FOR RELEASE ONLY BY
THE HOUSE COMMITTEE
ON APPROPRIATIONS

FARM SERVICE AGENCY

Statement of James R. Little, Administrator
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to present the fiscal year (FY) 2005 budget for the Farm Service Agency (FSA). Since we met last year, I am pleased to report that FSA successfully completed its implementation of the most complicated farm bill ever – the Farm Security and Rural Investment Act of 2002 (Farm Bill) – as well as the 2003 ad hoc disaster bill – the Disaster Assistance Act of 2003 (Disaster Bill). We signed up nearly 2 million producers in one of the most complex yet quickly implemented signups ever conducted and also began and completed the multi-faceted and extremely complicated Disaster Bill. In total, we have paid out over \$19 billion – \$11.1 billion in direct and countercyclical payments, over \$1 billion in benefits to the livestock industry, over \$1.8 billion in Milk Income Loss Contract payments, \$1.2 billion in peanut quota buyout payments, and \$2.4 billion in disaster assistance. These and other programs contributed significantly to record farm income in 2003.

For the first time since 1997, FSA is not absorbed in simultaneously implementing multiple provisions of either ad hoc disaster legislation or a new farm bill, and our employees deserve considerable recognition for a job well done. As we look forward to FY 2005 and beyond, we are taking stock and directing our attention to enhancing customer service. We have begun a number of projects and initiatives designed to achieve substantial and systemic improvements that will position us for more rapid implementation of the next farm bill or any ad hoc provisions that might come our way. Our FY 2005 budget request supports these initiatives. Before discussing specifics of the budget, however, I would like to briefly highlight some of the efforts we already have under way which will be bolstered by our FY 2005 request.

With the ultimate goal of better serving our customers, FSA is focusing on four areas, all coupled with the President's Management Agenda: Budget and Performance Integration, eGovernment, Human Capital, and improving Financial Performance.

Budget and Performance Integration

FSA is overhauling its existing 5-year Strategic Plan to create a much more effective tool for telling our story – the results FSA will deliver to the American public. The new plan will be used to guide the way we carry out our mission. The plan will better support and link to our budget in how we identify and justify the financial, personnel, and other resources necessary to best deliver our programs and measure results. For the FY 2005 Budget process, we worked with OMB to identify four of FSA's programs – Commodity Credit Corporation (CCC) Direct Payments, CCC Marketing Loans, Guaranteed Farm Loans, and Bioenergy – to take part in OMB's Program Assessment Rating Tool (PART) evaluation process. On a rating scale ranging from a lowest of "Ineffective" to the highest of "Effective," the PART reviews rated CCC Marketing Loans and Guaranteed Farm Loan programs as "Moderately Effective" and our CCC Direct Payments and Bioenergy programs as "Adequate." These ratings indicate that we have to improve our integration of budget and performance to better demonstrate results. For example, the guaranteed farm loan PART evaluation found that while the program serves a clear need, improvements in performance measurement are needed to more fully understand program impact and the effectiveness of targeted assistance. As a result, FSA is conducting a performance-focused review of its loan portfolio, which could lead to development of additional measures of efficiency and effectiveness.

To make FSA a more results-focused and customer-driven agency, we are refining our key goals designed to improve agency mission effectiveness; identifying workable strategies for accomplishing the goals; and establishing quantifiable measures, so we can effectively and convincingly gauge our progress. Through a process that started last fall, we expect by this summer to have a new 5-year Strategic Plan with a set of credible measures that will be used to support and justify FSA's FY 2006 Budget and beyond.

eGovernment

Most of the FSA information technology systems used to implement the Farm Bill and Disaster Bill are COBOL-based and date back to the 1980's, and some of the processes we used date back as many as 40 or 50 years. Through several years of effort, FSA has already begun migrating these legacy systems under the Service Center Common Computing Environment initiative. For example, our Geospatial Information System (GIS) initiative is progressing well. Currently, we have about 50 percent of counties digitized and expect to have the entire Nation completed in FY 2005. GIS technology will be the cornerstone of all future FSA system architecture, which I will speak to in a moment. Also, last year, we completely redesigned the way we conducted the Conservation Reserve Program general signup held in May and June. By applying new automation tools, utilizing GIS tools where available, and linking with Natural Resources Conservation Service databases, we were able to reduce:

