FARM SERVICE AGENCY
Statement of Teresa C. Lasseter, 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 appear before you for the first time as Administrator of the Farm Service Agency (FSA). I have taken the helm at a challenging moment for FSA – a moment when the agency is at a crossroads. As things currently stand, we are faced with a choice between delivering programs to the best of our ability using current methods, or modernizing the agency in terms of structure and technology to respond more quickly to new legislation, provide better access to our programs and data for our customers and business partners, and more efficiently implement a 2007 Farm Bill. Our fiscal year (FY) 2007 budget request provides a fiscally responsible approach which addresses these agency priorities while also doing our part to restrain discretionary spending to help reduce the deficit. Before I begin discussing the details of the budget, I would like to comment on how we arrived at our current position, provide a status of some of our current initiatives and challenges, and solicit your support and partnership for approval of this budget request.

Office Structure

As competition and accountability for limited resources continue to increase, we want to ensure we are still providing our customers with the efficient, accurate and timely service they deserve. Quite frankly, FSA as presently structured must change in order to best serve our customers. There have been numerous program changes over the past few years as well as improvements in technology that have shifted our workload. Also, reductions in the number of employees in the past 3 years require that we adjust our present structure. As you know, we set aside our FSA Tomorrow plan and stopped all actions on county office restructuring and office closures under that plan. Many of our State Executive Directors, however, are experiencing extreme difficulty in providing services due to the increased number of offices that have two or fewer employees in them, and the increasing number of managers who are responsible for more than one county and must divide their time between two or more offices.

At present we have 36 offices that have no permanent employees in them, 144 offices with only one employee, 372 offices with 2 employees, and 266 offices that share a manager. Providing a full range of services to our customers full-time is impossible in these offices. We must reorganize, modernize and streamline this agency from the bottom up. We must reinvent FSA on a technological platform that feels more like 2006 than 1980. Having set aside the national FSA Tomorrow plan, and in accordance with your guidance, we have asked our State offices for a full review of their technology, training, staffing and facilities. We know that we need widespread technology upgrades. We know that we need to provide our people with better training. We know that absent our ability to hire more employees, temporaries and contractors, we need technology to streamline our operations to increase productivity.

FSA's State Executive Directors (SEDs) will conduct independent, local-level reviews of the efficiency and effectiveness of the FSA office structure in each State. SEDs and State committees will form review committees to identify what the optimum network of FSA facilities, staffing, training, and technology should be in each State within existing budgetary resources and staffing ceilings. Furthermore, SEDs will also explore potential joint-effort opportunities with the Natural Resources Conservation Service and other Department of Agriculture agencies.

As recommendations are received from each State, FSA's Deputy Administrator for Field Operations will review and validate the proposed changes. After the recommendations are shared with the affected Congressional delegations, the agency will hold public hearings and coordinate communications efforts with area farmers, ranchers, and stakeholders.

We will faithfully follow your instructions as outlined in Public Law 109-97. If State offices recommend that any of our offices be closed or consolidated, we will hold public hearings within 30 days and notify Congress of all impending changes within 120 days.

Administrative Budget Trends

Congress has provided an increase in the appropriations for our Salaries and Expenses (S&E) account each year, and we appreciate the support of the Committee reflected in those numbers. At the same time, however, operational costs such as pay costs, information technology infrastructure and legacy systems, rents, and utilities have been increasing at a faster pace. The President's Budgets have taken this reality into account in the requested levels. However, for the past 3 years the enacted appropriations for S&E together with the FSA component of the Common Computing Environment account have averaged about 3.8 percent below the budget request. In addition, during FY 2005, FSA implemented the newly enacted Tobacco Buyout Program under the American Jobs Creation Act of 2004 and disaster programs for 2003, 2004, and 2005 crop losses as directed by the Military Construction Appropriation and Emergency Hurricane Supplemental Appropriations Act, 2005. It is estimated that these programs cost the Agency a minimum of $26 million to administer.

These effective reductions in the agency resource level have been addressed through aggressive cost-cutting measures. For example, FSA reduced discretionary non-information technology (IT) expenses such as travel, equipment and supplies by 39.5 percent from FY 2003 levels. FSA also deferred and realigned investment funding intended for modernization of IT systems in order to fund uncontrollable increases in non-discretionary IT and non-IT expenses. FSA successfully carried out its new programs at the expense of its modernization progress. In addition, Federal and non-Federal permanent staffing ceilings were reduced by 5 percent and 3 percent from FY 2003 to FY 2005.

