AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2005

WEDNESDAY, APRIL 7, 2004

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 3:33 p.m., in room SD–192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett, Kohl, and Harkin.

DEPARTMENT OF AGRICULTURE

STATEMENTS OF:

KEITH COLLINS, CHIEF ECONOMIST

J.B. PENN, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES

MARK REY, UNDER SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT

GILBERT G. GONZALEZ, ACTING UNDER SECRETARY FOR RURAL DEVELOPMENT

JOSEPH J. JEN, UNDER SECRETARY FOR RESEARCH, EDUCATION AND ECONOMICS

OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. The Subcommittee will come to order.

Last week, we had a budget hearing with a number of Under Secretaries of the Department of Agriculture which was very informative, and this week, we are going to continue with the rest of the Under Secretaries as well as the Chief Economist. We welcome you all, thank you for your service, thank you for your willingness to work in a situation that sometimes is stimulating and exciting and rewarding and sometimes makes you the target of the slings and arrows of outrageous constituents or Congressmen, and we are trying not to do that here today.

Since this will be the last hearing you will appear at in this Administration in this capacity, I want to take the occasion to thank each of you for your willingness to serve your country in this way. We look forward to hearing your testimony. Senator Kohl is tied up in another hearing and will be joining us as quickly as he can but has indicated that he would be comfortable with our proceeding with the testimony without him and will be brought up to date on what we have to say.

So we will hear from the following witnesses in the following order: Keith Collins, who is the Chief Economist at USDA; J.B. Penn, who is the Under Secretary for Farm and Foreign Agricultural Services; Mark E. Rey, who is the Under Secretary for Natural Resources and Environment; Gilbert Gonzalez, who is acting as Under Secretary for Rural Development; and then Joseph Jen, who is the Under Secretary for Research, Education and Economics.

I remember our previous conversations in last year's hearing with some pleasure and look forward to what each of you has to say here today. So, Dr. Collins, we will begin with you, and welcome to the Subcommittee.

STATEMENT OF KEITH COLLINS

Dr. COLLINS. Thank you very much, Mr. Chairman, and thanks for the chance to start this hearing by providing a brief overview on the economic situation in agriculture, which I think will help set at least part of the context for the comments of our mission area leaders who will follow mine.

U.S. AGRICULTURAL ECONOMY

The U.S. agricultural economy is showing remarkable strength after several years of weakness. Last week, you may know that we released the index of prices received by farmers for the month of March, and that was the highest price ever received for farmers for any month since we started keeping records in 1910. And that price occurred despite generally good harvests in 2003 and disease-caused disruptions in livestock and poultry trade.

Consequently, as we look forward to this year, we expect that farm income will have another reasonably strong year. The improvement in agriculture is a result of some transitory factors on the supply side, such as last year's poor grain crops in Europe and in the former Soviet Union, but several demand factors, I think, will persist. First, we predict farm exports at $59 billion this year, and that nearly equals the all-time record high. And had it not been for the finding of BSE and the lost beef exports, total U.S. agricultural exports surely would have been or would be an all-time record by several billion dollars. The improving world economy, the weaker dollar and China's growing net imports are all factors.

The second factor is domestic demand, which is very strong. If you consider sales by grocery stores and restaurants for the month of February, the most recent data, they were up 6 percent year over year. And for some foods such as meat and poultry, dietary changes seem clearly to be affecting demand trends.

A third factor is the industrial uses of agricultural products are growing; in particular, ethanol production reached another record in January.

If you look at the supply side, USDA's Planting Intention Survey released last week gives some indication of how farmers might respond to this year's tight markets compared with last year. Producers said they plan to plant 8 percent more rice, 7 percent more cotton, 3 percent more soybeans but about the same level of corn. The wheat area, however, will be down because of poor fall weather and better prospects for these other crops.

With average weather, we could have record high corn and soybean crops this year, good cotton and rice crops, but wheat would be down over 10 percent from last year's record high yield. But even with large U.S. production in prospect, and even with a rebound in production overseas, world markets are likely to remain firm. World grain demand is expected to exceed production for the fifth consecutive year this year. So by the end of this summer, we expect the grain stocks, global grain stocks as a percent of use, will be the lowest since 1981 for rice, the lowest since 1972 for wheat, and the lowest ever recorded for coarse grains. And stocks are also low for cotton and soybeans as well.

Regarding animal agriculture, U.S. production of meat and poultry was down last year, and we think it will be flat this year. So if you combine that with stronger consumer demand, livestock prices remain above historical levels despite the discovery of BSE and the outbreaks of avian influenza in the United States. And we had stable milk production last year; we expect stable milk production this year, and with strong demand for dairy products, that has resulted in surging milk prices.

With these kinds of markets, farm cash receipts are expected to be a record high $215 billion this year; however, with higher spending on energy-based inputs this year as well as lower government payments and the reduction in cattle revenue due to the BSE finding, net cash farm income is going to decline from the record high 2003 level, but it would still equal the average of the last 2 years.

This reduction in earnings from farm sources will have a small effect on the majority of households that operate residential and intermediate-sized farms, because their incomes are mostly derived off the farm. The incomes of households that run commercial-sized operations will be somewhat lower in 2004, although their average incomes will remain well above the average of nonfarm households.

PREPARED STATEMENT

With another sound income year in prospect, farm land values will likely rise again, which would continue the improvement in the farm sector balance sheet that we saw in 2003. Finally, consumers will continue to have abundant and affordable food, although with the strong farm prices I mentioned, retail food prices are expected to be up 3 to 3.5 percent this year compared with 2.2 percent in 2003 as dairy products, poultry and fats and oils prices increase.

That completes my statement, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF KEITH COLLINS

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear at this hearing to discuss the current situation and outlook for U.S. agriculture. The agricultural economy continues to show improvement after several years of low prices. Farm prices for major crops have reached levels unseen in several years and livestock prices generally remain well above levels of 2 years ago, despite the sharp reduction in beef exports following the discovery of a cow in Washington with Bovine Spongiform Encephalopathy (BSE) in December of last year. While cash receipts are expected to register another strong gain in 2004, rising prices for energy-related inputs and higher feed costs along with sharply lower government payments will likely cause net cash farm income to decline from last year's record, although it would equal the average of the past 2 years. Despite a pull back in farm income, cash flow and balance sheet prospects suggest the farm economy will remain on a solid footing in 2004.

Outlook for United States and World Economies and the Implications for Agriculture

After several years of a weak and variable global economy that constrained the demand for U.S. agricultural products, the U.S. economy and the world economy had a very positive year in 2003. Both the U.S. economy and the world economy are poised to experience another sound and prosperous year ahead, which will bolster the demand of U.S. agricultural products domestically and abroad.

In 2003, we saw the U.S. economy grow 3.2 percent. Expansionary fiscal policy resulting from the budget deficit and the Jobs and Growth Act of 2001; the lowest interest rates since the 1950's leading to rising consumer confidence and spending; and, during the second half of the year, increasing business fixed investment all boosted growth. With these factors all in place again in 2004, combined with an expectation of even stronger business investment, a depreciating dollar, few signs of inflation and stronger foreign economic growth, macroeconomic forecasters foresee U.S. Gross Domestic Product (GDP) growth of 4.5 to 5 percent.

The improving domestic demand base may be seen in the demand for food, which also drives demand for animal feed. Monthly retail sales of grocery stores, food and beverage stores and food service establishments are usually higher than sales a year earlier. The U.S. economic slowdown in 2002 noticeably slowed sales. As the U.S. economic recovery took hold in 2003, sales moved up nicely and strong sales are again likely for 2004. Sales in February were 6 percent above a year earlier.

In addition to rising food demand, domestic industrial demand for farm products is also increasing. As an example, monthly ethanol production is setting new record highs almost every month. In 2004, spurred by phase-outs of Methyl Tertiary Butyl Ether (MTBE) in California, New York and Connecticut, U.S. ethanol production from corn should reach 3.25 billion gallons and account for over 1.1 billion bushels of corn use.

Foreign GDP is projected to grow about 3 percent this year, after averaging less than 2 percent annually over the past 3 years. Japan is finally growing, and Asia and Latin America are expected to propel developing country growth to the highest rate in 4 years. With the European economies lagging, foreign economic growth likely will not push over the 3 percent rate, which has often been a level associated with an upward surge in U.S. agricultural exports.

Although the dollar remains relatively strong, it has depreciated against the euro, Canadian dollar and the yen. On a weighted-average basis, against the currencies of our major markets, the dollar has fallen steadily since early 2002. A further drop is anticipated in 2004 reflecting the trade deficit and the continuation of low real interest rates in the United States.

U.S. agricultural exports are forecast to reach $59 billion in fiscal year 2004, up $2.5 billion from the previous year. This forecast is $0.5 billion below USDA's forecast published prior to the finding of a cow with BSE at the end of last year. The new export forecast reflects, in part, the assumption that the markets that are now closed to U.S. beef exports will remain closed in 2004. This is not a forecast of what foreign countries will do. It simply reflects our standard forecasting procedure to assume the policies of foreign countries remain in place until they are changed.

At $59 billion, U.S. farm exports would experience the 5th consecutive annual increase since hitting the cyclical low of $49 billion in fiscal year 1999, following the onset of the Asian currency crisis. A strengthening world economy, the declining value of the dollar, low global commodity stocks, and expanding U.S. crop acreage will all support export growth in 2004. During the first three months of fiscal year 2004, U.S. agricultural exports were up $3 billion over a year earlier. Also notable is the upward trend we are beginning to see in bulk exports, which, since 1980, have been experiencing a long, slow downward trend.

United States meat exports experienced explosive growth in the 1990s but have faced slower growth over the past few years due to animal diseases and policy-driven import limitations in some countries. The United States finding of BSE has resulted in the closing of over 80 percent of U.S. export markets for beef and related products, and U.S. poultry exports are expected to be flat in fiscal year 2004, as outbreaks of Avian Influenza in several States has resulted in a number of countries placing restrictions on poultry imports from the United States. However, this, stronger global incomes, and restrictions on poultry trade due to outbreaks of Avian Influenza abroad are expected to create additional export opportunities for pork.

Outlook for Major Crops

For major crops, the supply-demand balances are favorable for strong markets again in 2004, even with normal yields and a rebound in global production. With relatively low world and U.S. stocks going into the 2004/2005 marketing year, crop prices could move higher if adverse weather lowers production prospects over the coming months.

In 2003/2004, total use is generally exceeding total supplies of major crops, leading to higher prices and reduced world and United States carryover. Wheat is an exception, as a sharp increase in U.S. production is expected to lead to a slight increase in United States carryover. However, world wheat stocks are expected to decline from 166 million tons at the end of the 2002/2003 marketing year to 125 million tons at the end of the 2003/2004 marketing year. At the end of this marketing year, world stocks of coarse grains are forecast to be 44 million tons lower than 1 year ago, world stocks of oilseeds are forecast to fall from 43 million tons to 40 million tons and world cotton stocks are projected to decline from 36 to 32 million bales.

For wheat, plantings in 2003 increased by 1.2 million acres to 61.7 million acres. Reflecting the increase in acreage and a record yield, U.S. wheat production rose from 1.6 billion bushels in 2002 to 2.3 billion bushels in 2003. Total wheat supplies increased by 430 million bushels, as lower beginning stocks partially offset the increase in production. Despite the sharp increase in wheat production and total supplies, U.S. wheat carryover is forecast to increase by only 53 million bushels, as increases in domestic use and exports are expected to absorb nearly all of the increase in domestic supplies. U.S. wheat exports are forecast to increase by nearly 300 million bushels to 1.15 billion bushels in 2003/2004. In 2003/2004, U.S. wheat exports expanded to fill production shortfalls created by a 38-million-ton drop in foreign wheat production. For the current marketing year, the farm price of wheat is projected to average \$3.30–\$3.40 per bushel compared with last season's \$3.56 per bushel.

U.S. rice acreage was off 7 percent in 2003, as rice producers responded to two consecutive years of very weak prices and returns. The decline in acreage and reduced beginning stocks lowered total supplies from 265 million cwt in 2002/2003 to 241 million cwt in 2003/2004. Ending stocks at the end of the current market year are forecast at 23 million cwt, down from 27 million cwt at the end of the 2002/2003 marketing year. The farm price of rice is forecast to average \$7.45–\$7.75 per cwt this marketing year, compared with \$4.49 per cwt during the 2002/03.

In 2003, the corn crop was a record 10.1 billion bushels, causing total corn supplies to increase from 10.6 billion bushels in 2002/2003 to 11.2 billion bushels this season. Despite the increase in total supplies, carryover stocks are projected to decline from 1.1 billion bushels at the end of the 2002/2003 marketing year to 0.9 billion bushels at the end of the current marketing year. U.S. corn exports are forecast to increase to 2.0 billion bushels, up 0.4 billion bushels in 2002/2003, as reduced foreign supplies have increased export opportunities. Domestic use is also up this marketing year, reflecting increase feed and industrial use. This marketing year the farm price of corn is projected to average \$2.35–\$2.55 per bushel, compared with \$2.32 per bushel last season.

Hot, dry weather during pollination reduced soybean production to 2.4 billion bushels in 2003, and total soybean supplies fell from 3.0 billion bushels in 2002/2003 to 2.6 billion bushels in 2003/2004. The drop in soybean supplies has boosted U.S. farm prices and is lowering domestic use, exports and carryover stocks. U.S. carryover stocks are projected to fall to 125 million bushels, which would be the lowest carryover in 27 years. In recent weeks the Brazilian crop potential has been reduced, and that putting further demand pressure on the limited U.S. supplies, driving up recent cash prices to over \$10.00 per bushel, the highest in over 15 years. Reflecting the expected decline in carryover stocks, the farm price of soybeans is projected to increase from last season's average of \$5.53 per bushel to \$7.15–\$7.55 per bushel this marketing year.

In 2003, the United States produced 18.2 million bales of cotton, compared with 17.2 million bales in 2002. Lower supplies coupled with increased exports have lowered projected carryover and pushed prices higher this season. Increased exports to China are projected to boost U.S. exports of cotton to a record-high 13.8 million bales, up 1.9 million from last season's 11.9 million. Carryover stocks at the end of this season are projected to fall to 3.6 million bales, the lowest in 8 years. During the first 6 months of the current marketing year, cotton prices have averaged 62.8 cents per pound, compared with last season's average of 44.5 cents per pound.

As we look to the 2004-crop spring planting season, prices for corn, rice, soybeans and cotton will be the highest at planting time since 1998. Despite this, USDA's survey of spring planting intentions of producers that was taken in early March 2004, showed little prospective change in total acreage of principal crops. One reason is that fall seedings of winter wheat, combined with intended spring wheat planted area, indicate a 3.6-percent decline in total wheat planted area for the 2004 crop, compared with the 2003 crop. The survey indicated strong prices are expected to lead to record high soybean planted area of 75.4 million acres, up nearly 3 percent. Producers indicated little change in corn planted area, nearly a 7-percent increase in cotton area and an 8-percent increase in rice planted area. These acreages and trend yields would result in record high corn and soybean crops of 10.2 billion and 2.97 billion bushels, respectively, a cotton crop of 18.0 million bales, about the same as last year, and a rice crop of 218 million cwt, near last year's level. The wheat crop would be about 11 percent below 2003's level, which had a record-high yield.

These production levels could cause corn farm prices to rise again for the 2004/2005 crop as demand remains at or above production, soybean prices to decline somewhat under some stock rebuilding, and wheat prices to remain about the same as this season, as foreign production rebounds, assuming trend yields. While we should expect production rebounds in 2004/2005 from poor weather in Europe, the former Soviet Union (SU) and Brazil, there are several reasons to think global markets will remain robust. First, there is a very strong foundation under global grain demand. For the 2003/2004 crop years, global grain demand is expected to exceed global grain production for the 5th consecutive year.

Second, this gap means that by the end of the summer, global grain stocks as a percent of use will be at the lowest level since 1972 for wheat, 1981 for rice and the lowest on record for coarse grains. Stocks are also low compared with history for soybeans and cotton. With low stocks and the improving global economy, it is likely that even with a return to normal yields in the key producing countries, crop stocks will remain low and prices firm for most major commodities.

A third factor has been China's production and trade changes. After emphasizing self-sufficiency in the early 1990s and building large grain stocks, China has sharply reduced their grain surpluses. China's role as a U.S. competitor in grain markets declined in 2003 and could drop further in 2004. In addition, their growing oilseed crushing and textile export industries have resulted in soaring soybean and cotton imports. China is likely to continue to be a positive factor for U.S. agriculture in 2004/2005. USDA forecasts U.S. farm exports to China in fiscal year 2004 of $5.4 billion, imports from China of $1.4 billion, for a trade surplus of $4 billion.