- signup-related technical assistance needs for an estimated savings of $11.2 million.
- the number of Environmental Benefits Index data entries by 90 percent and the time spent on each offer by 60-70 percent. In offices with GIS, additional time was saved by outlining eligible acreage boundaries and calculating acreage by soil map unit symbol. The calculation of field boundaries saved producers approximately $160 thousand in measurement service fees.
- the error rate and validation and cleanup processes by about 80 percent.
- the time between the end of signup and the completion of data for offer acceptance decision making by about 30 percent, from 10 weeks to 7 weeks.

Last fall, we also purchased a new Farm Business Plan (FBP) that will completely change the way we interact with our credit customers, analyze and evaluate farm loan requests, and provide farm business planning and credit risk analysis for our farmers and ranchers. This new system, which will significantly improve our overall ability to provide improved customer service for our most needy customers, will be phased in Nationwide over the course of the spring and summer and will require a major training effort that begins the first week in April.

As we continue to migrate all of our legacy systems, we are undergoing a self-evaluation and are engaged in a range of business process reengineering (BPR) initiatives to improve the way we operate in the 21st century, using GIS as the cornerstone. Throughout the agency, program managers are examining innovative ways to improve their processes and reduce duplication of effort through automation, web-based systems, and collaboration.

While BPR generally revolves around automation improvements, we are looking at processes. The Internet has created great opportunities to identify better ways to deliver services on-line, giving our farmers and ranchers more time to be in the field and less time in our Service Center offices. For example, our Electronic Loan Deficiency Payment (LDP) process will allow producers to apply for LDP's on-line from their home or place of business and receive their payments through electronic funds transfer. This year, FSA is conducting a top-to-bottom review of all of its business processes to ensure the services we deliver are the most effective and customer-centered, utilizing today's technology.

Financial Management

In FY 2003, CCC received, for the second year in a row, an unqualified audit opinion on its financial statements. We continue to improve our financial performance by developing system improvements and establishing controls that will not only maintain the clean opinion, but also resolve management control weaknesses identified through the annual financial audit process and other internal and external reviews. We are also aggressively addressing erroneous payments to ensure controls are in place to improve the financial integrity of all of FSA's program delivery and payment processes.

Human Capital

Last year we aligned our human capital plan to support our strategic plan and the accomplishment of our programmatic goals. One of the major tasks included a basic analysis of our workforce. That analysis revealed that over the next 5 years, we are facing the potential of losing 34 percent of our workforce – a little over 5,100 employees, many in leadership positions – due to retirements alone. Targeted investments and corrective measures must be implemented in the coming years to replace the skills, talents, and historical knowledge of departing employees. The results of our workforce analysis now drive the major human capital initiatives under way in leadership development, talent management, and performance management.

For leadership development, we have implemented several management training programs and are developing others, including leadership succession programs. To ensure that our current and future employees have the right talent or skills, especially in mission critical occupations, we have re-tooled existing training programs and have begun to develop programs to sustain a better learning environment. In terms of managing talent, our new 5-year recruitment strategy calls for annual plans that target specific occupations, improvements in hiring processes and flexibilities, and steps to become an employer of choice. And, to ensure a results-driven performance workforce, we have launched a performance culture initiative to address specific areas where our managers can more effectively manage people and drive continuous improvement. In addition, we have begun aligning management performance plans to the agency's mission, goals and outcomes. This effort will cascade into the workforce over time. We are also enhancing our efforts to hold employees accountable for results and differentiate among levels of performance to improve overall program delivery.

In conjunction with our Human Capital Plan, FSA is committed to equal employment opportunity in our workforce. Where minorities are underrepresented among our ranks, FSA is engaging in some aggressive initiatives to address this deficiency. We are utilizing regional recruitment teams that will:

- capitalize on our recruitment flexibilities by ensuring that managers are well versed in appointment authorities such as the Career Intern Program and the Student Career Experience Program.
- locate a diversity of quality candidates by working with institutions of higher education that serve minority populations; the National Society for Minorities in Agriculture and Natural Resources and Related Sciences (MANRRS), which is dedicated to educating minorities about career opportunities in agriculture; and various minority professional organizations representing more experienced workers to fill higher level positions.
- advertise career opportunities through magazines, news publications, and websites targeted to the relevant minority audiences.

