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Appropriations

FARM SERVICE AGENCY
Statement of Bruce Nelson, 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 discuss Farm Service Agency (FSA) issues and funding. Our Fiscal Year (FY) 2013 budget emphasizes a service-oriented agency with a commitment to efficiency, and continued investments in modernizing the agency to the benefit of farmers and ranchers.

AGENCY OPERATIONS

FSA administers many of the programs authorized by the 2008 Farm Bill as well as programs under other authorities. We deliver these programs through 2,244 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 2011, FSA's permanent, full-time, end-of-year Federal employment was 4,710. FSA non-Federal permanent employment in USDA Service Centers was 8,370. The total number of Federal permanent full time positions in the Washington, DC headquarters office was 1,399 and the total number of Federal and non-Federal permanent positions in the field offices was 11,681.

Business Processes and IT

As you know, FSA relies on one of the oldest information technology systems within the Federal government, and we recognize that a reliable IT infrastructure will be critical in Fiscal Year 2012 and over the coming years.

FSA is working to (1) maintain and enhance the current infrastructure at a level that supports required operations, services and program delivery; (2) modernize the IT environment to eliminate the reliance on outmoded technology; and (3) improve the quality, reliability and availability of data to more effectively support FSA programs.

Over the past year, FSA has continued to successfully expand the presence and effectiveness of web-enabled program delivery applications, deploying this technology to deliver a number of 2008 Farm Bill programs and utilizing the new web enabled Crop Acreage Reporting System (CARS) to complete 2011 crop acreage reporting. FSA also began capturing Farm Operating Plans for individual producers in a Web-enabled application.

Additionally, FSA completed the consolidation of geo-spatial assets into a single centralized repository, thereby eliminating dependency on outmoded servers. This will allow FSA to implement payment programs in a more timely fashion and facilitate the eventual integration of geospatial data with enterprise business operations. Efforts also continue to modernize Farm Loan Program (FLP) systems to the Web and retire obsolete technology. FSA has web-enabled 98 percent of all Service Center transactions, and the 50 percent completion of the FLP Data Mart has resulted in substantial Farm Loan System efficiencies.

Finally, FSA continues to make progress on the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) project. The initial design for MIDAS is completed; the MIDAS program is now in the build phase, where the system is configured, applications are developed, and IT infrastructure is put in place. Additionally, MIDAS is connecting to the Department's new financial management system.

In late 2012, FSA will pilot the first release of MIDAS. In early 2013, the first release of MIDAS will be implemented nation-wide; this initial phase of MIDAS will centralize customer and land data, reduce time for county office employees and farmers to conduct business, and provide a scalable platform to add additional programs to the system.

In addition to MIDAS, FSA has begun upgrading the IT infrastructure, the Common Computing Environment. This entails replacing the outdated components of the infrastructure, many of which have exceeded their expected life cycles.

PROGRAM UPDATE

While producers of many commodities are receiving high prices for their product, producers are also facing an unprecedented level of business risk due to high input costs. Never before in history has it been so costly to plant a crop, nor have the financial risks to agricultural producers associated with crop losses been so high. The new disaster assistance programs authorized by the 2008 Farm Bill provide assistance in such high-risk situations, and under these programs USDA has provided $3.8 billion to more than 200,000 operators since program inception to February 28, 2012. Payments under the Supplemental Revenue Assistance Program (SURE) have accounted for more than $3 billion of this total, followed by the Livestock Forage Program (at $549 million) and Livestock Indemnity Program (at $143 million). Payments totaled $31 million under the Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program and $14 million under the Tree Assistance Program.

The 2008 Farm Bill authorized these programs to cover losses having occurred on or before September 30, 2011. Since these programs expired, the Noninsured Crop Assistance Program (NAP) is the only FSA disaster program providing coverage. The FY 2013 President's Budget proposes extending these critical disaster programs (or implementing similar programs of similar cost) through the 2017 crop year, at a cost of approximately $8.4 billion over ten years.

Other programs comprising the FSA safety net include marketing assistance loans, counter-cyclical payments (CCPs), and the Milk Income Loss Contract (MILC) program for dairy producers. Given the high crop prices of recent years, marketing assistance loan outlays have been, and are expected to continue to be, minimal. High prices have kept CCPs relatively low as well, and no CCPs are expected for the 2011 and 2012 crops. MILC payments are expected to increase in FY 2012 to $180 million because of declining milk prices in early 2012 and increasing feed costs. Authority for the MILC program ends on September 30, 2012.

The FY 2013 President's Budget includes a proposal to eliminate direct payments. Direct payments are made to producers with program crop base and do not depend on the crop that is currently planted or on current yields or producers. In total, these payments are $4 to 5 billion annually, and account for more than 80 percent of Title I outlays. Although direct payments provide certain added income that is reassuring to lenders, the payments are made even when prices and revenues are strong. Eliminating direct payments would create savings of about $31.1 billion over 10 years.