Mr. Chairman, we in FSA have always considered ourselves a "can-do" agency. That is why in recent years we have told an optimistic story even while facing resource challenges. And that is why it is difficult to come before you sounding a less optimistic note today. The time has passed, however, when we can promise to do more with less. The time has come when we must make some difficult choices. This brings me back to the crossroads I mentioned earlier: do we direct our resources to maintaining the status quo as nearly as possible to focus on near-term program delivery? Or do we make the investments needed for future program delivery, which would divert resources from current activities? Even with your support for the President's budget, we must work with our stakeholders on an acceptable office consolidation plan to ensure we are providing our customers with the quality service they are entitled to.

Our restructuring plan is not limited to our county offices but will involve a comprehensive review of the organization and operations at all levels of the agency, including State and national offices. We need to wisely invest in our employees, technology and equipment. With the 2007 requested level for both our Salaries and Expenses and the Common Computing Environment accounts, we can achieve this by providing critical training to our employees, upgrading computer systems, networks and software, and modernizing local office equipment. With over 45 percent of FSA offices staffed with three or fewer people, IT modernization has become significantly more important.

Employee Buyout Program

During first quarter of FY 2006, we conducted two employee buyout programs, commonly known as the Voluntary Separation Incentive Program (VSIP) or "buyouts" and the Voluntary Early Retirement Authority (VERA) or "early outs". A total of 424 Federal and non-Federal employees were separated from FSA with buyout payments of up to $25,000. Several factors influenced our decision to request VSIP and VERA authority, including legislative changes ending the tobacco program, a transfer of the bulk of the administrative activity FSA previously performed for the Natural Resources Conservation Service (NRCS) on the Environmental Quality Incentives Program back to NRCS in FY 2005, and shifts in program participation in certain States causing workload decreases in those States and a resulting staffing imbalance. As a result, reductions to staffing levels could be absorbed at the affected locations, without severely impacting their ability to deliver ongoing programs. The buyouts resulted in a 3-percent reduction in FSA permanent staffing levels. Through the use of buyout/early out authority we were able to more efficiently align ourselves within existing resources and begin to right-size in an employee friendly manner without the need for a reduction-in-force. In partnership with stakeholders, implementation of a comprehensive agency-wide restructuring plan will enable us to address our remaining workforce right-sizing challenges.

Disaster Assistance

The past 2 years have presented producers with tremendous challenges from Mother Nature, with record rainfall in parts of the country, a pervasive drought in the West, and the worst hurricane season in decades. The Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza Act, 2006 (Public Law 109-148) included $404 million for the Emergency Forestry Conservation Reserve Program, which will provide assistance for farmers and ranchers who have suffered forestry damage directly related to hurricanes Katrina, Ophelia, Rita, Dennis and Wilma. FSA anticipates publishing the rule and issuing software by late winter, and holding a 2006 signup in the spring. In addition, $199.8 million was designated for the Emergency Conservation Program (ECP). The language of the Supplemental Appropriations Bill provides for assistance with restoration of activities such as oyster operations not normally covered by ECP. Therefore, new regulations are required to make certain that new practices are developed that achieve the goals of the program while ensuring program integrity. We expect ECP regulations to be published soon, with signups anticipated in early spring.

In addition, Secretary Johanns authorized $250 million for crop disaster, livestock, dairy, tree and aquaculture assistance. These funds are authorized under Section 32 of the Agricultural Act of August 24, 1935, which allows the Secretary to restore producers' purchasing power. These funds will be distributed by way of five new programs: the Tree Indemnity Program (TIP), the Livestock Indemnity Program (LIP), the Feed Indemnity Program (FIP), the Hurricane Indemnity Program (HIP), and an Aquaculture Block Grant program. The Secretary announced these programs on January 26, 2006. For TIP, LIP, FIP, and HIP, interim final regulations are in final clearance, and signups will begin in late June. For the Aquaculture Program, memorandums of understanding will be sent to the States in early March.

Prior to the President's signing of the Emergency Supplemental Appropriations Bill, FSA made more than $30 million in Emergency Conservation Program assistance available to agricultural producers suffering damage from Hurricane Katrina. In addition, USDA's Commodity Credit Corporation implemented immediate changes to its Marketing Assistance Loan Program to allow producers to obtain loans for on-farm grain storage on the ground in addition to grain bins and other normally approved structures.