United States producers will continue to face significant competition from a host of foreign producers. For example, Brazil has increased its soybean planted area by 25 million acres since the mid 1990s. They have also increased production of beef, broilers, corn, cotton and pork by 25 to 75 percent since the late 1990s. Summing up the soybean exports of Brazil and Argentina, the coarse grain exports of China and the former SU, and the wheat exports of India and the former SU provides an indication of the recent increase in competition facing U.S. crop producers. Exports from these countries grew from less than 10 million tons in 1994 to about 85 million in 2002—from 2 percent of world grain and soybean trade to 25 percent. This growth limited U.S. exports and market prices. However, in 2003, exports from these competitors has fallen back following lower production in the former SU, China and India, helping to boost U.S. exports and farm prices.

Horticultural markets have become an important contributor to farm income for all size producers. For 2003, cash receipts from fruits, vegetables and greenhouse and nursery crops are forecast to be $45.3 billion, up 2 percent from last year and 17 percent over 1998. In 2004, we look for larger crops of citrus and processing vegetables while prices for deciduous fruits are strong on tight world supplies. With average weather, farm receipts for fresh vegetables are expected to decline as prices retreat from the strong levels of the past couple of years. Exports for fiscal year 2004 are forecast at $12.8 billion, up substantially from last year's $11.9 billion.

Outlook for Livestock, Poultry and Dairy

Reduced supplies of red meat and nearly stable production of poultry and milk combined with increasing demand led to higher livestock and milk prices in 2003. The livestock sector was poised for another boom year in 2004, as red meat production continued its cyclical decline and milk production continued to lag. While the discovery in Washington of BSE in late December has severely reduced beef exports and outbreaks of Avian Influenza have lowered poultry exports, livestock prices continue to remain well above 2 year ago levels and market fundamentals generally remain quite strong. Higher feed costs could also lower returns in 2004, especially if feed grain and soybean yields fall below trend.

Beef supplies became progressively tighter throughout 2003 and markets were forced to adjust to these tight supplies by rationing product. Production for the year was down about 3 percent, with fourth-quarter production down 12 percent. Beef prices rose through mid-October and sharply higher prices encouraged cattle feeders to market cattle ahead of schedule. Fewer of these lighter weight animals graded Choice and Prime. Monthly fed cattle prices peaked in October at $105.50 per cwt, up nearly 62 percent from a year earlier. Over the entire year, the price of choice steers averaged a record $84.69 per cwt in 2003, compared with $67.04 per cwt one year earlier.

Strong demand for meat protein by consumers; the improving global economy; the improving restaurant and hotel business, which uses higher-valued meat cuts such as Choice beef; and Japan's consumer recovery after its BSE issues, combined with a steadily declining U.S. cattle inventory, all pointed toward another year of record-high cattle prices in 2004. With the finding of BSE and subsequent loss in beef exports, which are currently projected to decline by 83 percent in 2004, more beef will have to be consumed in the U.S. market, and that means a decline in prices must occur to absorb the higher domestic supplies. USDA has reduced its 2004 fed cattle price projection from $87.50 per cwt before BSE to its current forecast of $76.50 per cwt, down 13 percent. Despite the projected drop, fed cattle prices would still be the second highest on record.

The fed cattle price forecast assumes that the countries that have bans on the importation of U.S. beef will continue to do so throughout 2004. This is an assumption for forecast purposes and reflects the current policies of importing countries, which could change over the coming months. Mexico recently announced they are lifting the ban on boneless U.S. beef from animals under 30 months and, over the next several months, additional restrictions could be lifted allowing for increased exports that would lend further support to cattle prices in 2004.

In 2003, pork production increased 1.6 percent to a record 20 billion pounds. Hog imports from Canada climbed to more than 7.4 million head last year, up 30 percent from a year earlier. Two-thirds of these imported hogs were feeder pigs destined for finishing operations in the Midwest. Despite the increase in pork supplies, the price of slaughter hogs averaged $39.45 per cwt in 2003, up from $34.92 in 2002, as tight supplies of beef boosted the demand for pork.

Pork production is expected to reach a record 20.3 billion pounds in 2004, an increase of 1.3 percent. During the first quarter, hog prices averaged about 20 percent above a year ago, while pork production ran 3 percent ahead of last year. Consumer interest in high protein diets, relatively high prices for substitute animal proteins, and strong Asian demand for U.S. pork products are the major factors contributing to the increase in hog prices. For the entire year, the price of slaughter hogs is forecast to average about $1 per cwt higher than last year.

In 2004, U.S. pork exports are forecast to increase 6 percent to 1.8 billion pounds, which follows nearly a 7 percent increase in 2003. Major factors supporting the increase in pork exports are the lower valued U.S. dollar, global economic growth, and disease-related foreign market closures to beef and poultry.

In 2003, broiler production increased 1.6 percent to 32.7 billion pounds. The production increase reflected higher average weight at slaughter as total broiler slaughter declined slightly. Relatively small growth in broiler production, higher prices for competing meat products and an improving domestic economy pushed broiler prices well above year-earlier levels. In 2003, whole-bird broiler prices averaged 62 cents per pound, up from 55.6 cents per pound in 2002.

Strong United States demand for chicken is expected to lead to record high broiler prices in 2004, despite a 3.6-percent increase in production and little growth in exports. In 2003, broiler exports grew 2.6 percent and were expected to grow 7 percent in 2004 prior to the outbreaks of Avian Influenza in Delaware, New Jersey, Pennsylvania, Texas and Maryland. These outbreaks led several countries to restrict the importation of all U.S. poultry, causing USDA to lower its poultry export forecast. It is likely that the countries currently banning all U.S. poultry shipments will eventually allow exports of U.S. poultry from selected States, provided there are no further outbreaks. The timetable for this regionalization process will vary from country to country. For example, Mexico recently announced that it would allow broiler shipments from selected States.

In 2003, milk production increased by just 0.1 percent, as cow numbers fell by 0.6 percent and milk production per cow rose by 0.8 percent. Factors contributing to the sluggish growth in milk production per cow included low milk prices relative to concentrate feed prices, tight supplies of good quality hay, an unusually large share of first-calf heifers, and somewhat conservative use of recombinant bovine somatotropin (rBST). Low milk prices, especially during the first half of 2003, probably made producers leery of using rBST on below-average producing cows.

Milk cow numbers declined rapidly during the last three quarters of 2003. During the first quarter, the number of milk cows averaged 0.3 percent above a year earlier but averaged 1.4 percent below a year earlier during the final three quarters of 2003. Tightening milk supplies caused milk prices to average $13.80 per cwt during the second half of 2003, compared with $11.22 per cwt during the first half of 2003. For the entire year, the all-milk price averaged $12.51 per cwt in 2003, up from $12.19 per cwt in 2002.

The Commodity Credit Corporation (CCC) continues to purchase large quantities of nonfat dry milk under the price support program, and during most of 2003, made payments to producers under the Milk Income Loss Contract (MILC) program. In 2003, the CCC purchased 670 million pounds of nonfat dry milk, down slightly from the 680 million pounds purchased last year. In 2003, the payment rate under the MILC program averaged $1.09 per cwt.

Milk production is expected to be about unchanged in 2004, as cow numbers continue to decline and the expansion in milk production per cow continues to be below trend. Monsanto has announced that it will accept no new rBST customers in 2004 and that established users will be allowed only half their normal purchases. Stagnant production combined with stronger demand for dairy products is expected to lead to much higher milk prices in 2004. The all-milk price is projected to average $14.30 per cwt in 2004, which would be the fifth highest on record. Still, USDA will probably again purchase in excess of 500 million pounds of nonfat dry milk, as that market continues in surplus.

Outlook for Farm Income

For major commodities, the current USDA published forecasts for the 2003/2004 marketing year for crops and the 2004 calendar year for livestock are all well above the previous 5-year average farm prices. The only commodity showing a decline is hogs.

With trend production and a continuing close balance between supply and demand in most crop markets, we forecast the value of crop production will be record high in 2004. Also, despite the adverse effects of BSE and Avian Influenza on U.S. beef and poultry exports, the value of livestock and poultry production is expected to exceed $100 billion for only the third time in history. The drop in cattle and calf receipts, somewhat higher production expenses and lower government payments will reduce farm income from 2003's record high of $63 billion in 2002. Net cash farm income is forecast at about $56 billion, down 11 percent from 2003. However, this income level would be the same as the average of the past two years.

An indicator of the underlying fundamental strength of commodity markets is farm income excluding government payments. In 2000, net cash farm income excluding government payments hit a cyclical low of $34 billion. This year, net cash farm income excluding government payments, is forecast at over $45 billion, up 35 percent since 2000. As markets have strengthened, payments based on prices have declined, so that more of net cash income is now coming from market sales. Government payments in 2004 are forecast at $10.3 billion, down from more than $17 billion in 2003, and the lowest level since 1997.

Farm production expenses are expected to register another gain in 2004. In 2003, total farm production expenses increased $11 billion to $204 billion. Higher prices for feed and feeder livestock accounted for about one-third and higher prices for energy-related inputs comprised about 40 percent of the increase in production expenses in 2003. In 2004, total production expenses are forecast to reach a record $207.5 billion, as prices of a variety of farm inputs are projected to register gains.

The reduction in earnings from farm sources will have a small effect across the majority of households that operate residential and intermediate size farms, as their incomes are derived mostly off the farm. The incomes of households that run commercial-size operations will be lower in 2004, yet their average incomes will likely remain well above the average incomes of other farm households and all U.S. households.

With another sound income year in prospect, farmland values may rise 3.5 percent in 2004, compared with 4 percent annual gains in the 1990s and 5 percent in recent years. This increase would continue the improvement in the farm sector balance sheet that we saw in 2003. While this is a positive economic picture for U.S. production agriculture in 2004, risks to the outlook include potential consequences of continued production growth in Brazil and other emerging competitors, tight oil supplies and high prices for energy-related inputs, the closure of export markets due to animal diseases and, as always, the weather here and abroad.

That completes my statement, and I will be happy to respond to any questions.

Farm Economic Indicators

Commodity Prices	Unit	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04F
Wheat	$/bu	2.65	2.48	2.62	2.78	3.56	3.35
Corn	$/bu	1.94	1.82	1.85	1.97	2.32	2.45
Soybeans	$/bu	4.93	4.63	4.54	4.38	5.53	7.35
Rice	$/cwt	8.89	5.93	5.61	4.25	4.49	7.60
Cotton	cents/lb	60.20	45.00	49.8	29.8	44.5	62.8 1/
		1999	2000	2001	2002	2003	2004F
Hogs	$/cwt	34.00	44.70	45.81	34.92	38.45	39.88
Steers	$/cwt	65.56	69.65	72.71	67.04	84.69	76.65
Broilers	cents/lb	58.10	56.20	59.10	55.60	62.00	70.60
Milk	$/cwt	14.38	12.40	14.97	12.11	12.51	14.30
Gasoline 2/	$/gallon	1.18	1.53	1.47	1.39	1.60	1.70
Diesel 2/	$/gallon	1.12	1.49	1.40	1.32	1.51	1.53
Natural gas (wlhd) 2/	$/K cu. ft.	2.19	3.70	4.02	2.95	4.98	5.04
Electricity 2/	$/kwh	8.16	8.24	8.48	8.62	8.45	8.68
Ag. Trade (Bil. $)	FY98	FY99	FY00	FY01	FY02	FY03	FY04F
Total exports	53.6	49.1	50.7	52.7	53.3	56.2	59.0
Asia	19.7	18.5	19.7	20.1	19.4	21.6	22.1
Canada	7.0	7.0	7.5	8.0	8.6	9.1	9.9
Mexico	6.0	5.7	6.3	7.3	7.1	7.7	7.7
Total imports	36.8	37.3	38.9	39.0	41.0	45.7	49.5
Farm Income (Bil. $)	1998	1999	2000	2001	2002	2003	2004F
Cash receipts	196.8	187.6	192.0	199.8	192.9	212.4	215.0
Gov't payments	12.4	21.5	22.9	20.7	11.0	17.4	10.3
Gross cash income	222.5	224.0	228.6	235.3	218.4	244.9	240.9
Cash expenses	165.5	166.6	172.1	176.1	170.2	181.9	185.0
Net cash income	57.0	57.5	56.5	59.2	44.1	63.0	55.9

F=forecast.
1/ August through March average.
2/ Source: Energy Information Administration, Short Term Energy Outlook, March 9, 2004.

Senator BENNETT. Thank you very much. Dr. Penn.

STATEMENT OF J.B. PENN

Dr. PENN. Thank you, Mr. Chairman.

It is a pleasure to be with you again this year and to present the budget for the Farm and Foreign Agricultural Services mission area of the Department. If you will recall, this mission area is comprised of the Farm Service Agency, the Risk Management Agency, and the Foreign Agricultural Service.

I understand that you have already had an opportunity to review my prepared statement, so I will be very brief in my opening remarks.

Senator BENNETT. All of the prepared statements will be printed in the record.

Dr. PENN. Thank you.

Let me begin by mentioning the role of the Farm and Foreign Ag Services mission area within the entire Department. Our agencies provide a broad array of services that are the foundation for USDA's efforts to ensure the continued economic health and vitality of American agriculture. During the past year, the FFAS agencies continued to be heavily involved in these activities. We continued implementation of the far-reaching and complex 2002 Farm Bill and the supplemental emergency disaster assistance that was included in the 2003 Omnibus Appropriations Act.

We maintained our strong commitment to keeping the Federal Crop Insurance Program a vital component of the overall safety net for our Nation's farmers and ranchers. The Risk Management Agency is currently renegotiating the Standard Reinsurance Agreement for delivering the risk management products through private companies. At the same time, we have actively supported the very ambitious trade agenda that will reduce trade barriers and open new markets overseas, and we have expanded our efforts to keep existing markets open.

For the past three and a half months, we have been working very hard to reopen the markets that were closed due to the BSE and avian influenza incidents. The budget proposals that we are discussing today fully support continuation of these activities.

FARM SERVICE AGENCY

I would first turn to the Farm Service Agency. This is our key agency for delivering farm assistance. This agency is located in about 2,400 offices throughout the country, and it is the one that farmers and ranchers deal with most frequently. The budget that we are proposing places a priority on maintaining FSA's ability to provide efficient, responsive services to our producers. It provides $1.3 billion for FSA salaries and expenses, which will support about 6,000 Federal staff years and approximately 10,300 county non-Federal staff years. The budget also provides an additional 100 Federal staff years to improve service to farm credit borrowers in our service centers.

Implementing new technology is absolutely critical to our continued efficiency gains and to providing increasingly better services in the future. This includes new automation tools and the geospatial information system, GIS. The budget for the Office of the Chief Information Officer includes an $18 million increase that will provide for essential investments in the capability of FSA and the other service center agencies to improve services.

RISK MANAGEMENT AGENCY

Turning now to the Risk Management Agency, the Federal Crop Insurance Program plays a very key role in helping producers manage their risk. The 2005 budget requests an appropriation of such sums as may be necessary for the mandatory costs of the program, and this will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase.

The budget provides $92 million for RMA salaries and expenses. That is an increase of $21 million over 2004, and this net increase includes additional funding for information technology, increased staff years to improve monitoring of the insurance companies, and pay costs. About $16 million of the $21 million increase is for new information technology for RMA. The core information technology systems that RMA now uses are over 15 years old, and that is very ancient by IT standards. Over that time, the size and scope of the crop insurance program has increased dramatically, dramatically placing incredible strain on this aging system. So about $7 million of this increase will provide for the development of a new IT system, and $9 million will be for IT infrastructure improvements.

FOREIGN AGRICULTURAL SERVICE

And finally, Mr. Chairman, turning to the Foreign Agricultural Service and our international activities, the importance of trade for American agriculture cannot be overstated, as Dr. Collins indicated in his remarks. If we are to ensure continued income growth for our producers, we must expand market opportunities overseas.

Now, our budget proposals provide a program level of $148 million for FAS activities in 2005. That is an increase of $12 million over 2004. These increases include funding to meet higher overseas operating costs and improved telecommunications systems at FAS overseas offices. And as we have noted before, FAS carries out its activities through a network of 80 overseas offices and the headquarters here in Washington.

Recent significant declines in the value of the dollar coupled with overseas inflation and rising wage rates have led to sharply higher costs that must be accommodated if FAS is to maintain its overseas presence. That presence is vital for FAS to represent the interests of American agriculture on a global basis and implement the Department's trade promotion programs effectively.

Funding is also included for an FAS global computing environment initiative to modernize the agency's information technology systems. There is an urgent need for this additional funding. Our current systems are outdated; they have proven to be outdated, and they are inhibiting the ability of the agency to communicate effectively between Washington and the foreign posts.

