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HOUSE COMMITTEE ON
APPROPRIATIONS

Statement by James Miller
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United States Department of Agriculture
Before the House Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Madam Chairwoman and Members of the Committee, I am pleased to be with you today to present the 2011 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). Accompanying me are the Administrators of the three agencies that comprise our mission area: Jonathan W. Coppess, Administrator of the Farm Service Agency; William J. Murphy, Administrator of the Risk Management Agency; and John Brewer, Administrator of the Foreign Agricultural Service. Scott Steele, Director of the Department's Office of Budget and Program Analysis, is with us as well.

Statements by each of the Administrators providing details on the agencies' budget and program proposals for 2011 have already been submitted to the Committee. My statement will summarize those proposals, after which we will be pleased to respond to your questions.

Madam Chairwoman, the FFAS mission area carries out a diverse array of programs and delivers services that support a competitive agricultural system and provide the foundation for prosperity throughout rural America. We believe the 2011 President's budget provides the resources needed to meet our mission area objectives, including essential administrative expenses. At the same time, it also contributes to the Administration's objectives of improving the delivery of our services and restoring fiscal discipline to the Federal budget.

Farm Service Agency

The Farm Service Agency (FSA) is the lead agency for delivering farm assistance. It is the agency that the majority of farmers and ranchers interact with most frequently. FSA provides producers with access to farm programs such as direct and counter-cyclical payments, commodity marketing assistance loans, farm ownership and operating loans, disaster assistance, and certain conservation programs, such as the Conservation Reserve Program.

The 2011 budget request for FSA provides a fiscally responsible approach to funding essential program delivery expenses, including critical information technology (IT) operational expenses and long-term investments.

We know the Committee is aware of FSA's long-standing need to upgrade its aging technology and would like to thank you for providing $117 million through the Recovery Act and 2010 annual appropriations. This funding will enable us to continue our modernization efforts. We appreciate the support the Committee has provided, particularly in view of the challenges the Committee faces during these times of fiscal constraints.

FSA has been attempting to improve the quality of its service to its clientele in recent years with some success, although additional improvements are needed and many challenges remain. Since enactment of the 2008 Farm Bill, FSA has rapidly implemented newly authorized farm programs, including complex new programs, such as the Average Crop Revenue Election (ACRE) and Supplemental Revenue Assistance Payments (SURE) programs. Many of these activities were effectively carried out with very few additional resources.

However, the agency's progress in implementation and delivery of these complex new programs in a timely, secure, and customer friendly manner has become increasingly difficult to ensure without significant progress in modernizing our business processes and IT systems, as discussed with this Committee previously. Important steps have been taken as a result of recent appropriations, and continuation of these efforts is our highest priority for the 2011 budget request.

Information Technology Systems

The role of IT is crucial for FSA's capacity to continue to deliver adequate services to its farm clientele. After suffering from severe performance problems several years ago, the IT infrastructure supporting the delivery system has been stabilized and set up to transition to a 21st century IT environment, but this transition is far from complete and more funding is required. Therefore, the 2011 budget requests an increase of about $95 million for implementation costs of these IT system modernization efforts. This funding will build on the IT investments made in recent years and will go a long way toward achieving the program delivery goals of improved quality of service, operational efficiency, and greater accountability.

The short-term stabilization efforts used to correct the most urgent deficiencies in FSA's IT network infrastructure have been successful in averting crippling breakdowns of the sort experienced two or three years ago. However, it is still essential that FSA program delivery be transitioned to a modern, centralized web-based system in order to meet minimum expectations for reliable, timely, and accountable program delivery in the future. This is the principal goal behind the agency's Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) initiative.

FSA has established a Program Management Office (PMO) to manage the day-to-day operations and provide the capability to acquire, manage risk, and deploy the MIDAS system. The budget request includes $1 million to support 10 additional staff years for the PMO. The PMO is a critical component of our effort to ensure that funding provided by this Committee is used effectively and efficiently.

