Continuation of recent increases in housing costs will reduce the

number of homeownership opportunities that can be provided in 2005 compared to prior years.

The total water and waste disposal loan and grant program for 2005 is \$1.42 billion compared to \$1.67 billion for 2004. Within this total, loans are maintained at about \$1.1 billion. It should be noted that the subsidy rate for these loans has increased such that we are asking you to increase the budget authority for loans from \$34 million in 2004 to \$90 million in 2005 just to reach the \$1.1 billion level. This increase is due to a rise in the Government's cost of financing the loans. Grants would be reduced from \$563 million in 2004 to \$346 million in 2005. With interest rates remaining low, more projects are viable at a higher loan to grant ratio.

In addition, the 2005 budget for rural rental housing continues the Administration's policy to focus on servicing the existing portfolio which includes about 17,000 projects that provide housing for about 450,000 rural households. Many of these projects require repair and rehabilitation, for which the 2005 budget includes \$60 million in direct loans. It also includes \$100 million in guaranteed loans for new rental projects. In addition, the 2005 budget includes \$592 million for rental assistance payments, up from \$581 million available in 2004. Most of this funding is for the renewal of expiring contracts, consistent with the policy established by Congress in the 2004 Appropriations Act to renew contracts on a 4-year cycle. About a quarter of a million rural households receive this assistance. We are nearing completion of a

comprehensive study of the existing portfolio to help identify opportunities for revitalizing the management of these projects.

The budget includes \$300 million in direct loans and \$210 million in guaranteed loans for essential community facilities that meet a wide range of public safety, health and other purposes. This reflects a reduction in direct loans, from \$500 million in 2004, but exceeds the 2003 level of \$261 million. This pattern mirrors a change in subsidy costs which went from 6 percent in 2003 to zero in 2004 and up to 4 percent for 2005, due largely to very small differences in interest rates.

For business and industry programs, the 2005 budget supports \$600 million in guaranteed loans, up from \$552 million in 2004 and \$34 million for the intermediary re-lending program, compared to \$40 million for 2004. Together, these programs are expected to account for most of an estimated 66,000 jobs that will be created or saved by a combination of rural development programs that assist business and industry. This estimate reflects direct employment. Many rural development programs also impact on employment indirectly by creating a demand for products and services.

RESEARCH, EDUCATION, AND ECONOMICS

Publicly supported agricultural research has provided the foundation for modern agriculture and is an important component of virtually all of our strategic objectives.

Research will lead to commercially feasible renewable energy and biobased products

with benefits to the environment, national security, and farm income. Genetic and molecular biology hold promise to reduce plant and animal diseases that threaten U.S. agriculture as the movement of plants and animals increases and as bioterrorism becomes a matter of increasing concern. There are technology-based opportunities to make our food supply safer and more wholesome.

The 2005 budget for the four Research, Education and Economics (REE) agencies is approximately \$2.4 billion. The budget proposes reductions in unrequested earmarks of about \$335 million, and program increases in high priority areas, such as food and agriculture security, genomics, human nutrition and climate change, where national needs and returns are the greatest.

One increase directly related to the Food and Agriculture Defense Initiative is to fund the remaining \$178 million required to complete the modernization of the National Centers for Animal Health in Ames, Iowa. These funds will allow the completion of the \$460 million dollar project that will provide a world-class research and testing facility commensurate with the magnitude and economic importance of the \$100 billion U.S. livestock industry. Upon completion in October 2007, there will be nearly one million gross square feet of new and renovated laboratory and support space. Extensive site and infrastructure upgrades and miscellaneous office, animal care, and support facilities will also be integrated into the design.

The 2005 budget for ARS calls for increases to support participation in genome mapping and sequencing projects and enhance the agency's bioinformatics capacity to transfer this information into research programs. There are increases for research on invasive species and animal diseases, such as bovine spongiform encephalopathy and foot and mouth disease; as well as research which will lead to improved vaccines and therapeutics, rapid diagnostic tests, and genome data on biosecurity threat agents. The budget includes an increase of \$5 million for research in support of the President's *Healthier US* Initiative. And, as part of this, USDA will work closely with the Department of Health and Human Services to promote good nutrition. In support of the Administration's Food and Agriculture Defense Initiative, food safety research will see an increase of \$14 million to support the development of rapid diagnostic tests that will accurately detect and identify pathogenic bacteria, viruses and chemicals of food safety concern. Finally, the ARS budget will provide \$5 million to support the President's Climate Change Research Initiative. These funds will be used to conduct interagency research that will build the scientific foundation for forecasting responses of ecosystems to environmental changes and for developing resources that can be used to support decision making.

The 2005 budget for CSREES includes funds to continue the formula programs at current levels. There are proposed increases in funds for the 1994 Tribal Land Grant schools and an increase in the CSREES graduate fellowship program that will allow more funding for fellowships at the masters degree level which is especially important for the recruitment of minority graduate students. Additional increases are proposed for

the Expanded Food and Nutrition Education Program which assists low income youth and low-income families with children in acquiring the skills, attitudes, and changed behavior necessary to formulate nutritionally sound diets.