Also, this ancient system does not allow participation in the new e-government initiatives with other U.S. trade agencies that are designed to provide more efficient services to the public and help bolster our trade expansion efforts. So this proposed initiative would allow FAS to modernize its IT systems and improve its services to agricultural producers, exporters, and the various market development organizations.

And I want to mention in closing, Mr. Chairman, that the United States continues to be a leader in global food aid efforts. We provide over one half of all of the food assistance that is provided in the world. That commitment is demonstrated by the fact that Public Law 480 program, the Food for Peace program, will observe its 50th anniversary in July of this year.

Now, our 2005 budget proposal supports a program level of over $1.5 billion for U.S. foreign food assistance activities. This includes $1.3 billion for Public Law 480 credit and donation programs. The newest of the food assistance activities is the McGovern-Dole International Food for Education and Child Nutrition Program. This program was successfully implemented in 2003. We had projects in 21 countries that fed 2.3 million women and children. The budget provides for a request of $75 million for the program, which is an increase of 50 percent over 2004.

PREPARED STATEMENTS

So in closing, Mr. Chairman, I would note that we think that these are very modest and very positive budget proposals that ensure we can continue to provide service to our producers. We appreciate the support of this Committee for our mission area in the past, and we look forward to working with you in the future on behalf of the agricultural sector.

Thank you, sir.

[The statements follow:]

PREPARED STATEMENT OF J.B. PENN

Mr. Chairman and Members of the Committee, I am pleased to appear before you this afternoon to present the 2005 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). The FFAS mission area is comprised of three agencies: the Farm Service Agency; Risk Management Agency; and Foreign Agricultural Service.

Statements by the Administrators of the FFAS agencies, which provide details on their budget and program proposals for 2005, have already been submitted to the Committee. My statement will summarize those proposals, after which I will be pleased to respond to any questions you may have.

Mr. Chairman, one of the five primary goals in the Department's strategic plan is to "enhance economic opportunities for American agricultural producers." The programs and services of the FFAS mission area are at the heart of the Department's efforts to achieve that goal. Through the wide range of services provided by our agencies—price and income supports, farm credit assistance, risk management tools, conservation assistance, and trade expansion and export promotion programs—we provide the foundation for ensuring the future economic health and vitality of American agriculture.

This past year, the FFAS agencies and programs were challenged by a number of significant developments to which they responded effectively. They continued to implement the far reaching and complex Farm Security and Rural Investment Act of 2002 (2002 Farm Bill), and they implemented the supplemental emergency disaster assistance provisions of the 2003 omnibus appropriations act. At the same time, the workload associated with our trade negotiation and enforcement responsibilities has continued to grow, and 2004 will be a critical year for negotiations aimed at further reducing trade barriers and opening new markets overseas, as well as reestablishing export markets following the recent incidents of bovine spongiform encephalopathy (BSE) and avian influenza.

The 2005 budget proposals we are discussing today fully support continuation of these activities and ensure our continued efforts on behalf of America's agricultural producers. In particular, the budget supports the operations of the domestic commodity and income support, conservation, trade, and related programs provided by the Farm Bill. It fully funds our risk management and crop insurance activities. It supports the Administration's export expansion goals by providing a program level of over $6 billion for the Department's international activities and programs. Also, it provides for the continued delivery of a large and complex set of farm and related assistance programs, while improving management and the delivery of those programs.

Farm Service Agency

The Farm Service Agency (FSA) is our key agency for delivering farm assistance. It is the agency that the majority of farmers and ranchers interact with most frequently. Producers rely on FSA to access farm programs such as direct and countercyclical payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and certain conservation programs such as the Conservation Reserve Program (CRP). Because FSA is the primary delivery agency for most of the major farm assistance programs, the budget places a priority on maintaining and enhancing FSA's ability to provide efficient, responsive services to our producers.

Farm Program Delivery

The 2002 Farm Bill required the FSA to undertake a massive task of implementing a complex set of new farm programs within a short time period. FSA has successfully put these programs in place in less than 2 years since the Bill was enacted. Nearly two million producers were signed up quickly under the new direct and countercyclical payments program. Several billion dollars of direct and countercyclical payments have been paid out; a new Milk Income Loss Contract program was implemented and over $1.8 billion has been paid so far to eligible producers; and the peanut program has been radically transformed and $1.2 billion of peanut quota buyout payments have been made. At the same time as these and other new programs were being implemented, FSA successfully programmed over $3 billion in disaster assistance required by the Agricultural Assistance Act of 2003. These programs and improving markets combined to provide the Nation's farmers with a record level of net cash income in 2003.

The massive workload associated with implementing these programs over the past 2 years is now moderating. As a consequence, FSA has begun to reduce the number of temporary, non-Federal county office staff years from the roughly 3,000 staff years in 2003, to about 1,000 staff years provided for in the 2005 budget. The proposed 2005 level for FSA salaries and expenses of $1.3 billion will support about 6,000 Federal staff years and nearly 10,300 county non-Federal staff years, including the 1,000 temporary staff years. Permanent non-Federal staffing will remain near the levels of 2003 and 2004 to accommodate the essential ongoing workload of the agency. The budget also will provide an additional 100 Federal staff years to improve service to farm credit borrowers in our Service Centers.

High priority is being placed on enhancing services to FSA's clientele by improving agency operations and expanding diversity of the customer base and staff. Improvements in operations based on new automation tools and Geospatial Information Systems (GIS) are coming on line and promise increasingly better services in the future. The budget for the Office of the Chief Information Office includes an $18 million increase for Service Center Modernization that will provide for essential investments in the capability for FSA and the other Service Center agencies to improve services to producers.

FSA has already utilized newly modernized systems for a recent sign-up for the CRP to reduce costs and improve timeliness. Work is underway to continue modernization improvements in other program areas, including farm loan servicing.

Conservation

The 2002 Farm Bill provided for significant growth in the Department's conservation programs. The CRP, which is funded by the Commodity Credit Corporation (CCC) and administered by FSA, was among the programs that expanded. A general sign-up in 2003 added nearly 2 million acres to the CRP. Also, 430,000 acres were added under continuous and Farmable Wetlands Program (FWP) sign-ups.

The 2005 budget assumes a general sign-up in 2004 of about 800,000 acres, and none in 2005. In addition, about 450,000 acres are projected to be enrolled under continuous sign-up and the Conservation Reserve Enhancement Program (CREP) in each of 2004 and 2005. The FWP is estimated to be expanded by about 50,000 acres in each of 2004 and 2005. In total, CRP is projected to increase gradually from 34.1 million acres at the end of 2003 to 39.2 million acres by 2008.

Commodity Credit Corporation

Domestic farm commodity price and income support programs are financed through the CCC, a Government corporation for which FSA provides operating personnel. The CCC also provides funding for conservation programs including the CRP and certain programs administered by the Natural Resources Conservation Service. In addition, CCC funds many of the export programs administered by the Foreign Agricultural Service.

CCC net expenditures were $17.4 billion in 2003. This level is expected to decline to an estimated $14.8 billion in 2004, and then increase slightly to $15.0 billion in 2005. However, these estimates are sensitive to changing supply and demand conditions for the supported farm commodities and may change as we move forward.

Annual appropriations acts authorize CCC to replenish its borrowing authority as needed from the Treasury up to the amount of realized losses at the end of this preceding year.

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 loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers. For 2005, 70 percent of direct farm ownership loans are reserved for beginning farmers, and 20 percent are reserved for socially disadvantaged borrowers, who may also be beginning farmers.

The 2005 budget includes funding for about $937 million in direct loans and $2.9 billion in guarantees. In recent years, the Department has used its authority to shift funding from guaranteed operating loans to meet excess demand in the direct loan programs. The levels requested for 2005 reflect those shifts and are expected to reflect actual program demand more accurately. The overall increase in loan levels is reflective of generally stable to lower subsidy rates for the farm loan programs, which make those programs less expensive to operate. We believe the proposed loan levels will be sufficient to meet the demand in 2005.

The 2005 budget maintains funding of $2 million for the Indian Land Acquisition program. For the Boll Weevil Eradication loan program, the budget requests $60 million, a reduction of $40 million from 2004. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to provide full funding for those eradication programs operating in 2005. For emergency disaster loans, the budget requests $25 million. No additional funding was requested for emergency loans in 2004 due to carryover funding from 2003. About $191 million is currently available for use in 2004, and a portion of that is likely to carry over into 2005. The combined request and anticipated carryover are expected to provide sufficient credit in 2005 to producers whose farming operations have been damaged by natural disasters.

RISK MANAGEMENT AGENCY

The Federal crop insurance program represents one of the strongest safety net programs available to our Nation's agricultural producers. It reflects the principles contained in the Department's Food and Agricultural Policy report of 2001 by providing risk management tools that are compatible with international trade commitments, creates products and services that are market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

In 2003, the crop insurance program provided about $41 billion in protection on over 218 million acres, which is about one million acres more than were insured in 2002. Our current projection is that indemnity payments to producers on their 2003 crops will be about $3.3 billion which is about $800 million less than in 2002.

The crop insurance program has seen a significant shift in business over the past several years—producers have chosen to buy up to higher levels of coverage as a result of increased premium subsidies provided in the Agricultural Risk Protection Act of 2000 (ARPA). The number of policies, acres, liability, and premium all increased more than 40 percent for coverage levels 70 percent and higher.

Our current projection for 2005 shows a modest decrease in participation. This projection is based on USDA's latest estimates of planted acreage and expected market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2003.

The 2005 budget requests an appropriation of "such sums as may be 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 salaries and expenses of the Risk Management Agency (RMA), $92 million in discretionary spending is proposed, an increase of $21 million above the 2004 level of $71 million. This net increase includes additional funding for information technology (IT), increased staff years to improve monitoring of the insurance companies, and pay costs.

Nearly every RMA function or activity is in some part dependent on IT. All of their databases, internal controls, payments to producers and companies are tied to IT. All of RMA's rates, prices, products, training and financial activity also depend on this technology.

Because RMA core IT systems are 15 years old, they no longer meet the minimum requirements mandated by the Department for security, architecture, and e-Government initiatives. In addition, ARPA funds that were earmarked for data mining and other compliance activities will be depleted at the end of this fiscal year, and there are no alternative funding sources available.

ARPA mandated and funded a substantial increase in the number and reach of risk management tools for America's producers and the RMA is meeting the challenge. Approximately 80 new risk management tools are in various stages of development and deployment. However, RMA's ability to maintain the integrity and effectiveness of the critical systems that support the growing portfolio of risk management tools that serve America's agricultural producers is being threatened due to an aging IT system. Unless the situation is corrected, RMA will be required to make some difficult resource choices that will unavoidably and negatively affect its ability to support safe and effective development, deployment and regulation of these important risk management tools.

Several major changes have also occurred over that time in the way producers protect their operations from losses. In 1994, there were no plans of insurance which offered protection against changes in market prices. Today, over 50 percent of the covered acreage has revenue protection, and nearly 62 percent of the premium collected is for revenue based protection. In addition, ARPA authorized the development of insurance products to protect livestock. Because livestock production occurs year-round, these products must be priced and sold in a different manner than traditional crop insurance. The advent of new types of insurance, not contemplated when the IT system was designed, has placed tremendous strain on the aging system.

ARPA also instituted new data reconciliation, data mining and other anti-fraud, waste and abuse activities that require the data to be used in a variety of new ways. The current IT system was not designed to handle these types of data operations. Consequently, the data must be stored in multiple databases which increases data storage costs and processing times and increases the risk of data errors.

The development of the new IT system will result in some additional up-front costs to the Government. Until the new system is fully operational, we will be required to finance both the developmental costs as well as the increasingly expensive maintenance costs of the legacy system. However, once the new system is operational, the legacy system will be eliminated and a substantial reduction in maintenance costs is projected.

Finally, I would note that this budget for the RMA includes a request for 30 additional staff years. The additional staff will provide needed support in employing advanced technology-based methods to detect and prosecute fraud, waste and abuse; following up on referrals from FSA, OIG and the public; making recommendations for formal fraud investigations to OIG; and supporting OIG and U.S. Attorneys' offices on fraud cases. They also will address outstanding OIG and GAO recommendations to improve oversight and internal controls over insurance providers; monitor and manage contractual agreements and partnerships with the public and private business sectors; and support the review and evaluation by the FCIC Board of Directors of the increasing number of new private product submissions received each year. All of these activities result in savings to the program far in excess of their cost through enhanced program oversight and avoidance, detection and remediation of program fraud, waste and abuse.

FOREIGN AGRICULTURAL SERVICE

Trade is critically important for American agriculture, and the Department's work to expand overseas markets and promote trade is one the primary means we have to enhance economic opportunities for our farmers and ranchers. With gains in productive capacity continuing to outpace growth in demand here at home, the economic growth and future prosperity of America's farmers and ranchers will depend heavily upon our continued success in reducing trade barriers and expanding exports.

The Department's efforts to expand trade are carried out on multiple fronts. At the center of these activities is the negotiation of trade agreements that will reduce barriers and improve access to overseas markets. We continue our efforts to reach a new agreement through the World Trade Organization (WTO) that will provide for further, significant liberalization of global agricultural trade. Although the

Cancun Ministerial was a missed opportunity, the benefits of a successful negotiation for all trading partners remain clear and, on that basis, we continue our efforts to advance the negotiating process. Negotiations on agriculture resumed last month, and we are hopeful that a Ministerial meeting to set the stage for a conclusion to the negotiations can be held by the end of this year. Our objectives for the negotiations remain the elimination of export subsidies, improvement in market access through substantial reductions in tariffs, and reduction in trade-distorting domestic support.

Regional and bilateral trade agreements also provide an important avenue for opening new markets, and the Department is an important participant in the ambitious agenda that has been established for negotiating such agreements. Recently, the United States concluded successful negotiations for a Central American Free Trade Area that will create new opportunities in this nearby and growing market of over 35 million consumers. Negotiations also have been concluded recently with Australia and Morocco. Other negotiations currently underway will establish the Free Trade Area of the Americas and an agreement with the Southern African Customs Union. Negotiations expected to begin later this year will involve the Andean countries, as well as bilateral agreements with Bahrain, Panama, and Thailand.

While these important efforts to negotiate market-opening agreements move forward, we also are increasing our activities to monitor compliance with existing agreements and ensure that U.S. trade rights are protected. During the past year, we have worked to solve a significant number of trade problems, including China's implementation of its WTO accession commitments on tariff-rate quota administration and export subsidy obligations, and Mexico's implementation of the provisions of the North American Free Trade Agreement.

At the same time, we are addressing other technical barriers to trade that arise because the adoption of non-science based standards and resistance to the adoption of new technologies, such as biotechnology. In this regard, we were encouraged by China's announcement in February that it had completed its regulatory review and issued permanent safety certificates for Roundup Ready soybeans, as well as for two corn and two cotton products. This is extremely positive news as China is now the leading foreign customer for U.S. soybeans and cotton.

At present, we are confronted with the challenge of reopening foreign markets that have been closed due to the discovery of the one case of BSE and the recent outbreaks of avian influenza in the United States. We understand the critical importance of reopening these markets as soon as possible, and we have committed, and will continue to commit, the resources and energy necessary to resolve these situations and resume normal trade. With that as our goal, we were very pleased with last month's announcement by Mexico of the reopening of their border to U.S. beef products.

FAS Salaries and Expenses

The Foreign Agricultural Service (FAS) is the lead agency for the Department's international activities and is at the forefront of our efforts to expand and preserve overseas markets. Through its network of 80 overseas offices and its headquarters staff here in Washington, FAS carries out a wide variety of activities that contribute to the goal of expanding overseas market opportunities.

Our budget proposals provide a program level of $148 million for FAS activities in 2005. This is an increase above the 2004 level of nearly $12 million and is designed to ensure the agency's continued ability to conduct its activities effectively and provide important services to U.S. agriculture.

The proposed increase includes funding to meet higher overseas operating costs and improve telecommunications systems at FAS' overseas offices. FAS is unique as a USDA agency because a sizeable component of the agency's operational costs are vulnerable to macroeconomic developments beyond its control. Recent significant declines in the value of the dollar, coupled with overseas inflation and rising wage rates, have led to sharply higher costs that must be accommodated if FAS is to maintain its overseas presence. That presence is critical for FAS to represent the interests of American agriculture on a global basis, for its continued reporting and analysis of agricultural developments around the world, and for effective implementation of USDA's trade promotion and market development programs.