Achieving a workforce that reflects the population it serves is not only the right thing to do in principle, it will improve FSA's reputation and foster an increased sense of trust that will enhance customer relations.

Civil Rights and Outreach

Equal access to agency programs is fundamental to customer service. Where problems of disparate treatment exist, our civil rights staff is working to meet the issue head on. We have conducted reviews in 11 States that had not been reviewed in the last few years. In eight of those States a corrective action plan is in place to address the problems discovered. We are continuing to monitor the remaining three, and we are determined to hold senior management in those States accountable for providing the leadership needed to eliminate problems of discrimination. FSA remains dedicated to ensuring that all employees, regardless of level, are held accountable for superior customer service, effective communications, and providing all participants equal access to all FSA programs.

We have established an Office of Minority and Socially Disadvantaged Farmer Assistance to work with minority and socially disadvantaged farmers who have concerns and questions about loan applications they have filed in their Service Centers. Through a national toll-free telephone help line, we answer producer inquiries about loan programs and other FSA programs.

To rectify instances where certain producer populations are underserved, our outreach staff is working to increase participation of minorities in FSA programs. The staff utilizes a network of State outreach coordinators and works in conjunction with community-based organizations, non-profit groups, educational institutions that serve minorities, and USDA's Cooperative State Research, Education, and Extension Service to reach small farm operators in local communities.

Some of our activities for 2004 include continued participation in the highly successful American Indian Credit Outreach Initiative, refining our translation of FSA program forms into Spanish, and reaching out to underserved groups by participating in conferences such as the

NAACP National Convention, the Hmong National Conference, the Asian Pacific American Federal Career Advancement Summit, and the National Hispanic Farmers and Ranchers Conference.

BUDGET REQUESTS

Turning now to the specifics of the 2005 Budget, I would like to highlight our proposals for the commodity and conservation programs funded by the Commodity Credit Corporation the (CCC); farm loan programs of the Agricultural Credit Insurance Fund; our other appropriated programs; and administrative support.

COMMODITY CREDIT CORPORATION

Domestic farm commodity price and income support programs are administered by FSA and financed through the CCC, a government corporation for which FSA provides operating personnel. Commodity support operations for corn, barley, oats, grain sorghum, wheat and wheat products, soybeans, minor oilseed crops, upland cotton and extra long staple cotton, rice, tobacco, milk and milk products, honey, peanuts, pulse crops, sugar, wool and mohair are facilitated primarily through loans, payment programs, and purchase programs.

The 2002 Farm Bill authorizes CCC to transfer funds to various agencies for authorized programs in fiscal years 2002 through 2007. It is anticipated that in fiscal year 2004, $1.7 billion will be transferred to other agencies.

The CCC is also the source of funding for the Conservation Reserve Program (CRP) administered by FSA, as well as many of the conservation programs administered by the Natural Resources Conservation Service. In addition, CCC funds many of the export programs administered by the Foreign Agricultural Service.

Program Outlays

The FY 2005 budget estimates largely reflect supply and demand assumptions for the 2004 crop, based on November 2003 data. CCC net expenditures for FY 2005 are estimated at $15.0 billion, up about $0.2 billion from $14.8 billion in FY 2004.

This small net increase in projected expenditures is attributable to increases for the counter-cyclical and loan deficiency payment programs, as well as the Noninsured Assistance Program and CRP, all of which are mostly offset by decreases in other programs.

Reimbursement for Realized Losses

CCC is authorized to replenish its borrowing authority, as needed, through annual appropriations up-to-the amount of realized losses recorded in CCC's financial statements at the end of the preceding fiscal year. For FY 2003 losses, CCC was reimbursed $22.9 billion.