The proposal for the National Research Initiative (NRI) in the 2005 budget is consistent with the greater overall constraints of the 2005 budget. The proposal includes \$180 million as compared to \$164 million in 2004, for the NRI to finance work that will have a far reaching impact on such issues as genomics, nutrition, and obesity.

The budget for the Economic Research Service (ERS) includes an increase of \$8.7 million to develop a consumer data information system, to provide information to support decision making in the food, health, and consumer arenas. There are three components: a food market surveillance system that will provide information to identify and explain consumer food consumption patterns; a rapid consumer response module that will provide real-time information on consumer reactions to unforeseen events such as the recent discovery of BSE; and a flexible consumer behavior survey module that will assess the relationship between individuals' knowledge and attitudes about dietary guidance and food safety and their food choices, complementing the Centers for Disease Control and Prevention and ARS data on health outcomes and food consumption.

The budget for the National Agricultural Statistics Service (NASS) includes an increase for two initiatives to improve its statistical programs, and a decrease of

\$2.6 million for the Census of Agriculture, reflecting the decrease in staffing and activity levels to be realized in 2005 due to the cyclical nature of the 5-year census program.

To improve NASS' statistical accuracy, an increase of \$7.4 million is requested to continue the restoration and modernization of its core survey and estimation program for U.S. agricultural commodities and other economic, environmental and rural data. These data are used by a variety of customers for business decisions, policy making, research, and other issues. They are also necessary for the calculation of national countercyclical payment rates provided under the 2002 Farm Bill.

The second initiative requires an increase of \$2.5 million for NASS' Locality-Based Agricultural County estimates program to continue the improvements begun in 2003. These local estimates are one of the most requested data sets, and are especially important to RMA for their risk rating process, (affecting premium levels paid by producers), and to FSA for calculating national loan deficiency payments.

CIVIL RIGHTS

This budget will allow the Assistant Secretary for Civil Rights to continue making progress in addressing Equal Employment Opportunity (EEO) and Program-related civil rights issues. The Assistant Secretary for Civil Rights also has responsibility for outreach and conflict prevention and resolution. The challenging task of implementing changes within USDA's civil rights organization is now underway. A comprehensive

action plan has been developed to address structural, operational, procedural accountability and systems challenges.

This budget is critical in ensuring adequate resources to implement Civil Rights initiatives. Specifically, the budget will support a reduction in the time it takes to process both EEO and Program-related complaints. The Department continues to make progress toward meeting regulatory timeframes for complaint processing. Tracking and analysis of complaints will be improved and analytical information will be used to identify further improvements and allocate resources. Additional funds will be devoted to technical assistance, training, and outreach activities.

This budget clearly reflects the high priority that the Department places on providing equal opportunity, equal access and fair treatment for all USDA customers and employees.

DEPARTMENTAL MANAGEMENT

The Departmental staff offices provide leadership, coordination and support for all administrative and policy functions of the Department. These offices are vital to USDA's success in providing effective customer service and efficient program delivery.

Due to the efforts of these offices, the Department has made significant progress in improving management. For example, the Department received its first-ever

unqualified or “clean” opinion on the 2002 financial statements and received a clean opinion again in 2003. To meet the mandate of the Government Paperwork Elimination Act, USDA agencies are deploying new departmentwide electronic signature technologies that allow customers to conduct business transactions over the Internet, saving both customers and the Department time and money.

The 2005 budget builds upon that progress by continuing funding levels for these offices and providing key funding increases in order to:

- Continue efforts to modernize the Service Center agencies (FSA, NRCS, and the Rural Development) IT activities to improve efficiency and customer service. As part of this initiative, efforts to expand the use of the Geographic Information Systems continue and will lead to improved soil and land-use analyses. A scheduled integration of the IT support functions of the Service Center agencies into a single organization under the Chief Information Officer will further improve these activities.
- Strengthen the security of the Department’s facilities and IT systems through certifying and accrediting USDA systems, improving a Departmentwide Information Survivability program, implementing an automated risk management system, and establishing a Cyber-Security Operations Center.

- Support the creation of remote backup capabilities to protect the National Finance Center accounting, payroll and related services data for USDA and other agencies from malicious intrusions and natural catastrophes.
- Implement an electronic commodity market information system that will consolidate all of the Department's commodity data, analyses and forecasts into a single public website.
- Support the Administration's goal to increase procurement of biobased products, with the purpose of creating new economic opportunities in rural areas while reducing our dependence on fossil energy-based products derived from foreign oil and natural gas. The Office of the Chief Economist (OCE) will implement and administer a government-wide biobased product procurement program, mandated by the 2002 Farm Bill. OCE will work with Departmental Administration to develop a model biobased product procurement plan that can be adopted by Federal agencies, and will support interagency biobased product procurement efforts.
- Continue renovations of the South Building to ensure that employees and customers have a safe and modern working environment.

That concludes my statement. I look forward to working with the Committee on the 2005 budget so that we can better serve those who rely on USDA programs and services.