Funding also is included for an FAS Global Computing Environment initiative to modernize the agency's information technology systems and applications. There is an urgent need for additional funding because the current systems are outdated, have proven to be unreliable, and are inhibiting our ability to communicate effectively between Washington, D.C. and foreign posts. They also do not allow participation in e-Government initiatives with other U.S. trade agencies that are designed to provide more efficient services to the public and help bolster U.S. trade expansion efforts. The proposed initiative will allow FAS to modernize and restructure its IT systems, and improve the services it provides to U.S. agricultural producers, exporters, and market development organizations.

Finally, the budget also provides increased funding for FAS to meet the higher pay costs in 2005.

Export Promotion and Market Development Programs

FAS administers the Department's export promotion and market development programs which play a key role in our efforts to assist American producers and exporters to take advantage of new market opportunities, including those created through market-opening trade agreements.

The largest of these programs are the CCC export credit guarantees, which help to ensure that credit is available to finance commercial exports of U.S. agricultural products. As overseas markets for U.S. agricultural products continue to improve, that improvement will be reflected in export sales facilitated under the guarantee programs. For 2005, the budget projects a program level of $4.5 billion for the guarantee programs, an increase of just over $250 million above the current estimate for 2004.

For the Department's market development programs, including the Market Access Program and Foreign Market Development Cooperator Program, the budget provides funding of $173 million, unchanged from this year's level. The budget also includes $53 million for the Dairy Export Incentive Program and $28 million for the Export Enhancement Program.

Trade Adjustment Assistance for Farmers

For the newly implemented Trade Adjustment Assistance (TAA) for Farmers Program, the budget includes a program level of $90 million, as authorized by the Trade Act of 2002. The TAA program provides assistance to producers of raw agricultural commodities who have suffered lower prices due to import competition, and to fisherman who compete with imported aquaculture producers. In order to qualify for assistance, the price received by producers of a specified commodity during the most recent marketing year must be less than 80 percent of the national average price during the previous 5 marketing years. Also, a determination must be made that increases in imports of like or competitive products "contributed importantly" to the decline in prices.

Since the program was implemented last August, 12 petitions for assistance have been approved involving five different products—wild blueberries, salmon, shrimp, catfish, and lychee fruit. Once a petition is approved, producers have 90 days to apply for benefits. Eligible producers receive technical assistance and cash benefits of up to $10,000 per producer. We expect to begin making the first payments under the program within the next several months once the producer application periods have closed.

International Food Assistance

The efficiency and productivity of our producers allows the United States to be a leader in global food aid efforts, and the United States continues to provide over one-half of the world food assistance. The commitment of the United States to these activities is demonstrated by the fact that the Public Law 480 program, our primary vehicle for providing food assistance overseas, will observe its 50th anniversary in July of this year.

The 2005 budget supports a program level of over $1.5 billion for U.S. foreign food assistance activities. This includes $1.3 billion for the Public Law 480 Title I credit and Title II donation programs, which is expected to support the export of 3.2 million metric tons of commodity assistance.

The newest of our food assistance activities is the McGovern-Dole International Food for Education and Child Nutrition Program, which was authorized in the 2002 Farm Bill. FAS successfully implemented the program in 2003, and projects were approved in 21 countries where nearly 2.3 million women and children will benefit. Beginning in 2004, the Farm Bill requires the McGovern-Dole program to be funded through discretionary appropriations, and the 2004 Omnibus Appropriations Act provides a program level of $50 million for the program. The 2005 budget requests that program funding be increased by 50 percent to $75 million.

In addition, the budget includes an estimated program level of $149 million for the CCC-funded Food for Progress program. This is expected to support 400,000 metric tons of assistance consistent the authorizing statute. The budget also assumes that donations of nonfat dry milk with continue under the authority of section 416(b) of the Agricultural Act of 1949. The total value of the commodity assistance and associated costs is projected to be $147 million.

That concludes my statement, Mr. Chairman. I would be pleased to answer any questions that you and other Members of the Committee may have. Thank you.

PREPARED STATEMENT OF JAMES R. LITTLE, ADMINISTRATOR, FARM SERVICE AGENCY

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to present the fiscal year 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 fiscal year 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 fiscal year 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 fiscal year 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 fiscal year 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 fiscal year 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 fiscal year 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 fiscal year 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 fiscal year 2005 budget estimates largely reflect supply and demand assumptions for the 2004 crop, based on November 2003 data. CCC net expenditures for fiscal year 2005 are estimated at $15.0 billion, up about $0.2 billion from $14.8 billion in fiscal year 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 Non-insured 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 fiscal year 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 fiscal year 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 fiscal year 2003 to 39.2 million acres by fiscal year 2008, and to remain at 39.2 million acres through fiscal year 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 fiscal year 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 fiscal year 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 fiscal year 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 fiscal year 2000, our direct and guaranteed loans to minorities and women have increased every year. And in fiscal year 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 fiscal year 2004, grants have been issued to 30 States. With the requested $4 million for fiscal year 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 fiscal year 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 26, we have issued allocations totaling about $8.1 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 $63.5 million. The fiscal year 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 26, we have paid fiscal year 2004 DIP claims totaling $309,000 in 12 States.

The fiscal year 2005 appropriation request of $100 thousand, together with unobligated carryover funds expected to be available at the end of fiscal year 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 fiscal year 2003. The fiscal year 1998 program expired at the end of fiscal year 2003, and all unobligated funds were returned to Treasury. The fiscal year 1999 program will expire at the end of fiscal year 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 fiscal year 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 fiscal year 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 fiscal year 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 fiscal year 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.

PREPARED STATEMENT OF A. ELLEN TERPSTRA, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to review the work of the Foreign Agricultural Service (FAS) and to present the President's budget request for FAS programs for fiscal year 2005. Our budget request reflects several initiatives needed to ensure FAS' continued ability to accomplish its mission and provide service to U.S. agriculture.

Last year, FAS had much to celebrate—its 50th anniversary as an agency, implementation of the new McGovern-Dole International Food for Education and Child Nutrition Program, the Secretary's successful Ministerial Conference and Expo on Agricultural Science and Technology, a recovery in U.S. agricultural exports, and the conclusion of negotiations on a historic free trade agreement (FTA) with Central American countries. This year, FAS also has much to highlight—a near record export forecast, the 50th anniversary of Public Law 480, the conclusion of negotiations for free trade agreements with Australia and Morocco, and the anticipated conclusion of negotiations for a Free Trade Area of the Americas (FTAA) and FTAs with the Dominican Republic and five Southern African countries.

These events demonstrate FAS' commitment to fulfilling its mission of expanding and maintaining export opportunities for U.S. agricultural, fish, and forest products and helping to alleviate world hunger and food insecurity. The agency's mission is critical to U.S. farmers as our agriculture sector is twice as dependent on exports as the rest of the U.S. economy.

Last fiscal year, U.S. agricultural exports reached $56.2 billion, an increase of nearly $3 billion over 2002. USDA predicts near-record U.S. agricultural exports of $59 billion in fiscal year 2004, more than 5 percent above exports in 2003 and nearly equal to the record $59.8 billion set in fiscal year 1996. The Western Hemisphere remains the largest regional market for U.S. agricultural products, with exports projected at $22.6 billion. Canada is now the largest U.S. agricultural export market, with sales to Canada forecast at $9.9 billion. Exports of corn, wheat, soybeans, and horticultural products are expected to increase over fiscal year 2003.

While the anticipated recovery in exports is good news for U.S. farmers and exporters, the U.S. beef and cattle industry lost export markets in late 2003 since a single case of Bovine Spongiform Encephalopathy (BSE) or mad cow disease was discovered in Washington state. More than 70 U.S. trade partners closed their markets to U.S. beef, cattle, sheep, and goats, and other products. Since late December, FAS has worked tirelessly to inform our trade partners about the steps we are taking to investigate the situation and the additional safeguards we have implemented. We have been successful in keeping a portion of the Canadian and Philippine markets open to U.S. beef and had productive discussions with Mexican officials, as evidenced by Mexico reopening its market to U.S. beef products earlier this month. We are working with our Canadian and Mexican counterparts to enhance and coordinate a consistent North American response to the animal health and trade issues that BSE raises. We have dispatched high-level officials and technical teams from USDA and the Food and Drug Administration to Japan, South Korea, Hong Kong, and the Philippines and have hosted technical teams from Japan and Mexico here. We will continue such efforts to exchange information in the hope of eventually resuming trade.

Here in Washington and at U.S. embassies abroad FAS staff continues to inform foreign governments of actions taken and to reassure them of the safety of our beef. Our efforts to restore our foreign markets continue to be our top priority, and we urge our trading partners to resume trade based on sound scientific principles.

An additional wrinkle was added to the U.S. broiler export outlook when an outbreak of Low Pathogenic Avian Influenza (LPAI) was reported in several U.S. States in early February, followed by the confirmation of a Highly Pathogenic Avian Influenza (HPAI) case in Texas on February 23. U.S. trading partners immediately imposed bans on imports of U.S. chicken and turkey meat. The HPAI case was the first one in the United States in 20 years and it may keep us out of some of our larger markets for several months because this version of the disease is recognized internationally as highly contagious and import restrictions may be valid as long as they are limited to the state of Texas.

FAS Program Activities

Last year, we continued to use our long-standing export programs vigorously and have implemented new initiatives mandated in the Farm Security and Rural Investment Act of 2002 (2002 Farm Act).

The 2002 Farm Act established the Technical Assistance for Specialty Crops program and authorizes $2 million in Commodity Credit Corporation (CCC) funds for each fiscal year from 2002 to 2007. Last year, we allocated $2 million to 19 entities for projects to help address unique barriers that prohibit or threaten the export of U.S. specialty crops.

The Farm Act also increased funding for the Market Access Program. For fiscal year 2003, we allocated $110 million to 65 trade organizations to promote their products overseas. The Farm Act also increased funds for the Foreign Market Development Program, and FAS approved marketing plans totaling $38.0 million for 23 trade organizations for fiscal year 2003.

The Emerging Markets Program is authorized at $10 million each year and provides funds for technical assistance activities that will increase market access for U.S. commodities and products in emerging markets. A total of 75 projects were approved for fiscal year 2003. The Quality Samples Program provides funds so U.S. organizations can provide commodity samples to foreign buyers to help educate them about the characteristics and qualities of U.S. agricultural products. FAS allocated more than $1.7 million in fiscal year 2003 to 21 organizations under this program.

The GSM–102 short-term export credit guarantee program facilitated sales of more than $2.5 billion in U.S. agricultural products last year to 12 countries and five regions. At the same time, U.S. exporters continue to discover the benefits of the Supplier Credit Guarantee Program. We issued $670 million in credit guarantees under this program in 2003, a more than 33-percent increase over last year, demonstrating increased awareness of the usefulness of this program.

With the aid of the Dairy Export Incentive Program, U.S. exporters sold more than 86,000 tons of dairy products in fiscal year 2003. The CCC awarded more than $31 million in bonuses to help U.S. dairy exporters meet prevailing world prices and develop foreign markets, primarily in Asia and Latin America.

The 2002 Trade Act established a new program, which is being administered by FAS—Trade Adjustment Assistance (TAA) for Farmers. Under this program, USDA provides technical assistance and cash benefits to eligible U.S. producers of agricultural commodities if increased imports have contributed to a specific price decline over five preceding market years. Last fiscal year, we got the program up and running and began accepting petitions for evaluation of eligibility for the program. Trade Adjustment Assistance petitions for 12 producer groups have been approved: catfish producers in 18 states; shrimp producers in Alabama, Arizona, Florida (the 2nd Florida petition), Georgia, North Carolina, South Carolina, and Texas; wild blueberry producers in Maine; salmon fishermen in Alaska and Washington; and fresh lychee producers in Florida.

On the trade policy front, we are working to open, expand, and maintain markets for U.S. agriculture. We are actively pursuing what U.S. Trade Representative (USTR) Robert Zoellick has called the competition for liberalization by seeking trade agreements in multilateral, regional, and bilateral contexts.

Although the outcome of the World Trade Organization (WTO) negotiations in Cancun last September was a lost opportunity, the United States has not given up its efforts to achieve an international agreement that will liberalize agricultural trade. The United States and many other countries remain committed to eliminating trade distorting subsidies and tariffs, but we must do so together. The Cancun meetings resulted in a text that establishes a good basis for continuing negotiations. We will continue to work with all players, including countries that raised objections in Cancun, to seek common ground.

In the meantime, we are pressing ahead with efforts to reach regional and bilateral trade agreements.

In September, the President signed legislation to implement FTAs with Chile and Singapore. In December, we concluded negotiations on a historic and comprehensive Central American Free Trade Agreement (CAFTA) with El Salvador, Honduras, Guatemala, and Nicaragua. This agreement will strip away barriers to trade, eliminate tariffs, open markets, and promote investment, economic growth, and opportunity. Costa Rica joined CAFTA in January.

While pursuing new negotiations, we have begun to see the benefits of earlier agreements. For example, on January 1, 2004, the United States, Canada, and Mexico celebrated the tenth anniversary of the implementation of the North American Free Trade Agreement (NAFTA). This groundbreaking agreement made North America the world's largest free trade area. The success of the agreement for agriculture has been quite remarkable. Since 1994, Canada and Mexico have been our two top agricultural growth markets in the world—by a wide margin. Exports to Canada rose by about $3.1 billion over those years, while sales to Mexico rose about $2.7 billion. U.S. exports to the rest of the world rose by only $1.1 billion. In 2002, U.S. consumer-oriented products made up the lion's share of all U.S. agricultural exports to Canada (70 percent) and Mexico (39 percent). Demand in both Canada and Mexico continues to look promising. Real economic growth in Canada is projected at roughly 3 to 3.5 percent a year over the next 10 years, while the Mexican economy is expected to grow by 4 to 4.5 percent a year. As incomes grow, food demand will likely follow, making NAFTA beneficial to U.S. agricultural exporters for years to come.

As with all trade agreements, however, progress is not always straightforward. FAS monitors and enforces trade agreements to ensure that the benefits gained through long, hard negotiations are realized. Last year, our monitoring of the Uruguay Round Agreement on Agriculture and the Sanitary and Phytosanitary Agreement preserved an estimated $1.6 billion in U.S. trade. We continue to work to ensure that China adheres to its WTO accession commitments to change its tariff-rate quota system. In 2003, China purchased U.S. cotton and soybean oil exports of $330 million and $48 million, respectively. We also worked to help win a WTO case against Japan's unscientific import restrictions on U.S. apples, thus saving a potential $30-million market; and are working to preserve almost $400 million in U.S. exports of animal by-products to the European Union (EU).

In addition, we helped resolve Russia's technical issues related to poultry plant inspections, thus saving a market worth more than $300 million and restored access for U.S. dry beans to Mexico, resulting in the resumption of trade valued at $60 million last year.

July 10, 2004, marks the 50th anniversary of Public Law (Public Law) 480, the Agricultural Trade Development and Assistance Act of 1954. This landmark program is the U.S. Government's primary vehicle to meet humanitarian food needs; it also helps to spur economic and agricultural growth in developing countries, leading to expanded trade.

Last year, we used this program to ship commodities from the United States to needy people around the world. Under numerous programs, FAS programmed nearly 575,000 metric tons of food assistance in fiscal year 2003 under Public Law 480, Title I credit agreements and Title I—funded Food for Progress donations. These products, valued at $122 million, went to 15 countries. The U.S. Agency for International Development (USAID), which manages the Title II program of Public Law 480, provided about 3.7 million metric tons (grain equivalent basis) of food to needy people.

Also last year, FAS launched the McGovern-Dole International Food for Education and Child Nutrition Program allowing us to build on the success of the Global Food for Education (GFE) pilot program, which began in fiscal year 2001. It is designed to both encourage education and deliver food to improve nutrition for preschoolers, school children, mothers, and infants in impoverished regions. The 2002 Farm Act authorized the program through fiscal year 2007, providing $100 million in CCC funding for fiscal year 2003. Under fiscal year 2003 programming, Food for Education donations were announced for 21 countries, totaling 131,000 metric tons valued at about $42 million.

In addition to these food assistance programs, last year FAS employees were deployed to Afghanistan and Iraq to help rebuild those countries' agricultural sectors. The reconstruction challenges in these two countries are enormous, the security and logistical challenges tremendous, and the obstacles to progress great. However, we are committed, along with USAID, the Department of State (DOS), and the Department of Defense, to do all that we can in the reconstruction effort.

In Afghanistan, we provided technical guidance to help establish an Afghan Conservation Corps. This corps will provide jobs to thousands of unemployed Afghans, putting them to work to grow and plant trees, collect and conserve water, and stop soil erosion. FAS led the Department's assistance efforts for the corps, sending three technical teams on short-term assignments last year. In addition, FAS placed three USDA staff employees in provincial reconstruction teams, with the goal of placing a total of eight, to work in rural agricultural areas rehabilitating Afghanistan's agricultural sector.