FSA, in coordination with the General Services Administration (GSA), recently completed the largest and most significant vendor contract for the completion of MIDAS. As this Committee might be aware, a bid protest was filed with the Government Accountability Office shortly after that contract was awarded. Due to the joint efforts of GSA and the PMO, that bid protest has been withdrawn, allowing FSA to move forward with the MIDAS acquisition.

Salaries and Expenses

The budget provides $1.7 billion for FSA salaries and expenses, including credit reform transfers, for a net increase of about $116 million over the 2010 enacted level. The request reflects increases in pay-related and non-pay-related costs to sustain essential program delivery. The majority of the increase consists of about $95 million to fund critical IT replacement and modernization projects essential to viable future operations.

The budget, which assumes the current level of program workload, provides support for approximately 5,100 Federal staff years and 9,425 non-Federal staff years, which are the same as the

2010 levels aside from 10 additional staff years for MIDAS. Temporary non-Federal staff years are maintained at 650.

Farm Loan Programs

FSA plays a critical role for our Nation's agricultural producers by providing a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct and guaranteed loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers.

The 2011 Budget proposes a total program level of about $4.7 billion, reflecting credit usage forecasts at the time the budget was developed. Of this total, over $1.5 billion is requested for direct loans and nearly $3.2 billion for guaranteed loans offered in cooperation with private lenders. While the total request is slightly below the amount available in 2010, it generally reflects actual usage in recent years.

For direct farm ownership loans, we are requesting a loan level of $475 million to extend credit to about 2,800 small and beginning farmers to purchase or improve a family farm. For direct farm operating loans, we are requesting a program level of $900 million to provide production loans to approximately 15,000 family farmers. Over the past several years, demand has been high for direct operating loans made to beginning farmers. Many beginning farmers are minimally capitalized and, as a result, they cannot obtain commercial credit to finance annual crop and livestock production expenses.

For guaranteed farm ownership loans, we are requesting a loan level of $1.5 billion to provide about 4,300 farmers the opportunity to acquire their own farm or to preserve an existing one. For guaranteed farm operating loans, we propose a loan level of approximately $1.6 billion to assist over 7,500 producers in financing their farming operations. The guaranteed loan programs enable private lenders to extend credit to farm customers who otherwise would not qualify for a commercial loan.

Risk Management Agency

The Federal crop insurance program represents the main risk-mitigation program available to our Nation's agricultural producers. It provides risk management tools that are compatible with international trade commitments, creates products and services that are actuarially sound and market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

In 2009, the crop insurance program provided about $90 billion in protection on over 265 million acres. Our current projection is that indemnity payments to producers on their 2009 crops will be about $4.7 billion on a premium volume of over $8.9 billion. Our current projection for 2011 shows the value of protection will remain relatively steady at about $84 billion. This projection is based on the Department's latest estimates of planted acreage and expected changes in market prices for the major agricultural crops.

The 2011 budget requests an appropriation of "such sums as are necessary" as mandatory spending for all costs associated with the program, except for Federal salaries and expenses. This level of funding will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase. For discretionary administrative expenses of the Risk Management Agency (RMA), $83 million in discretionary spending is proposed. The request includes additional funding for pay costs and maintenance of the RMA IT system. Staffing for RMA is projected to remain at the same level as 2010.

Standard Reinsurance Agreement

The 2011 budget includes a mandatory request that reflects estimated savings of $8 billion over 10 years through changes to the terms in the agreement RMA has with reinsured companies that sell and service crop insurance, the Standard Reinsurance Agreement (SRA). The savings estimate included in the budget reflects a placeholder for savings we hope to achieve in the negotiation process. RMA is in the process of negotiating a new SRA with the reinsured companies that will be effective for the 2011 reinsurance year. We expect to complete the process by June 30, 2010, before the July 1 start of the 2011 reinsurance year.

On February 23, 2010, RMA released a second draft of the proposed new agreement. This second draft reflects many of the comments and concerns raised by insurance companies, agents, and Members of Congress over the past several months.