The ACRE program was first authorized by the 2008 Farm Bill, and is based on revenue risk rather than just price risk. Overall, ACRE participation has been relatively low and ACRE payments have varied significantly. In Fiscal Year 2011, about $430 million in ACRE payments were made, much of which went to wheat producers. We expect Fiscal Year 2012 ACRE payments to be less than $20 million nationally.

There are now 29.7 million acres in the Conservation Reserve Program (CRP), down nearly 20 percent from Fiscal Year 2007. With contracts on 6.5 million acres scheduled to expire at the end of Fiscal Year 2012, USDA recently announced that a new CRP general sign-up began on March 12 and will end on April 6. In addition to CRP general signup, FSA offers year-round "continuous" signup, which now constitutes about 18 percent of the 29.7 million acres currently enrolled. Continuous signup has become a larger portion of overall enrollment, and we are working hard to promote these programs to target acreage with the best conservation benefit. Most recently, on February 18, Secretary Vilsack announced a new Highly Erodible Land Initiative which will allow up to 750,000 acres of the most highly erodible land to enroll in CRP via continuous sign-up. And on March 2, the Secretary announced a new CRP initiative to restore grasslands, wetlands, and wildlife. The Fiscal Year 2013 President's Budget proposes capping CRP at 30 million acres. This achieves an estimated $977 million in budget savings over 10 years, while maintaining the CRP program at a level where it can continue to deliver substantial environmental benefits.

FSA also began implementation of the Conservation Reserve Transition Incentives Program (TIP) in FY 2010, which offers retiring landowners an added CRP benefit to transition expiring CRP acres to a new or socially disadvantaged farmer – who enters the land into production using sustainable growing practices. This program has been very successful. Over $20 million of the $25 million statutory limit has already been obligated, and in addition to over 1,500 contracts already obligated, FSA is reviewing over $1 million in pending requests. Due to the magnitude of interest in this program and the number of CRP contracts about to expire, TIP signup was suspended on February 24, 2012 until steps can be put in place to ensure that the statutory limit is not exceeded.

In addition to the mandatory programs noted above, various other 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. As of February 21, 2012, FSA allocated over $102.5 million in carryover and newly appropriated funding for ECP. The most recent ECP funding was the $122.7 million in Robert T. Stafford funding provided through the FY 2012 Appropriations Act. In fiscal year 2010, a total of $91 million and in fiscal year 2011 a total of $28 million was allocated to states to address damage from significant disasters under ECP. 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. The 2010 Supplemental Appropriations Act provided $18 million for EFRP for expenses resulting from natural disasters that occurred on or after January 1, 2010. The 2012 Appropriations Act provided an additional $28.4 million in EFRP funding targeted to counties that received Major Disaster declarations pursuant to the Stafford Act. Thus far, over $24 million has been allocated to states since the inception of EFRP.

Demand for direct USDA loans declined somewhat in FY 2011 from record levels in FY 2010 as the availability of commercial credit improved. However, with production costs at high levels, loan availability remains tight for beginning producers and those with limited credit. The FSA direct farm loan programs are USDA's largest investment in these producers. In FY 2011, 63 percent of FSA direct lending, just over $1 billion, went to beginning farmers. FSA also assisted beginning farmers with an additional $735 million in credit through loan guarantees in FY 2011. Since FY 2006, FSA has increased its lending total to beginning farmers by 63 percent. The FSA loan portfolio continues to perform well. As of December 31, 2011, the direct loan delinquency rate stood at 4.9 percent. Although commercial lenders view these producers as risky, over 95 percent of them are current on their FSA loans. FSA's guaranteed farm loans are also performing well, with the guaranteed delinquency rate standing at 1.31 percent on December 31, 2011. Nationwide, delinquent bank non-real estate loan volumes trended down during 2011, comprising 2.0 percent of outstanding farm production loans in the third quarter. Loan performance measures for real estate loans also improved, with the share of delinquent bank farm real estate loans easing to 3.5 percent in the third quarter of 2011.

BUDGET REQUESTS

Commodity Credit Corporation

CCC FY 2013 baseline expenditures are projected to be $9.2 billion, an increase from approximately $8.7 billion forecast for FY 2012. The FY 2013 baseline expenditures are estimated to increase primarily due to Farm Bill provisions that shift some outlays from 2012 to 2013 by eliminating the option for producers to receive advance direct payments. In FY 2011, $8.9 billion was expended as compared to a record high of $32.3 billion expended in FY 2000. Commodity prices are expected to remain relatively robust into FY 2013 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 realized losses recorded in CCC's financial statements at the end of the preceding Fiscal Year. In FY 2012, the Corporation received $9.5 billion for reimbursement of 2011 losses.