In Iraq, USDA is playing a key role in the United States' overall efforts to create a democratic, market driven economy. With DOS and USAID, USDA is assessing food needs and providing expertise on restoring water, agriculture, forestry, and rangelands. Rebuilding Iraq's agricultural infrastructure continues to be a major priority. To that end, USDA continues to work on the revitalization of Iraq's agriculture ministry and is working with other U.S. Government agencies on reconstruction and development priorities, looking forward to commercial trade with Iraq. In recognition of Iraq's many needs, FAS sent a U.S. agricultural officer there in February 2004 to work as a senior advisor for food trade issues in the Ministry of Trade. This comes at a critical time, when Iraq begins to take more responsibility for its important agricultural and trade programs.

Last year, the United States committed a total of $478 million for food assistance to Iraq, shipping a total of 255,320 tons of U.S. commodities including wheat, flour, rice, soybean oil, nonfat dry milk, and pulses (Great Northern beans, chickpeas, and black-eyed peas) under Public Law 480, Title II and Section 416(b) of the Agricultural Act of 1949.

Another example of our continuing efforts to help countries help themselves was Secretary Veneman's historic Ministerial Conference and Expo on Agricultural Science and Technology last June. The conference focused on how science and technology and a supportive policy environment can drive agricultural productivity and economic growth to alleviate world hunger and poverty.

About 1,000 participants attended including 119 ministers of agriculture, science and technology, health, environment, and commerce. It was one of the largest, most diverse gatherings of decision-makers from around the world to address global hunger. One-hundred seventeen countries were represented. Other attendees came from the private sector, academia, research institutes, foundations, and non-governmental and international organizations.

The Ministerial provided an extraordinary opportunity for dialogue, knowledge sharing, and the creation of partnerships. It sparked tremendous enthusiasm among ministers and other developing-country representatives for science and technology to deliver solutions.

Given the tremendous energy the event generated, many ministers from developing countries have agreed to partner with USDA to keep the momentum going in finding technology- and policy-based solutions to global food insecurity. For example, ministers from Africa and Latin America offered to host follow-up conferences for their regions. A Central American regional conference will be held in Costa Rica in May in partnership with the Inter-American Institute for Cooperation on Agriculture (IICA). A regional conference for West Africa will take place this summer in Ouagadougou, Burkina Faso. Other conferences and follow-up activities are planned throughout the coming years.

As we work to organize and conduct follow-up activities, we are building invaluable relationships with developing countries that will help us work together in the future to resolve trade disputes and prepare developing countries for global trade. Our longstanding training program, the Cochran Fellowship Program was used to introduce 853 Cochran Fellows from 82 countries to U.S. products and policies in 2003. These Fellows met with U.S. agribusiness; attended trade shows, policy, and food safety seminars; and received technical training related to market development. The Cochran Fellowship Program provides USDA with a unique opportunity to educate foreign government and private sector representatives not only about U.S. products, but also about U.S. regulations and policies on critical issues such as food safety and biotechnology.

During Secretary Veneman's visit to Afghanistan in November, she announced the first Cochran Fellowship Program with Afghanistan to provide short-term, U.S.-based training for eight Afghan women to study agricultural finance. They will learn about business plans, financial management, farmers' cooperatives, and micro-credit programs to promote food security and income-generating small businesses.

We also collaborated with a diverse group of U.S. institutions in research partnerships with more than 50 countries to promote food security and trade. These research and exchange activities made practical use of biotechnology and other scientific techniques to help solve critical problems affecting food, agriculture, fisheries, forestry, and the environment. Activities also were conducted to evaluate the food, nutritional, and water needs of vulnerable populations in rural and urban areas to help expand the livelihoods of small and limited-resource farmers, ranchers, and communities.

In the end, the technical assistance that we provide will help build the institutions needed for developing countries to attract investment and grow their economies. When our efforts are successful, our food and agricultural producers will benefit by access to more and better markets.

Challenges Ahead

Faced with continued growth in our agricultural productivity, intense competition, and continued aggressive spending on market promotion by our competitors, we must redouble our efforts to improve the outlook for U.S. agricultural exports. I would like to discuss our top priorities for the year.

Continuing Trade Liberalization for Agriculture

At the top of our list is moving forward in multilateral, regional, and bilateral trade negotiations on agriculture. Although getting the WTO negotiations restarted and on a positive path will not be easy, we must resume the long journey toward worldwide multilateral trade liberalization.

The Doha Round will not likely meet its deadline of having an agreement completed by January 2005. However, all countries have much to gain from successful reform of the international trading system, and we must continue our efforts to resolve the issues that stalled the talks in Cancun.

In January, Ambassador Zoellick sent a letter to his counterparts in the WTO suggesting a "common sense" approach to advance the negotiations in 2004. Ambassador Zoellick recommended that the negotiations focus on core market access topics of agriculture, goods, and services.

In the area of agriculture, the letter suggests that WTO members agree to eliminate export subsidies by a date certain, agree to substantially decrease and harmonize levels of trade-distorting domestic support, and provide a substantial increase in market access opportunities. The letter notes that the United States stands by its 2002 proposal to eliminate all trade distorting subsidies and barriers to market access.

To hammer home the points he made in his letter, Ambassador Zoellick traveled extensively at the end of February, meeting with more than 30 countries in Asia, Africa, and Europe. He also attended the Cairns Group meeting, which gave him a good opportunity to talk with many Latin American countries. In addition, Secretary Veneman had a very fruitful meeting with EU Commissioner Franz Fischler during which she pressed for the resumption of the Doha Agenda talks. The response to Ambassador Zoellick's proposal has been very positive, and most countries appear to be genuinely interested in moving the negotiations forward. Serious, substantive discussions will resume in Geneva next week. We are optimistic that we will have a framework in place by July and possibly a Ministerial conference by the end of the year.

In addition, we will continue to press ahead with our efforts to reach regional and bilateral trade agreements. During the last year, we implemented FTAs with Chile and Singapore and concluded negotiations with Central America. Earlier this year, we concluded free trade talks with Australia and Morocco. We also hope to bring the Dominican Republic into the CAFTA agreement, and we will continue to work towards establishing an FTA with the Southern African Customs Union—which includes the countries of Botswana, Lesotho, Namibia, South Africa, and Swaziland. We have recently launched negotiations with Bahrain and will soon begin discussions with Panama, Colombia, and Peru.

Another major trade initiative is the FTAA. Launched in 1998, these negotiations could establish a free trade zone, covering 800 million people in 34 countries that stretch from the Arctic Circle to Tierra del Fuego. These negotiations have proven to be quite challenging because of the large number of participants, each with its own interests and external relationships. An important breakthrough was made at the Miami Ministerial meeting in November at which trade ministers established a new framework that will allow countries with greater ambition for trade liberalization to pursue those goals with like-minded partners within the FTAA, while ensuring that all participants will be covered by a common set of rights and obligations. Concluding these negotiations on schedule will be a challenge, but it can be done as long as we all remain committed to regional integration as a tool to stimulate economic growth in the hemisphere.

We will continue to work with the countries that would like to join the WTO, such as Russia and Saudi Arabia. Although increasing the number of members in the WTO is a high priority, we will continue to insist that these accessions be made on commercially viable terms that provide trade and investment opportunities for U.S. agriculture. And when membership in the WTO is achieved, we must continue to monitor aggressively those countries' compliance with their commitments. We must ensure that acceding countries implement trade policies and regulations that are fully consistent with WTO rules and obligations.

The effort to keep markets open in the face of unscientific or artificial trade barriers is inherent in the FAS mission. This is perhaps our most important task, yet it is the least visible. It is a measure of our success that so many issues are resolved so quickly, with so little public awareness. Virtually every day, our overseas and Washington staff work as a team on a variety of concerns—first to prevent crises from developing and then to resolve thorny issues should they arise. They coordinate efforts with a number of USDA agencies, as well as with private sector companies and associations. FAS' overseas officers work continuously to prevent trade problems from occurring or to resolve them as soon as they crop up.

Every year, these activities preserve millions of dollars in trade that potentially could have been lost by countries imposing new barriers. Some problems may be resolved quickly with a phone call or a meeting; others are more complex, and involve multiple U.S. agencies. Our priority this year is reopening our major export markets for U.S. beef and poultry exports. As a result of the single BSE case in Washington state, most U.S. export markets have banned our cattle, beef, and beef product exports, including rendered products, pet foods, and cattle genetics. At the same time, most U.S. export markets have banned or partially banned U.S. poultry and poultry exports because of outbreaks of LPAI.

Another priority is how we deal with the issues surrounding products produced through biotechnology. The increasing number of countries around the world that are issuing regulations relating to products of biotechnology present a particular challenge, both for our infrastructure and for our food and agricultural exports. We are using every available forum to ensure countries adopt science-based policies in this area.

To focus our efforts, FAS formed a new office last year to work with a myriad of public and private, domestic and international organizations on a broad array of biotech issues. Activities this year include working to ensure that the Cartagena Protocol on Biosafety does not disrupt grain trade; participating in the third annual Asia Pacific Economic Cooperation policy dialogue on biotechnology; working with USTR on the U.S. case against the EU's moratorium on biotech products; and a host of other issues and activities too long to mention.

As you see, we will be working on many fronts to continue to improve export opportunities for the American food and agriculture sector, but we cannot do it alone.

Strengthening Market Development Partnerships and Programs

The challenges we face in multilateral, regional, and bilateral trade negotiations make it imperative that we work closely with our foreign market development cooperators to strengthen our partnership and keep the lines of communication open. This will help us become an even more potent force in improving the competitive position of U.S. agriculture in the global marketplace.

We will continue to use our export assistance programs—Emerging Markets Program, Market Access Program, Quality Samples Program, Technical Assistance for Specialty Crops program, and Foreign Market Development Cooperator Program—to open and maintain export opportunities for U.S. farmers and exporters.

We are working on a Global Broad-Based Initiative (GBI) to better utilize our marketing resources. GBI will allow FAS cooperator groups to address a broad range of issues that may be regional in scope. Under the GBI process, proposals for program funding from cooperator groups in concert with input from our overseas posts will address key priorities, such as market access and unfair competition; biotechnology, sanitary and phytosanitary issues, and food safety; best growth markets; high-value products; capacity building; and food security and trade financing.

Proposals that cut across multiple product or industry lines—as well as multiple markets—will have greater impact than those that focus on one product or one market. Under GBI, FAS and cooperators have a unique opportunity to address common strategic challenges and opportunities.

We will continue to encourage U.S. exporters to develop and refine their marketing strategies, look to new market opportunities, and fully use all the FAS tools at their disposal.

Building Trade Capacity

Hand-in-hand with our negotiating efforts are our activities to help developing countries participate more fully in the trade arena. Our trade-capacity building efforts are aimed at helping countries take part in negotiations, implement agreements, and connect trade liberalization to a program for reform and growth. We will work closely with USTR and USAID in this effort.

If we are to achieve success in the negotiating process, we must engage the developing world in the creation and implementation of appropriate trading rules and guidelines. This will take time, but it will be worth the investment. These countries represent our future growth markets. We must address the concerns of developing countries, a requirement made evident in Cancun. Without their support, there will be no new multilateral agreement.

FAS provides technical expertise to enhance developing countries' abilities to engage in two-way trade. FAS recruits expertise from USDA agencies, universities, and the private sector. We have been particularly active in providing information about science-based animal and plant health and food safety rules and systems. We also are working with countries to help them build information systems that provide accurate agricultural production, trade, and price data. Providing technical advice on cold storage, handling, and transportation systems facilitates two-way trade in high-value, perishable foods. By helping countries understand the advantages of using efficient biotechnology tools, we help lower costs and improve the quality of farm products.

Throughout the year, we will use all our available tools—the Cochran Fellowship Program, the Emerging Markets Program, and our involvement in international organizations such as IICA—to educate and assist countries seeking to reform and improve their economies so they can participate in the world marketplace.

Ensuring World Food Security

During the past 2 years, the U.S. contribution of global food aid has reached about 60 percent of total world aid, and we remain committed to these efforts that address world food insecurity and help to alleviate hunger, malnutrition, and poverty.

During 2004, we will be working closely with the World Food Program and our private voluntary organization partners to ensure that the new McGovern-Dole International Food for Education and Child Nutrition program builds on the success achieved by the Global Food for Education Initiative. USDA will donate approximately 66,000 metric tons of commodities to provide nutritious school meals to school and pre-school children, as well as nutritional assistance to mothers and infants. In addition, we estimate that the United States will be able to distribute about 3.8 million metric tons of commodities through Public Law 480, Food for Progress, and other programs in fiscal year 2004.

But we know food aid is not the only tool to achieve world food security. Developing countries must strengthen their agricultural policies and institutions and increase their investments in agricultural productivity if they are to find their way out of the seemingly endless cycle of hunger, poverty, and economic stagnation. Agricultural science and technology transfer and extension along with supportive policy and regulatory frameworks are critical.

Budget Request

Mr. Chairman, our fiscal year 2005 budget proposes a funding level of $147.6 million for FAS and 1,005 staff years. This represents an increase of $11.9 million above the fiscal year 2004 level and supports several initiatives needed to ensure the agency's continued ability to conduct its activities and provide services to U.S. agriculture.

The budget proposes an increase of $4.8 million for support of FAS overseas offices. The FAS network of 80 overseas offices covering over 130 countries is vulnerable to the vagaries of macro-economic events that are beyond the agency's control. The significantly weakened U.S. dollar and higher International Cooperative Administrative Support Services (ICASS) payments to DOS have caused overseas operating costs to increase sharply. Specifically, these increases include:

—$2.0 million to replenish the Buying Power Maintenance Account (BPMA). FAS has the authority to carry over up to $2.0 million in exchange rate gains from current year appropriations in a BPMA to offset future exchange rate losses. The account was fully funded at the end of fiscal year 2002, but was depleted by the end of fiscal year 2003 due to the weakness of the dollar. Continued weakness of the dollar implies that future exchange rate gains are unlikely.

—$1.76 million to fund higher payments to DOS. DOS provides overseas administrative support for U.S. foreign affairs agencies through ICASS. FAS has no administrative staff overseas, and thus relies entirely on DOS/ICASS for this support. Based on current cost growth trends, we are estimating that our ICASS assessment will increase by about 10 percent or $1,104,000. Additionally, for security reasons, and as a precondition to moving into the new embassy in Beijing, all agencies are required to purchase new furniture through DOS. DOS has assessed individual agency charges on a per-capita basis; the FAS assessment is $655,000.

—$581,000 to fund mandatory costs of participating in the Capital Security Cost Sharing Program. Beginning in fiscal year 2005, DOS will implement a program through which all agencies with an overseas presence in U.S. diplomatic facilities will pay a proportionate share for accelerated construction of new, secure, safe, and functional diplomatic facilities. These costs will be allocated annually based on the number of authorized positions. This plan is designed to generate a total of $17.5 billion to fund 150 new facilities over a 14-year period. The FAS assessment starts at $3.6 million in fiscal year 2005; however, $3 million of this amount will be offset though a credit for overseas rental costs currently incurred by FAS. The FAS assessment is estimated to increase annually in roughly $3-million increments until fiscal year 2009, at which time the annual assessed level will total an estimated $15 million. This level is assumed to remain constant for the following 9 years.

—$490,000 for the costs of overseas telecommunications improvements. This increase will allow for the upgrade from 9.6 KBPS to 128 KBPS on the State Department's Diplomatic Telecommunications Service (DTS) communication lines where DTS is the only option.

A crosscutting departmental priority is expanding our eGov capability. Secretary Veneman recently announced that USDA would focus on eGovernment initiatives this year. This multi-faceted initiative will change the way we in FAS communicate with each other, with the rest of government, and most importantly, with the customers we serve here and around the world. In this regard, the budget proposes an increase of $5.3 million to implement an FAS Global Computing Environment initiative. The 4-year initiative will modernize FAS information technology systems and applications to ensure compliance with eGovernment objectives and standards for Federal agencies. Under the Global Computing Environment initiative, FAS will modernize existing systems, restructure its agricultural production and trade databases, and improve the timeliness and efficiency of its reporting systems. The FAS information technology system is aging and in danger of failing. As examples:

—Of the 35 servers currently providing e-mail and network services for FAS, 25 are 5 or more years old, operating well beyond their normal life cycle.

—Over 2/3's of FAS desktop PC's (about 900) are already 5-years old and are only running at one-third the current industry standard operating speed. (800 mh vs. 2.4 gh)

—More than half of the agency's mission-critical information systems—which are of highest interest to USDA customers—are more than 7 years old.