Tobacco Transition Program

FSA has expeditiously implemented the provisions of the "The Fair and Equitable Tobacco Reform Act," otherwise know as the "tobacco buyout" program which was part of the American Jobs Creation Act of 2004, signed by the President on October 22, 2004. The Act terminated the tobacco quota and price support program of more than 65 years, which had restricted production and kept domestically produced tobacco prices high. The program allows producers and quota owners to sign up for 10 years of transition payments to ease the economic adjustment process.

As of December 20, 2005, the Commodity Credit Corporation (CCC) had approved 382,972 quota holder contracts valued at $6.6 billion, and 181,696 producer contracts valued at $2.9 billion. CCC disbursed FY 2005 payments to 563,770 contracts holders, valued at $945.9 million.

On October 17, 2005, CCC implemented the successor-in-interest provision of the Tobacco Transition Payment Program or TTPP. The successor-in-interest program allows contract holders to transfer their remaining contract rights in full to a third party in return for a lump-sum payment. As of December 2, 2005, 89,885 quota holder and producer contracts valued at $1.5 billion were sold to lump-sum providers. There are over 60 financial institutions participating in the successor-in-interest program.

As of February 28, 2006, approximately $934.6 million had been disbursed for FY 2006 TTPP payments. County offices will continue to disburse payments through March. Contracts requiring a correction for over- or under-payments have been delayed. The correction software is complex and deployment is targeted for late April.

BUDGET REQUESTS

Turning now to the specifics of the 2007 Budget, I would like to highlight our proposals for the commodity and conservation programs funded by the Commodity Credit Corporation (CCC); the 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, 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 2006, $1.797 billion will be transferred to other agencies.

The CCC is also the source of funding for the Conservation Reserve Program 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 2007 budget estimates largely reflect supply and demand assumptions for the 2006 crop, based on November 2005 data. CCC net expenditures for FY 2007 under current law are estimated at $20.2 billion, down about $1.1 billion from $21.3 billion in FY 2006. If the President's proposals for farm program savings are enacted, CCC outlays would decline by an additional $1.1 billion in FY 2007.

This net decrease in projected expenditures is attributable to decreases for crop, tree and livestock disaster payments, tobacco payments, loan deficiency payments, and the Noninsured Assistance Program, partially offset by an increase in counter-cyclical payments.

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 2005 losses, CCC was reimbursed $25.4 billion in FY 2006.

Conservation Reserve Program

The Conservation Reserve Program (CRP), administered by FSA, is currently USDA's largest conservation/environmental program. For 20 years it has cost-effectively assisted 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 authorized enrollment under this program from 36.4 million acres to 39.2 million acres. Under the FY 2005 continuous and Farmable Wetlands

Program (FWP) signups, a combined total of 387,000 acres was enrolled. We issued incentive payments totaling approximately $76 million in FY 2005 under continuous signup, Conservation Reserve Enhancement Program (CREP), and FWP under the incentives program that began in May 2000 to boost continuous signup participation. As of January 2006, total CRP enrollment is 35.9 million acres, nearly 92 percent of the 39.2 million acres authorized under the Farm Bill.

The CREP is also a major initiative under CRP that seeks to address recognized environmental issues of States, Tribes, and the Nation. CREP is a voluntary program implemented through Memoranda of Agreement with partners, such as States, Federal agencies, and private groups. FSA currently has 34 CREP agreements with 27 States with over 2 million acres reserved for enrollment. The program is very popular with environmental and wildlife groups, in addition to States and private landowners. More than 772,000 acres are currently enrolled in CREP nationwide. Most recently, in July 2005, FSA launched a new CREP project in Indiana.

No general signup was held in FY 2005. However, the FY 2007 budget assumes general signups in fiscal years 2006 and 2007 to enroll approximately 2.5 million acres and 4.9 million acres, respectively. In fiscal years 2006 and 2007, we anticipate enrolling 410,000 acres and 774,000 acres under continuous signup and the CREP. About 40,000 acres are estimated to be enrolled in the FWP in fiscal year 2006 and 40,000 acres in fiscal year 2007. Additionally, the FY 2007 budget assumes early re-enrollments and extensions of FY 2007-2010 expiring contracts. Overall, CRP enrollment is assumed to gradually increase from 35 million acres at the end of FY 2005 to 39.2 million acres by FY 2008, and to remain at 39.2 million acres through FY 2016, maintaining a reserve sufficient to provide for 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 2007 Budget proposes a total program level of about $3.5 billion. Of this total, approximately $1 billion is requested for direct loans and nearly $2.5 billion for guaranteed loans offered in cooperation with private lenders. These levels should be sufficient to provide adequate funding throughout the year. While the total request is below the amounts provided by Congress in FY 2005 and 2006, it is nearly $500 million above the amount actually obligated in FY 2005.