Conservation Reserve Program

The Conservation Reserve Program (CRP), administered by FSA, is currently USDA's largest conservation/environmental program. It is designed to cost-effectively assist farm owners and operators in conserving and improving soil, water, air, and wildlife resources by converting highly erodible and other environmentally sensitive acreage, normally devoted to the production of agricultural commodities, to a long-term resource-conserving cover. CRP participants enroll acreage for 10 to 15 years in exchange for annual rental payments as well as cost-share assistance and technical assistance to install approved conservation practices. The 2002 Farm Bill increased enrollment under this program from 36.4 million acres up to 39.2 million acres.

The 2003 general signup I mentioned earlier brought nearly 2 million acres into the CRP. Also in 2003, under continuous and Farmable Wetlands Program (FWP) signups, a combined total of 430,000 acres was enrolled. We issued incentive payments totaling approximately $104 million under continuous signup, Conservation Reserve Enhancement Program (CREP), and FWP under the incentives program that began in May 2000 to boost participation.

The FY 2005 budget assumes general signups in fiscal years 2004 and 2006 to enroll approximately 800,000 acres and 2.5 million acres, respectively. No general signup is expected in 2005. However, in each of fiscal years 2004 and 2005, we anticipate enrolling 450,000 acres under continuous signup and the CREP. About 50,000 acres are estimated to be enrolled in the FWP in fiscal years 2004 and 2005.

Overall, CRP enrollment is assumed to gradually increase from 34.1 million acres at the end of FY 2003 to 39.2 million acres by FY 2008, and to remain at 39.2 million acres through FY 2014, maintaining a reserve sufficient to provide for enrollment of 4.2 million acres in continuous signup and CREP.

FARM LOAN PROGRAMS

The loan programs funded through the Agricultural Credit Insurance Fund provide a variety of loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations.

The FY 2005 Budget proposes a total program level of about $3.8 billion. Of this total, approximately $0.9 billion is requested for direct loans and nearly $2.9 billion for guaranteed loans offered in cooperation with private lenders. These levels should be sufficient to provide adequate funding for our most needy farmers and ranchers throughout the year.

For direct farm ownership loans we are requesting a loan level of $200 million. The proposed program level would enable FSA to extend credit to about 1,700 small and beginning farmers to purchase or maintain a family farm. In accordance with legislative authorities, FSA has established annual county-by-county participation targets for members of socially disadvantaged groups based on demographic data. Also, 70 percent of direct farm ownership loans are reserved for beginning farmers, and historically about 35 percent are made at a reduced interest rate to limited resource borrowers, who may also be beginning farmers. Recently, however, the reduced-rate provisions have not been utilized since regular interest rates are lower than the reduced rates provided by law. For direct farm operating loans we are requesting a program level of $650 million to provide nearly 14,000 loans to family farmers.

For guaranteed farm ownership loans in FY 2005, we are requesting a loan level of $1.4 billion. This program level will provide about 4,800 farmers the opportunity to acquire their own farm or to preserve an existing one. One critical use of guaranteed farm ownership loans is to allow real estate equity to be used to restructure short-term debt into more favorable long-term rates. For guaranteed farm operating loans we propose an FY 2005 program level of approximately $1.5 billion to assist over 8,000 producers in financing their farming operations. This program enables private lenders to extend credit to farm customers who otherwise would not qualify for commercial loans and ultimately be forced to seek direct loans from FSA.

We are particularly proud of all of our loan programs. As a matter of fact, since FY 2000, our direct and guaranteed loans to minorities and women have increased every year. And in FY 2003, there was an increase in direct loans to each minority group and we set a record for guaranteed farm ownership loans.

In addition, our budget proposes program levels of $2 million for Indian tribal land acquisition loans and $60 million for boll weevil eradication loans. For emergency disaster loans, our budget proposes program levels of $25 million to provide sufficient credit to producers whose farming operations have been damaged by natural disasters.

OTHER APPROPRIATED PROGRAMS

State Mediation Grants

State Mediation Grants assist States in developing programs to deal with disputes involving a variety of agricultural issues including distressed farm loans, wetland determinations, conservation compliance, pesticides, and others. Operated primarily by State universities or departments of agriculture, the program provides neutral mediators to assist producers – primarily small farmers – in resolving disputes before they culminate in litigation or bankruptcy. States with certified mediation programs may request grants of up to 70 percent of the cost of operating their programs. Authority for State Mediation Grants expires at the end of fiscal year 2005. The Department plans to propose extending the program through fiscal year 2010.