Our goal is to improve the services provided to U.S. agricultural producers and exporters by electronically sharing information, providing FAS program interfaces in real time, with no delays, and in easy to manipulate formats.

As our information systems are modernized, FAS will move aggressively to integrate its information systems with those in Federal and State agencies involved in similar lines of business, i.e., international commerce and trade, international development, trade-capacity building, food aid, trade negotiations, and participation in international organizations.

This will include integration with other USDA agencies through USDA.gov, which will provide the Department's customers with the ability to customize the information they receive from the Department through a personalized web portal. FAS will also need to integrate with DOS' information management system for communications within U.S. embassies and between embassies and Washington. This will give USDA officials access to internal government communications and policy papers on relevant issues such as agricultural trade, food aid, and biotechnology.

Finally, the budget includes an increase of $1.8 million to cover higher personnel compensation costs associated with the anticipated fiscal year 2005 pay raise and efforts to recognize employee performance. Pay cost increases are non-discretionary and must be funded. Absorption of these costs in fiscal year 2005 would primarily come from reductions in agency personnel levels, which would significantly affect FAS' ability to contribute to USDA's strategic goal of enhancing economic opportunities for agricultural producers.

Export Programs

Mr. Chairman, the fiscal year 2005 budget includes over $6 billion for programs administered by FAS that are designed to promote U.S. agricultural exports, develop long-term markets overseas, and foster economic growth in developing countries.

Export Credit Guarantee Programs

The budget includes a projected overall program level of $4.5 billion for export credit guarantees in fiscal year 2005.

Under these programs, the CCC provides payment guarantees for the commercial financing of U.S. agricultural exports. As in previous years, the budget estimates reflect actual levels of sales expected to be registered under the programs and include:

—$3.4 billion for the GSM–102 short-term guarantees;
—$5.0 million for the GSM–103 intermediate-term guarantees;
—$1.1 billion for Supplier Credit guarantees, and
—$10.0 million for Facility Financing guarantees.

Market Development Programs

Funded by CCC, FAS administers a number of programs that promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For fiscal year 2005, the CCC estimates include a total of $173.0 million for the market development programs, unchanged from fiscal year 2004 these include:

—$125.0 million for the Market Access Program;
—$34.5 million for the Foreign Market Development Cooperator Program;
—$10.0 million for the Emerging Markets Program;
—$2.5 million for the Quality Samples Program; and
—$2.0 million for the Technical Assistance for Specialty Crops Program.

International Food Assistance

The fiscal year 2005 budget continues the worldwide leadership of the United States in providing international food aid. The fiscal year 2005 request for foreign food assistance totals more than $1.5 billion including $1.3 billion for Public Law 480 to provide approximately 3.2 million metric tons of commodity assistance. For Title I, the budget provides for a program level of $123.0 million, which will support approximately 500,000 metric tons of commodity assistance. For Title II donations, the budget provides for a program level of $1.185 billion, which is expected to support 2.7 million metric tons of commodity donations

—$149 million for CCC-funded Food for Progress. This level is expected to meet the minimum level of 400,000 metric tons established in the 2002 Farm Bill;
—$147 million for Section 416(b) donations. Under this authority, surplus commodities that are acquired by CCC in the normal course of its domestic support operations are available for donation. For fiscal year 2005, current CCC baseline estimates project the availability of surplus nonfat dry milk that can be made available for programming under section 416(b) authority; and

—$75.0 million for the McGovern-Dole International Food for Education and Child Nutrition Program. This represents an increase of $25 million over the fiscal year 2004 appropriation and will assist an estimated 1.9 million participants.

Export Subsidy Programs

FAS administers two export subsidy programs through which payments are made to exporters of U.S. agricultural commodities to enable them to be price competitive in overseas markets where competitor countries are subsidizing sales. These include:

—$28 million for the Export Enhancement Program (EEP). World supply and demand conditions have limited EEP programming in recent years and, as such, the fiscal year 2005 budget assumes a continuation of EEP at the fiscal year 2004 level. However, the 2002 Farm Bill does include the maximum annual EEP program level of $478.0 million allowable under Uruguay Round commitments that could be utilized should market conditions warrant.

—$53 million for the Dairy Export Incentive Program (DEIP), $31 million above the current fiscal year 2004 estimate of $22 million. This estimate reflects the level of subsidy currently required to facilitate exports sales consistent with projected United States and world market conditions and can change during the programming year as market conditions warrant.

Trade Adjustment Assistance for Farmers

Under the Trade Act of 2002, the TAA authorizes USDA to make payments up to $90.0 million annually to eligible producer groups when the current year's price of an eligible agricultural commodity is less than 80 percent of the national average price for the 5 marketing years preceding the most recent marketing year, and the Secretary determines that imports have contributed importantly to the decline in price. As of the beginning of March, petitions from eight producer groups had been certified as eligible for TAA and an additional 10 petitions were under review to determine eligibility. Payments under the program will begin later this year once the benefit application period has closed.

This concludes my statement, Mr. Chairman. I will be glad to answer any questions.

PREPARED STATEMENT OF ROSS J. DAVIDSON, JR., ADMINISTRATOR, RISK MANAGEMENT AGENCY

Mr. Chairman and members of the Subcommittee, I am pleased to present the fiscal year 2005 budget for the Risk Management Agency (RMA). RMA continues to make rapid progress in meeting its legislative mandates to provide an actuarially sound crop insurance program to America's agricultural producers. Crop insurance is USDA's principal means of helping farmers survive a crop loss. In 2005, the program is expected to provide producers with more than $42 billion in protection on approximately 220 million acres through about 1.2 million policies.

To improve service to our customers and stakeholders, in 2003, we began an evaluation of crop insurance business processes to integrate performance and create higher productivity, and to achieve key performance goals. To hear first-hand the challenges affecting producers in the crop insurance program, we have conducted listening sessions with producers and grower groups throughout the United States; over 26 listening sessions have been held to date. It is no coincidence that the top concerns expressed by our customers and stakeholders have become the foundation of our key performance objectives in support of the Agency's mission. These objectives are: (1) Provide widely available and effective risk management solutions; (2) Provide a fair and effective delivery system; (3) Ensure customers and stakeholders are well-informed; (4) Maintain program integrity; and (5) Provide excellent service.

To effectively address the concerns and challenges within the crop insurance program, RMA's total fiscal year 2005 budget request is $3.09 billion. The funding level proposed for the Federal Crop Insurance Corporation (FCIC) Fund is $3,000,443,000 and for the Administrative and Operating Expenses, the request is $91,582,000.

FCIC Fund

The fiscal year 2005 budget proposes that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is fully funded to meet producers' needs. The current estimate of funding requirements is based on USDA's latest projections of planted acreage and expected market prices. The budget request includes $2.1 billion for Premium Subsidy, $782.4 million for Delivery Expenses, and $77.3 million for mandated Agricultural Risk Protection Act of 2000 (ARPA) activities.

Administrative and Operating Expenses (A&O)

RMA's fiscal year 2005 request of $91.6 million for Administrative and Operating Expenses represents an increase of about $20.6 million from fiscal year 2004. This budget supports increases for information technology (IT) initiatives of $15.5 million.

These IT funds are targeted toward the infrastructure improvements and enhancement of the corporate operating systems necessary to support growth in the program as new products are developed and existing products are improved and offered for sale. Due to the rapid growth in the program, it has been difficult to maintain adequate funding for RMA's information technology system. The Agency's IT infrastructure supports the crop insurance program's business operations at the national and local levels, provides risk management products to producers nationwide and is the basis for payments to private companies reinsured by the FCIC. RMA is using system and database designs originally developed in 1994. There have been few hardware and software upgrades and business process analysis and re-engineering of the entire business delivery system are needed to support current and future program growth. The IT systems do not meet the minimum requirements mandated by the USDA Office of the Chief Information Officer due to advanced age and architecture. Without adequate funding of the IT requirements, the Agency will not be able to safely sustain additional changes required by new product development or changes in existing products. Future program expansion will increase the risk of system failure and possible inability to handle day-to-day processing of applications and indemnity payments.

Also, included in the total request is $1.0 million to expand the monitoring and evaluation of reinsured companies. RMA is requesting funds to establish a systematic process of monitoring, evaluating, and auditing, on an annual basis, the performance of the product delivery system. These funds will be used to support insurance company expense audits, performance management audits and reinsurance portfolio evaluations to ensure internal and management controls are a basic part of reinsured companies' business operations.

To support an increase of 30 staff years, $3.0 million is requested to raise RMA's employment ceiling from 568 to 598. Funding for additional staff years is necessary to strengthen the safety net for agricultural producers through sound risk management programs. The fiscal year 2005 budget request includes five additional staff years for the Research and Development Offices, to provide necessary support to evaluate, monitor and manage contractual agreements and partnerships with public and private business sectors. The additional staff years will aid in the review and evaluation of the increasing number of new private product submissions received by the Agency each year. They will also provide oversight of privately contracted product development needed to fulfill ARPA mandates that RMA provide risk management tools for producers of specialty crops, livestock, forage pasture, hay and other underserved commodities, areas and producers.

To support the increased workload for the Compliance function, a request for 15 staff years is included. The additional staff years will provide the Compliance function the necessary support to address outstanding OIG and GAO recommendations to improve oversight and internal controls over insurance providers. In response to several OIG audit reports, RMA needs to establish a systematic process of auditing insurance providers to detect and correct vulnerabilities to proactively prevent improper payment of indemnities. RMA's studies suggest that additional resources in this area would provide a minimum of $4 in reduced fraud cost for every dollar spent. The additional staffing will provide the necessary oversight to ensure taxpayers' funds are expended as intended.

In addition, 10 staff years are requested for the Insurance Services Offices, to implement good farming practice determinations, and to adequately evaluate claims based on questionable farming practices. ARPA requires RMA to establish a process to reconsider determinations of goods farming practices. The Regional Offices of Insurance Services are in a unique position by virtue of their education in production agriculture, agronomy and related fields, and knowledge of local crops and growing conditions to effectively carry out the important function of determining good farming practices. RMA data indicate that approved insurance providers rarely assess uninsured causes of loss against a producer for failure to follow good farming practices. With approved insurance providers operating in an environment of risk sharing, there is a tremendous need for support and incentives for tightening loss adjustment, particularly in the good farming practices area to ensure that payments for losses is consistent with the requirements of Federal Crop Insurance Act. For example in crop year 2002, of approximately 1.25 million policies earning premium, about .03 percent were assessed uninsured causes of loss. This small percentage appears to be inconsistent with data uncovered through various oversight activities.

Based on 2002 indemnities of over $4 billion, if RMA determinations and reconsiderations of good farming practices had prevented only 3 percent of indemnities from being paid improperly, the resulting savings would be an estimated $121 million.

Lastly, an increase of $1.1 million is requested for pay cost. These funds are necessary to maintain required staffing to carry out RMA's mission and mandated requirements.

The fiscal year 2005 budget request supports the President's Management Initiatives and is aligned with the Agency's five performance objectives.

Provide Widely Available and Effective Risk Management Solutions.—The FCIC Board of Directors (Board) will continue its work to maintain an aggressive agenda focused on addressing producer's issues and challenges in the crop insurance program. This agenda increases participation in the program, ensures outreach to small and limited resource farmers, expands programs where appropriate, affirms program compliance and integrity, and ensures equity in risk sharing.

The Board is focusing on the overall FCIC portfolio of insurance products, with new strategies to provide the greatest amount of protection. We are actively working with the private sector to find new and better ways to provide risk protection for forage, rangeland, and pasture and to address the long term production declines that result from extended drought in many areas. Priority also is directed towards identifying opportunities to expand participation in current crop insurance programs in areas with below average participation.

In addition, many of the new product development contracts, authorized by Section 508(h) of the Federal Corp Insurance Act, are coming to fruition. The Board will review these private product submissions and decide on the appropriateness of pilot testing the products.

Beginning February of 2002, RMA initiated a series of listening sessions throughout the United States to gather market feedback on issues and concerns that affect the agricultural community. From this initiative, 26 listening sessions have been organized by the Regional Offices in various locations. The focus of the meetings was to obtain feedback from farmers on what is working well in our program, factors that impact product acceptance and market penetration, what program issues need to be addressed, and whether products were meeting the needs of the agricultural sector. To gather the widest possible representation, we focused on inviting the various regional Grower Associations and agricultural interest groups, both private and governmental. The feedback from the listening sessions identified a broad theme of issues such as requests to expand products such as Adjusted Gross Revenue (AGR/AGR-Lite) and Crop Revenue Coverage (CRC), simplify prevent planting regulations, and extend crop dates. In addition, irrigation issues and the knowledge and training of insurance agents were topics of discussion.

RMA is already engaged in working toward solutions to resolve many of the issues identified at these listening sessions and, is evaluating the feasibility of many others with the legal limitations and parameters established in statute to operating an actuarially sound insurance program. In addition, the FCIC Board of Directors commissioned a Product Portfolio Review to assist in evaluating and developing a strategic product development plan. Our initial plan growing out of that review focuses on identifying and pursuing opportunities to more comprehensively provide risk coverage and other risk management solutions for producers, regions, commodities and risks. It gives priority to the development of new insurance products and other risk management solutions to fill identified gaps, including coverage for livestock, forage, rangeland, long-term drought and specialty crops; and simplifies and improves the effectiveness of revenue and other insurance products that will meet the needs of the agriculture sector.

Provide a Fair and Effective Delivery System.—RMA relies on private sector insurance companies to deliver and service risk management tools to producers. The financial agreement that compensates insurers for their service and established standards for performance is the Standard Reinsurance Agreement (SRA). The current agreement has been in effect since 1998 and needs to be updated to reflect the changing nature and scope of the program as well as recent development of the delivery system.

ARPA gave RMA the authority to renegotiate the current SRA once during the 2001 through 2005 reinsurance years. On December 31, 2003, RMA provided the required notice of cancellation of the current agreement effective July 1, 2004 and its intent to renegotiate the agreement for the 2005 reinsurance year, which begins on July 1, 2004. On December 30, 2003, RMA issued the draft of the proposed SRA to insurance providers. The first round of negotiations with insurance providers has been completed. A range of issues was identified and a second draft of the SRA addressing those issues is near completion for review and negotiation with the companies. We are working with all insurers to have a new and equitable SRA in place by the 2005 reinsurance year.

Through this private sector delivery system, in crop year 2003, RMA provided approximately $41 billion of protection to farmers, and expects indemnity payments for crop year losses of approximately $3.3 billion. The participation rate for major program crops was approximately 82 percent. An important part of the delivery system is having effective and useable products. RMA continues to efficiently evaluate risk management products, review and approve private sector products to be reinsured by the FCIC, to promote new risk management strategies, and ensure effective delivery of these products to agricultural producers. RMA's education, outreach, and non-insurance risk management assistance initiatives, delivered through the public and private sector organizations, further contribute to the producer's ability, skill and willingness to access and effectively use RMA's growing portfolio of risk management tools to protect their financial stability.

Under the Agricultural Management Assistance Program (AMA), Section 524(b) of the Federal Crop Insurance Act, financial assistance is authorized for producers in 15 "Targeted" States. Under this authority, and in response to the need to improve crop insurance delivery and acceptance in these States, for fiscal year 2003 RMA offered a cost-share program for producers purchasing AGR, AGR-Lite, and spring policies with sales closing dates on or after February 21, 2003. The States in which this program was offered were: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, New Jersey, Nevada, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming. The primary goal of the program was to enable producers to buy-up to higher levels of insurance coverage, and to provide an incentive for new producers to purchase insurance. To meet this objective, RMA paid a portion of the producer premium remaining after the normal USDA subsidy was applied. Moreover, to encourage buy-up, RMA paid a higher percentage of this premium for higher levels of coverage. USDA has received many positive letters from producers, producer groups and insurance agents in many States who are pleased with the program. RMA recently announced the availability of financial assistance for crop year 2004 spring crops for the same States, consistent with new statutory requirements for the application of these funds.

In early 2004, RMA approved Occidental Fire & Casualty (OFC) and its Managing General Agent, Crop1 to sell and service crop insurance under a premium reduction plan as allowed by Federal statute, and in accordance with standards and procedures established and approved by the FCIC Board. The States for which OFC was approved are: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Texas (State approval pending), and Wisconsin. OFC is required to offer Premium Discount Plan (PDP) on FCIC insurance covering all crops in these States. Farmers who purchase crop insurance under OFC's Premium Discount Plan (PDP) will receive a discount on their portion of the insurance premium of up to 10 percent or more depending on the level of coverage they purchase. The discount (equal to 3.5 percent of the total unsubsidized premium) results from OFC passing along the cost savings generated by its cost efficient approach to delivering crop insurance.