The proposed new SRA includes six primary objectives that will (1) maintain producer access to critical risk management tools; (2) realign administrative and operating subsidies paid to insurance companies closer to actual delivery costs; (3) provide a reasonable rate of return to the insurance companies; (4) equalize reinsurance performance across States to more effectively reach under-served producers, commodities, and areas; (5) enhance program integrity; and (6) simplify provisions to make the SRA more understandable and transparent.

These objectives align with RMA's primary mission to help producers manage the significant risks associated with agriculture. By achieving these six objectives, the new SRA will ensure financial stability for the program and the producers it serves, while increasing the availability and effectiveness of the program for more producers and making the program more transparent. The new agreement will also provide insurance companies with greater flexibility for their operations and financial incentives to increase service to underserved producers and areas, while ensuring that taxpayers are well-served by the program.

Information Technology

The RMA IT modernization (ITM) project is in its third year, since funding was provided in the 2008 Farm Bill. To date, approximately $35 million of the $54 million 4-year project has been obligated under a two-phase approach.

Phase I includes all processes needed to implement rate and price development and filing of insurance offers, edit and validation of data submitted by approved insurance providers (AIP), and enhanced reporting capabilities. Phase I development will be completed around June 2010 and will support implementation of the Combination (COMBO) policy for the 2011 crop year.

Phase II will include accounting, exception processes, and the remainder of the corporate reporting system, and is scheduled for production in 2011. RMA has strengthened information security to protect producer and corporate information. Significant security enhancements implemented include data encryption for all RMA laptops, more secure remote access into RMA networks, additional policies and security controls, and working with AIPs to protect critical information throughout the insurance process.

Combination Policy (COMBO)

The Federal Crop Insurance Corporation (FCIC) published a Proposed Rule in the *Federal Register* in 2006 to amend the Common Crop Insurance Regulations, Basic Provisions, Small Grains Crop Insurance Provisions, Cotton Crop Insurance Provisions, Coarse Grains Crop Insurance Provisions, Malting Barley Crop Insurance Provisions, Rice Crop Insurance Provisions, and Canola and Rapeseed Crop Insurance Provisions to provide both revenue protection and yield protection. However, the regulatory process was halted because the aging IT infrastructure could not support the COMBO policy. With the imminent completion of Phase 1 of the ITM project, the COMBO regulation is currently under review and is expected to be published early in 2010 for implementation for the 2011 crop year. The amended provisions will replace the Crop Revenue Coverage, Income Protection, Indexed Income Protection, and the Revenue Assurance plans of insurance.

When implemented, producers will have a choice of revenue protection (protection against loss of revenue caused by low prices, low yields, or a combination of both) or yield protection (protection for production losses only) within one policy. This will reduce the amount of information producers must read to determine the best risk management tool for their operation and to improve the prevented planting and other provisions to meet the needs of insured producers better. This combined policy is expected to cover nearly $76 billion of the nearly $84 billion of FCIC's total liability and 94 percent (approximately one million policies) of all policies earning premiums.

Foreign Agricultural Service

Agricultural trade makes a critical contribution to the prosperity of local and regional economies across rural America through increased sales and higher commodity prices. USDA estimates that every $1 billion of agricultural exports generates $1.4 billion in economic activity throughout the American economy. Therefore, the Department, with the FFAS mission area in the forefront, has an important role to play in removing agricultural trade barriers, developing new markets in both the near and long term, and enhancing the competitive position of U.S. agriculture in the world marketplace.

The Foreign Agricultural Service (FAS) is the lead agency for the Department's international activities and is in the forefront of efforts to expand trade and foster global food security. FAS carries out its work through its network of nearly 100 overseas offices and its headquarters staff in Washington. With its overseas presence, FAS represents U.S. agricultural interests throughout the world.

The 2011 budget is designed to ensure that FAS has the resources needed to continue to represent and advocate on behalf of American agriculture on a global basis and to create new market opportunities overseas. The budget provides a program level of $265 million, an increase of $78 million above the 2010 enacted level. In particular, increased funding is provided to expand export promotion activities, maintain the agency's overseas presence at current levels, and improve information technology network support at its overseas offices.