For direct farm ownership loans we are requesting a loan level of $223 million. The proposed program level would enable FSA to extend credit to about 1,921 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 reduced interest rates 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 $644 million to provide approximately 14,525 loans to family farmers.

For guaranteed farm ownership loans in FY 2007, we are requesting a loan level of $1.2 billion. This program level will provide about 4,600 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 a FY 2007 program level of approximately $1.3 billion to assist nearly 7,800 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.

In addition, our budget proposes program levels of $4 million for Indian tribe land acquisition loans and $60 million for boll weevil eradication loans. For emergency disaster loans, our budget does not request any new appropriation; anticipated carryover funding will support a program level of approximately $70 million, which should provide sufficient credit to producers whose farming operations are damaged by natural disasters.

The 2007 budget request reflects the Administration's proposed increase in the fees producers pay to secure guaranteed farm ownership or guaranteed unsubsidized farm operating loans. This change will bring the fees for these loans more in line with the fees charged to secure other types of guaranteed loans. This proposal will be implemented through the rulemaking process and is expected to save about $30 million annually.

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, program payment eligibility, 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 mediation programs certified by FSA may request grants of up to 70 percent of the cost of operating their programs.

For FY 2006, grants have been issued to 32 States. Two additional States are expected to become certified during the fiscal year. For FY 2007, we anticipate that the requested $4.2 million will provide grants to 34 States and seed funding for 2 new States.

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, and in recent years the program has been funded through supplemental appropriations. During FY 2005 Congress provided $150 million for the program to assist producers in repairing damage caused by natural disasters. For FY 2006, as I mentioned earlier, the program received supplemental funding of $199.8 million specifically for hurricane damage to the Gulf States. On March 3, $63 million of the $199.8 million was allocated. The eligible States have requested a total of $374 million. Nationwide, as of March 3, $20.6 million is pending allocation to 28 States, and $4.8 million has already been allocated, for recovery from various disasters utilizing funds carried forward from FY 2005 together with recoveries of unused prior allocations. As of March 3, $5.1 million is available for allocation nationwide. The FY 2007 Budget proposal does not include 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 1 we have paid FY 2006 DIP claims totaling $44 thousand in 3 States.

The FY 2007 appropriation request of $100 thousand, together with unobligated carryover funds expected to be available at the end of FY 2006, 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.

<u>Grassroots Source Water Protection Program</u>

The Grassroots Source Water Protection Program (GSWPP) is a joint project by the Farm Service Agency and the nonprofit National Rural Water Association (NRWA) designed to help prevent surface and ground water pollution through voluntary practices installed by producers at the local level. With the FY 2006 appropriations of $3.7 million, the NRWA is hiring a rural source water technician in each of the 36 participating States to work with FSA State and county directors as well as State conservation specialists to develop water protection plans within priority watersheds.

Legislative authority for the GSWPP will expire September 30, 2007. The budget requests no funding for this program.

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 2007 Budget requests $1.41 billion from appropriated sources including credit reform transfers, for a net increase of about $86 million over the FY 2006 level. The request reflects increases in pay-related costs to sustain essential program delivery and increases in information technology investments. The request would fund IT operational expenses, technical analysis and design documentation of the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) program, and development and enhancements necessary to support legacy IT systems and maintain current IT operations during the transition to Web-based systems. It would also shift to the S&E account certain costs previously included in the Common Computing Environment (CCE) account, such as the Universal Telecommunications Network and enterprise licensing. These increases are offset by decreases in both Federal and non-Federal county office staff years and operating expenses.

As I have already noted, FSA has taken aggressive action over the past 3 years to reduce discretionary administrative expenditures and live within available funding. In conjunction with this effort, the employee buyout/ early out program I mentioned earlier yielded a reduction of 143 Federal and 281 non-Federal staff-years for FY 2006. The FY 2007 request reflects a total of 5,253 Federal staff-years and 9,425 non-Federal staff-years, representing decreases of 65 and 24 staff-years, respectively, from the FY 2006 levels. Temporary non-Federal county staff-years will remain at the FY 2006 level of 650.

I would like to emphasize the importance of the support of FSA's modernization effort that is provided through the Department's CCE account. Funding made available to FSA under this account will provide needed telecommunications improvements and permit us to continue implementation of GIS, which is so crucial to rapid and accurate program delivery. If this source of funding were not available, the additional costs would have to be covered by FSA's S&E account.

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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