We continue to work with the private sector to improve producers' ease of access to and awareness of risk management products; increase the emphasis on improving service coverage for underserved producers and regions; and expand the ability to reach underserved producers, areas and commodities through traditional channels and developing technologies.

Ensure Customers and Stakeholders are Well-Informed.—RMA has implemented an extensive national outreach and education program, including several initiatives to increase awareness and service to small and limited resource farmers and ranchers and other underserved groups and areas.

In 2003, RMA sponsored the second national outreach conference titled: Survival Strategies for Small and Limited Resource Farmers and Ranchers, in San Diego, California. Public and private professionals, who provide agricultural services to underserved groups, were the targeted audience. Over 300 professionals representing 45 States, 22 universities and three foreign countries convened at this conference to share ideas and develop strategies to benefit the underserved communities. During 2004, regional and local workshops will be customized in several regions to deliver proven survival strategies directly to producers. RMA is also partnering with community-based organizations, 1890, 1994, 1862 land grant colleges and universities, and Hispanic Serving Institutions (HSIs) to provide program technical assistance and risk management education on managing farming risks associated with the many legal, production, marketing, human resources and labor aspects of farm operation. RMA funded 49 outreach projects in fiscal year 2003 totaling $4 million to provide outreach and assistance to women, small and limited resource farmers and ranchers.

During fiscal year 2003, our education program focused on underserved States, specialty crop producers, and grants through the Cooperative State Research, Education, and Extension Service. RMA Regional Offices held 833 outreach and educational meetings during 2003, which attracted 42,020 participants.

In June 2003, RMA announced a Request for Applications for two programs. The first was to establish cooperative education agreements in States that have been historically underserved with respect to crop insurance. As a result of this announcement, 15 cooperative agreements were established totaling $4.5 million. These agreements were executed with State departments of agriculture, universities, and non-profit organizations to deliver crop insurance education to producers in Connecticut, Delaware, Maine, Pennsylvania, Rhode Island, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Utah, Vermont, West Virginia, and Wyoming. Specifically, these cooperative agreements will: expand the amount of risk management information available; promote risk management education opportunities; inform agribusiness leaders of increased emphasis on risk management; and deliver training on risk management to producers with an emphasis on reaching small farms.

The second program was for commodity partnership agreements to reach producers of specialty crops. A total of 35 commodity partnership agreements were established at a cost of $4.6 million. These agreements were executed with State departments of agriculture, universities, grower groups, and non-profit organizations in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Multi-state Area 1 (NV, UT, WY), Multi-state Area 2 (ME, NH, VT, CT, RI, MA, NY), Multi-state Area 3 (PA, NJ, DE, MD, WV), Nebraska, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Virginia, Washington, and Wisconsin. These agreements will reach specialty crop producers with broad risk management education. In addition, efforts were continued with the Future Farmers of America organization to educate and encourage youths' participation in agriculture.

Maintain Program Integrity.—Our Compliance function workload has increased substantially due to the expansion of the Crop Insurance Program and the implementation of ARPA. In order to deal with the increased referral activity and to fulfill the responsibilities of data reconciliation with Farm Service Agency (FSA), RMA has sought to manage the increase in workload by emphasizing the use of data mining, remote sensing, Geospatial Information technologies and other computer-based resources. During the 12-month period from January 2002 through December 2002, RMA projects more than $125 million was saved by deterring or preventing potentially fraudulent claims through data mining and other related activities. Similar savings were realized for 2003 as we expanded data mining capabilities.

In 2004, we continue to develop data management and integration tools to effectively evaluate, track, and improve program compliance, integrity and to reduce the potential for erroneous payments. The need for the authority to regulate certain insurance provider business activities associated with the Federal Crop Insurance Program and the ability to perform timely and effective reviews of insurance providers became apparent in 2002 with the failure of the American Growers Insurance Company. The fiscal year 2005 budget request includes $1.0 million for monitoring and evaluating the reinsured companies. Improving RMA's ability to monitor the reinsured companies will provide the means to perform the necessary analysis and pursue any needed corrective actions to reduce the likelihood and cost of future failures.

Recent progress in the Compliance area has been concentrated on the mission-critical tasks of evaluating and improving new processes established to prevent and deter waste, fraud and abuses. In addition, extensive progress has been made in building and adapting RMA's compliance investigation caseload reporting, tracking, and feedback systems to meet the requirements that were mandated by ARPA. RMA, the FSA, the Office of Inspector General, U.S. Attorneys' offices throughout the Nation, and the insurance providers continue to work together to improve program compliance and integrity of the Federal crop insurance program by: fine tuning the RMA/FSA data reconciliation and matching process; evaluating and amending the procedures for referring potential crop insurance errors or abuse between FSA and RMA; creating an anti-fraud and distance learning training package to complete the requirements of ARPA; and detecting, prosecuting and sanctioning perpetrators of crop insurance fraud. We also have dedicated additional efforts to integrating data mining analysis into all Agency functions to assist in proactive preemption of fraud through effective underwriting and product design; exploring ways to expedite increasing sanctions requests; and establishing a fraud investigation case management and issue tracking system.

During fiscal year 2003, RMA published ARPA mandated revisions to the Common Crop Insurance Policy, also known as the Basic Provisions. RMA proposed many changes to the Basic Provisions, including changes mandated by ARPA or requested by OIG, as well as changes related to program integrity and administrative issues. Due to the large number of comments received, and in order to implement the changes mandated by ARPA for the 2004 crop year, RMA chose to implement the proposed changes in two separate regulations.

The first final rule was published in the Federal Register on June 25, 2003. It contained all of the proposed changes mandated by ARPA and a change requested by OIG for an earlier notice of loss for prevented planting.

RMA is finalizing the second final rule that addresses all of the proposed changes that were not contained in the first final rule. RMA expects publication of this final rule in time to implement for the 2005 crop year, provided all departmental and other necessary concurrences can be obtained.

American Growers Insurance Corporation

In addition to accomplishing APRA mandated compliance regulations, RMA has maintained program integrity despite the fallout of the largest policy issuing company in the Federal crop insurance program. On November 22, 2002, L. Tim Wagner, Director of the Nebraska Department of Insurance, placed American Growers Insurance Company under supervision by issuing an Order of Supervision and List of Requirements to Abate Supervision and Notice of Hearing. RMA immediately, thereafter, entered into a memorandum of understanding with the State of Nebraska to insure that the interests of the government and the policyholders were protected.

Senior RMA officials were placed on site with the State appointed rehabilitator to keep focus on the priorities. Despite an enormous claims caseload caused by the drought of 2002, the policyholders were paid in a timely manner. Only a handful of claims are pending, which is typical at this juncture for any operating company. The policies of American Growers (Am Ag) were also successfully transferred to other reinsured companies ensuring that coverage remained in force for the 2003 crop year. This seamless transfer has provided confidence to all our customers, within the Federal crop insurance program, that their interest will be protected.

And, I am happy to say, the interests of the taxpayers also have been protected. RMA's onsite presence and supervision of the claims processing has resulted in cost avoidance of several millions dollars. RMA continues to work with the State of Nebraska to bring finality to our work on Am Ag.

Provide Excellent Service.—RMA continues to pursue initiatives to make higher levels of crop insurance protection more affordable and useful to producers, provide better protection to farmers experiencing multi-year losses, expand risk management education opportunities, fund and oversee development of new risk management products and improve program integrity.

RMA's product portfolio includes coverage for 362 different commodities in over 3,060 counties covering all 50 States, and Puerto Rico. RMA will conduct regular market assessments to establish a baseline for customer satisfaction and to measure progress in achieving key elements of customer service to ensure the needs of our customers are being addressed. Also, we plan to address the needs and changes to products, programs and processes to improve service to customers as identified from our listening sessions and RMA's product portfolio evaluation.

PROGRAM HIGHLIGHTS

Now, I would like to conclude with an update on some of our key products and initiatives:

Livestock Insurance Plans

The FCIC approved two pilot insurance programs for Iowa swine producers to protect them from declines in hog prices. The new programs, which began in 2002, were authorized under the provisions of Section 132 of the Agricultural Risk Protection Act of 2000 (ARPA). Until ARPA, federally backed insurance plans providing livestock protection were prohibited by law. The livestock insurance programs provide livestock producers with risk management tools for reducing their price risks. Livestock revenue represents about one-half of the total farm cash receipts.

The two programs approved are: The Livestock Gross Margin (LGM) pilot, submitted by Iowa Agricultural Insurance Innovations, and the Livestock Risk Protection (LRP) pilot for Swine submitted by the American Agri-Business Insurance Company. The LGM pilot provides coverage to swine producers from price risks for 6 months and up to 15,000 hogs per period. The product protects the gross margin between the value of the hogs and the cost of corn and soybean meal. Prices are based on hog futures contracts and feed futures contracts. LGM protects producers if feed costs increase and/or hog prices decline, and depends on the coverage level selected by the producer. Coverage levels range from 85–100 percent.

The LRP pilot protects producers against a decline in hog prices. Swine can be insured for 90, 120, 150, or 180 days, and up to a total of 32,000 animals per year. Unlike traditional crop insurance policies, which have a single sales closing date each year, LRP is priced daily and available for sale continuously throughout the year. The LRP policy protects producers against declining hog prices if the price index specified in the policy drops below the producer's selected coverage price. Coverage levels range from approximately 70–95 percent of the daily hog prices. LRP Swine and LGM Swine have been available to producers for over a year and have protected over 60,000 head of swine in Iowa. Both products are available from private insurance agents. The length of the pilot programs will be determined by farmer participation, and the financial performance of the programs. In crop year 2003, the FCIC Board did not approve any requests for expansion of the LRP Swine. Consideration for expansion is deferred until testing is completed and the program demonstrates that the premium rates are actuarially sufficient, the interests of the producers are protected, and that there are no adverse affects on program integrity.

LRP was expanded to fed and feeder cattle for the 2003 crop year. LRP Fed Cattle protects producers in Illinois, Iowa, and Nebraska. LRP Feeder Cattle protects producers in Colorado, Iowa, Kansas, Nebraska, Nevada, Oklahoma, South Dakota, Texas, Utah and Wyoming. Both products use similar methodology to LRP Swine and protect producers against a decline in cattle prices.

Livestock Risk Program (LRP) and Livestock Gross Margin (LGM) Suspensions

Upon the discovery of Bovine Spongiform Encephalopathy (BSE) in the State of Washington, RMA determined it was prudent to suspend the sales of LRP cattle policies to new policyholders. When originally developed, the LRP premium structure was based on the relatively stable futures market prices, which existed prior to the discovery of BSE in Washington State. However, the discovery of BSE destabilized the futures market resulting in large price swings and increased the probability that a producer would receive an indemnity. The crop insurance program is statutorily required to operate on an actuarially sound basis. The volatility present in the market after the discovery of BSE caused the product to no longer be actuarially sound. Current policyholders are not affected by the suspension of sales. The FCIC Board believes RMA acted quickly and responsibly to protect the integrity of the crop insurance program. At present, RMA is actively evaluating the rating structure and other design components of the program that may be affected by the BSE development. Sales will be restored when it is determined by the FCIC Board that the LRP is operating an actuarially sound manner and will serve the best interests of the producers.

On December 17, 2003, the FCIC Board discontinued new sales of the LGM Swine. The Board determined LGM Swine presented excess risk for the FCIC. Coverage price is determined two weeks prior to sales closing. Because LGM coverage prices are determined using the Chicago Mercantile Exchange and the Chicago Board of Trade, insureds may speculate as price on either exchange drops (hogs) or rises (corn and soybeans meal) and purchase LGM; RMA refers to this phenomena as stale pricing. While this strategy is sound, (buy low, sell high) for speculative purposes, LGM is a risk management tool and reinsured by FCIC; this strategy is not appropriate for insurance purposes. As directed by the Board, RMA will work with the submitter of the LGM to address the concerns regarding the program for subsequent insurance periods. Current policyholders of this plan of insurance are not affected by the discontinuance.

Forage and Rangeland

We recently solicited private sector participation in proposing and developing new products and changes to existing products and programs involving pasture, rangeland, forage and hay that are vital to livestock producers. The agency is providing $3 million in funding for these projects, and may provide more depending on the number and quality of submissions that meet program objectives.

Declining Yield

For most FCIC insurance plans, an individual insured's yield guarantee (approved actual production history (APH) yield) is principally based on a simple average of 4 to 10 years of actual yields. Producers and others have argued that insureds are underserved when guarantees decline following successive years of poor growing conditions. The reduction in guarantee adversely affects the viability of future crop insurance coverage and discourages continued participation in the program. RMA's goal is to contract for: (1) research and development of new and innovative approaches to mitigating declines in yield guarantees following successive years of low yield, or provide improvements to existing procedures; and/or (2) research and development of new and innovative procedures for determination of approved APH yields. Through this approach, RMA will seek proposals for new or modified approaches to establishing approved APH yields that are less subject to decreases during successive years of low yields as compared to current procedures; and that are equitable across insureds with differing average yields; and broadly applicable to all crops and regions; affordable to insureds; feasible and cost-effective for RMA and reinsured companies; and is actuarially sound.

Extend Drought Coverage

RMA is constantly evaluating the impact of consecutive years of drought or other natural disasters on declining yields, which affect available coverage, on producers in those States affected. RMA has held meetings in drought stricken States to explain RMA policy and has published a fact sheet regarding prevented planting provisions in FCIC insurance policies and to assist producers, insurance agents, and reinsured companies in understanding how that coverage addresses some of the challenges of drought. Prevented planting coverage is generally straightforward on its face, but it becomes very complex when applied to specific planting situations. RMA has sought producer and insurer input on this issue in a series of prevented planting forums held in 2003. Recommendations from these sessions are being evaluated for possible inclusion in a proposed rule that will make constructive changes in the program. RMA is also preparing to seek private sector assistance in evaluating possible product modifications or new products to address declining yield experience caused by extended drought.

Adjusted Gross Revenue-Lite

The FCIC approved the Adjusted Gross Revenue-Lite (AGR-Lite) insurance plan in late 2002 and began sales for 2003. This product was also submitted to FCIC through Section 508(h) of the Act and was authorized by ARPA. AGR-Lite is available in most of Pennsylvania and covers whole farm revenue up to $100,000, including revenue from animals and animal products. AGR-Lite covers the adjusted gross revenue from the whole farm based on 5 years of tax forms and a farm plan. AGR-Lite was expanded for the 2004 crop year to include selected counties of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Vermont, and West Virginia. Program changes were approved that will increase participation, qualify producers for higher coverage levels, increase insurable adjusted gross revenues, and allow for expansion of farms, beginning with the 2004 crop year.

Pilot Programs

Currently, RMA has 31 pilot programs. The pilot programs are: Adjusted Gross Revenue (AGR/AGR-Lite), Apple Pilot Quality Option, avocado APH, avocado revenue, avocado/mango tree, cabbage, cherry, citrus dollar (navel oranges only), Coverage Enhancement Option, crambe, cultivated clams, cultivated wild rice, Florida fruit trees, forage seed, fresh market snap beans, Income Protection Plan of Insurance (IP), livestock (swine) gross margin, livestock risk protection (swine/cattle), mint, mustard, Onion Pilot Stage Removal Option, pecans, processing chile peppers, processing cucumbers, rangeland GRP, raspberry/blackberry, strawberries, sweet potatoes, and winter squash/pumpkins.

The FCIC Board of Directors approved the expansion of the millet pilot program and conversion from a pilot program to permanent status for the 2003 crop year. The Board also approved expansion of the pecan-revenue pilot program to be offered in eighty-two counties for the 2003 crop year and subsequently approved the program to permanent status for the 2004 crop year. Additionally, the Board approved conversion of the blueberry pilot program to permanent status effective beginning the 2004 crop year.

Revenue Insurance

Revenue insurance programs include Group Revenue Insurance Policy (GRIP), Adjusted Gross Revenue (AGR), Crop Revenue Coverage (CRC), Revenue Assurance (RA), and Income Protection (IP). Under CRC, RA, and IP revenue insurance programs, indemnities are triggered by low revenues for an individual producer (caused either by low yields, or low prices, or both). Under AGR, indemnities are triggered by low revenue for an entire farm's operations, based on the producer's Schedule F Federal tax forms. Under GRIP contracts, indemnity payments are triggered by low county-wide crop revenues. Two of these alternatives, CRC and RA, allow producers the option of insuring separate areas of land either under separate insurance contracts or under the same insurance contract. Each of these alternate contracts requires that producers establish an approved Actual Production History (APH) yield for the crop to be insured.