The budget includes $53.5 million of discretionary funding for export expansion activities as part of the government-wide National Export Initiative. Of this, $10 million will support expansion in a variety of FAS export promotion activities, including exporter assistance, trade missions, in-country promotions, and trade enforcement efforts to remove non-tariff barriers. A portion will also be used to meet higher, non-discretionary operating expenses at the agency's overseas posts.

The initiative also includes $34.5 million to supplement funding for the Foreign Market Development (Cooperator) Program. With this increase, overall funding available to the program will double to $69 million in 2011. The additional funding will broaden the opportunity for program participation by traditional cooperators and for small- and medium-sized enterprises that seek to become exporters and will support new, innovative program activities, such as promoting broader international acceptance of the products of biotechnology.

In addition, the initiative proposes an increase of $9 million for the Technical Assistance for Specialty Crops (TASC) Program, which will double overall funding available for TASC in 2011 to $18 million. Increased funding for TASC reflects the growing importance of specialty crops for U.S. agricultural export growth and the contribution the program has made in resolving numerous trade barriers that have restricted trade.

For the Cochran and Borlaug Fellowship Programs, the budget includes increased funding of $1.5 million. These programs provide training and collaborative research opportunities in the United States to advance U.S. government food security and trade policy objectives.

The budget also provides an increase of $3.4 million for higher payments to the Department of State for administrative services provided at FAS overseas posts. In addition, an increase of $4 million is provided for FAS to contract with the Department of State for overseas IT network support and maintenance to take advantage of the secure information system that the State Department operates.

Agricultural Reconstruction and Stabilization

Funding of $14.6 million is requested for FAS to manage and support the Department's participation in reconstruction and stabilization activities, including Provincial Reconstruction Teams (PRTs) in Afghanistan and Iraq. Of this amount, $13 million is moved from Department Management where it was funded in this year's appropriations act. This reflects the fact that FAS has assumed full management of the operational and policy components of USDA's reconstruction and stabilization activities during the past year. Transferring the funding for these activities to FAS provides for more efficient operations and is consistent with how the Department is now managing them. The overall level of funding for these activities is increased by $1.6 million over the 2010 level to provide for an expansion of activities in Afghanistan and to meet higher operating costs.

As the Committee is aware, the Department has greatly expanded its activities in Afghanistan this past year and is committed to placing 64 agricultural advisors in Afghanistan, who will serve on the PRTs and similar teams throughout the rural areas, and serve as advisors to the Ministry of Agriculture, Irrigation, and Livestock in Kabul. Their work is essential to stabilizing strategic areas of the country, building government capacity, ensuring the successful management of assistance programs, and addressing food insecurity.

International Food Assistance

The United States plays a leading role in global efforts to alleviate hunger and malnutrition and enhance world food security through international food aid programs. USDA contributes to these efforts by carrying out a variety of food aid programs that support economic growth and development in developing countries.

For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget provides funding at the 2010 enacted level of $209.5 million. Last year, the Administration proposed a substantial increase in appropriated funding for the program in order to support additional school feeding and child nutrition programs and to bolster the Department's contribution to supporting economic development and food security in developing countries. We are pleased Congress endorsed the increase in the 2010 appropriations bill. This level of funding is expected to support assistance for an estimated 5 million women and children during 2011.

The budget provides funding of nearly $1.7 billion for Food for Peace Title II grant food assistance, which is unchanged from the 2010 enacted level. Last year's budget increased base funding for Food for Peace grants by 38 percent over the previous year in order to bolster resources available for emergency needs, enhance global food security, and restore U.S. leadership in global development efforts. The 2011 budget maintains funding at that level to further support those objectives.

Madam Chairwoman and Members of the Committee, this concludes my statement. The Administrators and I would be pleased to answer any questions you and other Members of the Committee may have.