Appropriated Programs

For Farm Loan Programs the Budget proposes a total program level of about $4.8 billion – over $1.6 billion for direct loans and nearly $3.2 billion for guaranteed loans. About $103 million in budget authority will be necessary to provide this level of assistance. These levels reflect credit usage forecasts at the time the Budget was developed. In FY 2012, $108.2 million of budget authority will be used to execute $4.8 billion of direct and guaranteed loans. For Direct Farm Ownership Loans the Budget proposes a loan level of $475 million encouraging beginning farmers to establish more productive farming operations. The FY 2013 amount will provide direct loans to 2,800 borrowers to meet demand. For Direct Farm Operating Loans the Budget proposes a loan level of $1.05 billion to assist family farmers in maintaining productive farming operations. This level should meet demand for direct operating loans in FY 2013. This funding level will provide direct operating loans to 16,000 borrowers.

For Guaranteed Farm Ownership Loans in FY 2013, the Budget proposes a loan level of $1.5 billion for loans for 4,100 borrowers. The requested loan level is expected to be able to meet the increased demand for this program. For guaranteed farm operating loans we propose an FY 2013 program level of approximately $1.5 billion. The requested amount will provide ownership loans to 6,700 borrowers and provide sufficient resources to meet program demand.

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. Although the statutory targets vary by loan program and county, on average, about 14 percent of loan funds are targeted to socially disadvantaged borrowers. In general, FSA exceeds these statutory targets and, in recent years, FSA has served over 18 percent of socially disadvantaged groups.

For Emergency Disaster Loans FSA is requesting $35 million. Funding has historically been provided through supplemental appropriations. However, prior supplemental appropriations are expected to be exhausted in 2012 and funding is requested to ensure that support is available in the event of a natural disaster. In addition, the Budget proposes program levels of $2 million for Indian Tribe 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. The requested FY 2013 program level for Guaranteed Conservation Loans is $150 million. The Indian Highly Fractionated Land Program is a direct loan program which provides authority to make and insure loans to eligible purchasers of highly fractionated land under the Indian Land Consolidation Act. The requested FY 2013 program level is $10 million and is expected to be adequate to meet program demand.

The 2008 Farm Bill also authorized a pilot program of Individual Development Account Grants to beginning producers with limited financial resources. These grants provide assistance for starting and maintaining a productive farming operation. FSA requests $2.5 million for this pilot program in FY 2013. This level of funding will leverage between $2.5 million to $5 million in matching private sector funding.

For State Mediation Grants the FY 2013 budget requests $4.369 million, an increase of $.61 million over the FY 2012 amount, for grants to 40 States to assist in operating alternative dispute resolution programs that deal with disputes involving a variety of agricultural issues.

FSA Salaries and Expenses

The FY 2013 Budget 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. FSA has taken a variety of steps to reduce costs. First, FSA reduced administrative expenses (including travel, supplies, and postage) by more than 30 percent in FY 2011 over FY 2010. This included a voluntary limit on meetings by County and State Committees. In addition, FSA significantly reduced its temporary staff level and projects that total staff levels will total 12,691 in FY 2013, a reduction of 1,230 staff years from 2011.

Finally, USDA has proposed to consolidate 131 FSA county offices in 32 states in 2012. This action was necessary to achieve the reductions laid out in the FY 2010 through FY 2012 appropriations for FSA, while still keeping sufficient staff and administrative resources in place. If the proposed closures take place, 2,113 offices would remain open throughout the U.S.

The FY 2013 Budget requests $1.516 billion from appropriated sources including credit reform transfers, for a net increase of $24.9 million above the 2012 enacted level. The increase will provide $11.8 million to fund critical IT transformation and modernization projects, an increase of $1.2 million to support 37 additional temporary personnel to provide critical support for peak workload periods, and $11.9 million for increased state and county field office operating expenses, including the full coverage of cost of travel for County Committee and non-Federal staff to perform compliance and other activities for farm programs and replace broken or extremely outdated equipment.

The 2013 Budget supports 4,494 Federal staff years and 8,197 non- Federal staff years. Since 2003, staffing levels at FSA have declined over 30 percent, a reduction of about 5,600 employees. Within these constraints, FSA has successfully delivered new and complex 2008 Farm Bill programs. In 2012, further staff reductions will be achieved through Voluntary Early Retirement Authority and Voluntary Separation Incentive Payments.

The IT request includes an increase of $11.8 million to continue contract services that support--(a) modernization, development and maintenance of applications systems, and (b) deployment support (e.g. data and data base administration, testing and certification, security, etc.) for application systems. These funds will enable FSA to continue to maintain essential program delivery and operations to the field.

The IT request also includes a total of $99,800,000 for MIDAS. This funding level will complete the original $304,700,000 estimate for this project and enable FSA to continue and complete phased deployment of system capabilities to support additional Farm Programs. MIDAS will continue to be closely aligned 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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