For FY 2004, grants have been issued to 30 States. With the requested $4 million for FY 2005, we anticipate that between 30 and 33 States will receive mediation grants.

Emergency Conservation Program

Since it is impossible to predict natural disasters, it is difficult to forecast an appropriate funding level for the Emergency Conservation Program. No funding was provided for the program in 2002 or 2003; however, it continued to operate throughout the two fiscal years using unobligated funds carried forward together with recoveries of unused funds previously allocated to the States.

For FY 2004, the Consolidated Appropriations Act provides $11.9 million for use in southern California only. Emergency cost-sharing for the nationwide program has continued into 2004 through recoveries from the States. As of March 9, we have issued allocations totaling $8 million. No other funding is currently available to provide assistance nationally to producers who have suffered losses due to natural disasters. Unfunded pending requests from producers for damage from ice storms, drought, tornadoes, hurricane and other natural disasters total about $63 million. The FY 2005 President's Budget does not request funding for this program.

Dairy Indemnity Program

The Dairy Indemnity Program (DIP) compensates dairy farmers and manufacturers who, through no fault of their own, suffer income losses on milk or milk products removed from commercial markets due to residues of certain chemicals or other toxic substances. Payees are required to reimburse the Government if they recover their losses through other sources, such as litigation. As of March 9, we have paid FY 2004 DIP claims totaling $306,000 in 12 States.

The FY 2005 appropriation request of $100 thousand, together with unobligated carryover funds expected to be available at the end of FY 2004, would cover a higher than normal, but not catastrophic, level of claims. Extended through 2007 by the 2002 Farm Bill, DIP is a potentially important element in the financial safety net for dairy producers in the event of a serious contamination incident.

Tree Assistance Program

The Tree Assistance Program (TAP) provides financial assistance to qualifying orchardists to replace eligible trees, bushes, and vines damaged by natural disasters.

No TAP outlays were made during FY 2003. The FY 1998 program expired at the end of FY 2003, and all unobligated funds were returned to Treasury. The FY 1999 program will expire at the end of FY 2004. The Consolidated Appropriations Act, 2004, provides $12.4 million in appropriated funding for southern California. Separate legislative provisions have also made available CCC funding of $5 million for New York and $9.7 million for Michigan. No funding is requested for FY 2005.

ADMINISTRATIVE SUPPORT

The costs of administering all FSA activities are funded by a consolidated Salaries and Expenses account. The account comprises direct appropriations, transfers from loan programs under credit reform procedures, user fees, and advances and reimbursements from various sources.

The FY 2005 Budget requests $1.3 billion from appropriated sources including credit reform transfers. The request reflects decreases in non-Federal county staff-years and operating expenses, as well as increases in pay-related costs to sustain essential program delivery.

The FY 2005 request reflects a ceiling of 6,017 Federal staff years and 10,284 non-Federal staff years. Temporary non-Federal county staff years will be reduced to 1,000 - from the FY 2004 level of 2,067 - due to completion of initial farm bill implementation and disaster activities. Permanent non-Federal county staff years are estimated to remain at the 2004 level.

Federal staff years will increase by 100 to enhance farm loan servicing in the field. The additional staff will be assigned to high volume county offices throughout the country. We anticipate that the additional staff will bring about decreased loan-processing times, improve servicing of existing loans, and help avert increases in direct loan delinquency and loss rates. The additional employees will also help meet the needs of minority applicants, who often require considerable technical assistance from FSA staff to complete financial documents and formulate business plans. The resources to furnish this assistance are critical in supporting FSA's outreach effort.

Before closing I would like to note that support of FSA's modernization effort is provided through the Department's Common Computing Environment account. Funding made available to FSA under this account will provide needed telecommunications improvements and permit us to continue implementation of the GIS, which is so crucial to rapid and accurate program delivery.

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

◊◊◊