Effective for the 2003 crop year, changes to CRC and RA-High Price Option (HPO) rating methodologies were implemented for corn and soybeans to respond to dissimilar rates being charged for similar coverage protection. RMA is currently evaluating the feasibility of merging CRC, RA and IP into a master product with several options. This will reduce market confusion over these separate but similar products and should significantly reduce administrative costs associated with their sales, service and administration.

Research and Development

During fiscal year 2003, over $24 million was obligated and approximately 45 contracts and partnership agreements were awarded to further program goals for expanding and improving risk management opportunities for producers. Examples include a contract to review RMA's product portfolio, fifteen research and development partnership agreements such as Organic Price Index, development of a Forage and Rangeland Decision Support System and a number of other program research, development, and evaluation projects to expand and improve the risk management tools for American producers.

CONCLUSION

RMA provides agricultural producers with the opportunity to achieve financial stability through effective risk management tools. RMA strives to foster, at reasonable cost, an environment of financial stability, safety, and confidence, enabling the American agricultural producer to manage the perils associated with nature and markets. The private sector crop insurance industry markets, delivers, and services many USDA risk management products. RMA also provides the educational opportunities to help producers choose and employ effective risk management tools. RMA works with the Farm Service Agency, Commodity Futures Trading commission, and other private and public organizations to provide producers with an effective safety net.

I ask that you approve this budget to enable RMA to continue providing an actuarially sound crop insurance program to America's agricultural producers. Thank you,

Mr. Chairman and members of this committee. This concludes my statement. I will be happy to respond to any questions.

Senator BENNETT. Thank you, sir. Mr. Rey.

STATEMENT OF MARK REY

Mr. REY. Good afternoon, Mr. Chairman.

Our prepared statement for the record highlights our funding request for fiscal year 2005, and in the interest of time, I will not go into great detail except to assure you that we are continuing to work diligently in accountability and results measurement for the funds provided by Congress. I am proud of the strong efforts that NRCS continues to make their programs more accessible to farmers, ranchers and the general public.

CONSERVATION SECURITY PROGRAM

What I would like to do in the short time available today is focus my remarks on our continuing efforts to implement the Conservation Security Program as provided for in the fiscal year 2004 budget and as requested in the fiscal year 2005 request. The Department is moving forward aggressively to implement the program, and we are enthusiastic about the prospects of the Conservation Security Program and look forward to making it available in farms and ranches across America.

The proposed rule was published for public comment on January 2, 2004, with a comment period that closed in the beginning of

March. The response from the public was extraordinary, with 14,010 comments plus one seed order and a misdirected check responding to a fundraising request from a group that was opposing the regulation. You will be happy to know that the seed order was returned, and the check was forwarded to the appropriate party.

Mr. REY. In addition to the comments we received, the agency conducted 10 national listening sessions around the country and many individual sessions in States on the proposed rule. Our staff has worked diligently to assemble the docket of comments and assure that each comment will receive fair consideration and review. We have made the comments available for public viewing and copying down in the Department of Agriculture. And while we are not in a position today to debate the contents of the proposed rule, I would like to put the contents of the proposed rule in a broad perspective in terms of our approach and rationale in discussing three areas which were highlighted in the comments that we received.

The first is the budgetary aspects of the CSP program. When the President signed the 2002 Farm Bill into law, the Conservation Security Program was estimated to cost $2 billion over 10 years. Just as a matter of perspective, this would be 400 times the amount originally authorized for the Wildlife Habitat Incentive Program and 571 times greater than the original funding for the Farm and Ranch Lands Protection Program.

So as envisioned, it was a significant program. Congress has seen fit to amend the program three times since signing of the Farm Bill in the last 21 months; that would be an amendment on the average of every 7 months, making program implementation a somewhat difficult task as some of the direction was changed as we went. Under the most recent revised law, the Congress expected an expenditure of less than $7 billion on the program over a 10-year period, with a cap of only $41.4 million for fiscal year 2004.

Through the work of the NRCS, we have been able to design the program in a way that provides funding obligations in a fashion similar to the way that the Conservation Reserve Program obligations are structured. For example, the President's budget request of $209 million for CSP in fiscal year 2005 will represent about a $2 billion total in funding provided for farmers and ranchers as the contracts signed in 2005 play out. If unchanged by either us or the Congress, the proposed CSP would provide more than $13 billion in CSP assistance to farmers and ranchers over 7 years, which is an amount greater than proponents of an open-ended program have been discussing.

A WATERSHED APPROACH TO CSP

A second area of considerable discussion in the public comments is our proposed approach to focusing on priority watersheds. Even though we have been able to maximize funding obligations, the dollars available will not even begin to satiate the immediate demand for the program. There is a potential applicant pool of 700,000 producers to sign up for CSP. The CSP statute, the Farm Bill language, prohibits ranking applications but would instead mandate that all applicants be accepted into the program and potentially receive a payment.

Given the $41 million available for this fiscal year, and of course, unknown amounts for fiscal year 2005 and beyond, we have proposed a program that is flexible enough to match funding available for any given fiscal year by making the program available in watersheds and emphasizing enrollment categories. Our approach also deals with the constraint placed in statute on technical assistance at a maximum of 15 percent of the expended CSP funding.

It is clear that we have proposed the best course of action in designing a staged program that can be expanded based upon available funding, and what you see in the map before you is a map of all of the watershed units in the United States. As the program is drafted now, it will start in the first year by identifying priority watersheds, the criteria for which will be published for public review shortly.

If and as funding expands, more watersheds can be made available, and using the watershed-based approach, the program could be theoretically expanded to the entirety of the land area of the United States. So it is a staged program that can be made into—is intended to be made into—a national program commensurate with whatever funding support that this Congress and subsequent Congresses provide.

CSP BASE PAYMENT

A third area which enjoyed considerable discussion in the comments regards the way the CSP base payment is structured under the proposed rule. In order to ensure defensible environmental results for the program, we have proposed placing increased emphasis on increased conservation. That is to say those farmers and ranchers who agree to do more, get more in the way of financial support from the program.

It is our goal to design a program that is easy to understand for farmers, ranchers and those implementing the program. We also want to make sure that the program produces demonstrable conservation results that will show the American taxpayer the value of good conservation on working agricultural lands so that this program can be expanded and developed into the base program to affect working conservation in the future.

PREPARED STATEMENTS

As I mentioned, our next step is to undertake a thorough review and consideration of comments from the public. It will be this input that assists us in finalizing the program design. The task will be massive, but we have dedicated appropriate staff expertise to tackle the job. Our goal is to publish a final rule with a sign-up period occurring in fiscal year 2004. USDA is ready to deliver the program to the public and begin to see results.

We consider CSP to be a brand new day for conservation policy. With that, I would be happy to respond to your questions at the appropriate time.

[The statements follow:]

PREPARED STATEMENT OF MARK REY

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to present the fiscal year 2005 budget and program proposals for the Natural

Resources Conservation Service (NRCS) of the Department of Agriculture (USDA). I am grateful to the Chairman and members of this body for its ongoing support of private lands conservation and the protection of soil, water, and other natural resources.

Performance and Results

Mr. Chairman, before I highlight our funding request for fiscal year 2005, let me assure you that we are continuing to work diligently in accountability and results measurement for the funds provided by Congress. I am proud of the strong efforts that NRCS has made on performance and making NRCS more accessible to farmers, ranchers and the general public. I believe we are offering value and accountability to both American taxpayers and to Congress. Our performance management system was recently featured in two publications that focus on government management and accountability.

In past testimony before this Subcommittee, I have discussed the excellent score that NRCS received in a measure of customer satisfaction for conservation assistance. This year, I am proud to report that NRCS was ranked as one of the best places to work in the Federal Government, including the highest score for a natural resource agency. The scores in the report were derived from the Office of Personnel Management's government-wide 2002 Federal Human Capital Survey. Also, this year we have worked hard on the Program Assessment Rating Tool (PART) to evaluate and improve our performance measures with a focus on outcomes and results. As we move forward this fiscal year, and into fiscal year 2005, we will continue to improve operations and accountability systems so that we may best serve our customers and protect and improve natural resources.

As you know, the NRCS is proposing a reorganization to improve its operational, technology support, and resource assessment functions to strengthen our ability to help America's farmers and ranchers reach their conservation goals and offer them the latest science-based technologies. We look forward to continue working with you to move forward with implementation.

Looking Ahead

The 2002 Farm Bill contained many new conservation programs designed to protect and enhance the environment. The Department continues to focus efforts on implementing the conservation programs in the Farm Bill. The 2005 President's budget request in the conservation area recognizes the importance of this task, as well as the need to continue to support underlying programs to address the full range of conservation issues at the national, State, local and farm levels.

The 2005 budget request for NRCS includes $908 million in appropriated funding, and $1.86 billion in mandatory CCC funding for the Farm Bill conservation programs, including $1 billion for the Environmental Quality Incentives Program. The appropriation request includes $604 million for Conservation Technical Assistance, the base program that supports the Department's conservation partnership with State and local entities and the conservation planning needed to successfully implement farm bill programs.

The 2005 budget for NRCS will also enable the agency to maintain support for important ongoing activities such as addressing the problems associated with runoff from animal feeding operations and providing specialized technical assistance to land users on grazing lands.

Another element in the NRCS account structure is a Farm Bill Technical Assistance Account that will fund all technical assistance costs associated with the implementation of two Farm Bill conservation programs—the Conservation Reserve Program and the Wetlands Reserve Program. In 2005, this new appropriation account is requested at $92 million.

Technical Assistance

Technical assistance funding for conservation programs has been the subject of ongoing discussion for several years and a topic of interest to this Subcommittee. We appreciate Congress taking steps to deal with the long-standing problem of technical assistance for Farm Bill conservation programs in the Consolidated Appropriations Act, 2003. The long term solution to the technical assistance issue is proposed in fiscal year 2005 with the establishment of a new Farm Bill Technical Assistance account for CRP and WRP and dedicating resources for this purpose. This will allow the agency to provide more financial assistance to farmers and ranchers in the other mandatory farm bill programs.

Conservation Operations (CO).—The 2005 budget proposes $710 million for CO which includes $582 million for Conservation Technical Assistance (CTA) and $21.5 million for technical assistance targeted specifically for the Grazing Lands Conservation Initiative. This will continue the agency's activities that support locally led, voluntary conservation through the unique partnership that has been developed over the years with each conservation district. This partnership provides the foundation on which the Department addresses many of the Nation's critical natural resource issues such as maintaining agricultural productivity and water quality and leverages additional investment from non-Federal sources. The CTA budget will enable NRCS to maintain funding for ongoing high priority work.

Mr. Chairman, I believe that NRCS can continue and build upon this level of excellence, if they are provided the support and the resources as provided in the President's budget request.

Given the challenges presented in the Farm Bill, I suggest the following highest priority areas of emphasis:

—Provide adequate support for Conservation Reserve and Wetlands Reserve programs implementation through a separate Technical Assistance discretionary account.

—Further leverage assistance through our conservation partners and the new Technical Service Provider system. These new sources of technical assistance will complement our existing delivery system.

—Provide the support in the President's budget for Conservation Operations, with an emphasis on developing technical tools and streamlining efforts to gain efficiencies where possible.

Conservation Security Program

Mr. Chairman, I also want to take a few moments to highlight our work on the Conservation Security Program (CSP). A keystone of the 2002 Farm Bill conservation title, the CSP has the potential to revolutionize the way we approach conservation assistance. We have been working hard to design a program that is farmer friendly, provides demonstrable environmental benefits, and matches the funding available to operate the program.

There has been a lot of discussion here on Capitol Hill, and around farm production and conservation organizations about the amount of resources available for the program. Needless to say, this has been a moving target for those of us attempting to develop a program under ever-changing funding scenarios. At the time the President signed the Conservation Security Program into law, there was a Congressional Budget Office (CBO) estimate of $2 billion over ten years attached to the CSP. As such, our Department began implementation discussions with that funding figure in mind.

Subsequently, the Omnibus Appropriations Act of 2003 (Public Law 108–7) transformed the CSP into a capped entitlement at $3.773 billion over a 10-year period between fiscal year 2003–2013. This change in statute led to further revisions of the CBO score. Most recently, the Omnibus Appropriations Bill for fiscal year 2004 (Public Law 108–199) contains language that once again has impacted the funding authority for the Conservation Security Program. The fiscal year 2004 Omnibus removed the $3.773 Billion funding limitation for the program over 10 years, while establishing funding for the CSP at $41.443 million for fiscal year 2004.

Another challenge that the Department faced was how to implement CSP with a statutory cap on the amount NRCS could spend to pay for technical assistance. Language in the 2002 Farm Bill limits technical assistance spending to 15 percent. This statutory cap on technical assistance has driven NRCS to develop innovative information technology tools and technical assistance management techniques to help the agency implement CSP as widely, efficiently, and effectively as possible.

We have attempted to meet these challenges in the CSP proposed rule, by designing a program that is flexible enough to match whatever funding that Congress might approve for the program. The President's budget request will provide assistance to a large number of producers across the country. The budget's proposal of $209 million represents the amount of assistance the Department will provide in one year to approximately 15,000 producers on millions of acres of crop and grazing land. We are proud of what we are accomplishing, and are looking forward to making CSP available to producers this year.

Mr. Chairman, in summary, we all know that we are trying to plan for the future under an atmosphere of increasingly austere budgets and with a multitude of unknowns on the domestic and international fronts. But I believe that the Administration's fiscal year 2005 request reflects sound policy and provides stability to the vital mission of conservation on private lands. The budget request reflects sound business management practices and the best way to utilize valuable conservation dollars as we look forward to the future.

I thank Members of the Subcommittee for the opportunity to appear, and would be happy to respond to any questions that Members might have.

PREPARED STATEMENT OF BRUCE I. KNIGHT, CHIEF, NATURAL RESOURCES CONSERVATION SERVICE

Thank you for the opportunity to appear before you today to discuss our fiscal year 2005 budget request.

Last year, I focused much of my remarks on implementation of the Farm Bill and the challenges that we faced in carrying out that legislation. I am very proud of the performance of our agency in getting the work done. To date, NRCS has published rules for nine major programs, with the Conservation Security Program proposed rule comment period recently completed and the receipt of over 12,000 letters we are currently analyzing. In addition, we have three new rules soon to be released as well.

We challenged NRCS staff throughout the Nation in fiscal year 2003. And when the year drew to a close it was clear that our field staff had answered the call. Roughly $2.3 billion in discretionary and mandatory conservation dollars successfully reached farmers, ranchers and other customers. This represents a half-billion dollar increase over last year. In turn, the streamlining and efficiencies NRCS has gained meant that even more conservation funding could be utilized for financial assistance to producers. But beyond the successes measured in terms of funds, the work NRCS completed this year will have a lasting impact on the nation's land, water, and air resources for generations to come. Along with the Farm Service Agency, NRCS successfully deployed the Grassland Reserve Program, with more than $1.7 billion in potential projects offered up by producers. All of these milestones were realized while the agency was developing and utilizing a nationwide cadre of technical service providers, and continuing to strive toward even greater efficiencies and organizational improvements. NRCS staff has worked tirelessly to meet the demands and opportunities presented by the Farm Bill legislation and we are proud of their accomplishments.

These accomplishments have also come within the context of the challenges that we face on funding for technical assistance. As you are aware, the current situation has necessitated that we utilize funding from various Farm Bill program accounts to support other conservation programs including the Wetlands Reserve Program and Conservation Reserve Program. The President's budget request proposes to address that issue by establishing a discretionary account for technical assistance for CRP and WRP.

Our focus remains to provide excellent service to our customers, and I am very proud of what we accomplished. Last year, NRCS and our partners:

—Provided technical assistance on over 32.5 million acres of working farm and ranch land to reduce erosion, sedimentation and nutrient runoff, enhance water quality, restore and create wetlands, and improve and establish wildlife habitat;

—Developed and applied more than 8,000 comprehensive nutrient management plans;

—Served nearly 3.8 million customers around the country;

—Completed or updated soil survey mapping on 22.5 million acres;

—Logged over a million hours of Earth Team volunteer time for the second year in a row;

—Executed over 30,000 Environmental Quality Incentives Program contracts with more than $483 million in financial assistance provided to producers;

—Funded more than 500 easements in the Farm and Ranch Lands Protection Program, protecting 119,000 acres of prime farmland;

—Funded over 2,100 Wildlife Habitat Incentives Program contracts; and,

—Helped land managers create, restore or enhance 334,000 acres of wetlands;

—Helped local sponsors complete construction of 60 flood protection structures.

Mr. Chairman, I also want to take a moment to highlight important work in Western states that NRCS has undertaken surrounding to the Sage Grouse habitat and population. NRCS is actively reviewing the 11 primary habitat states (WA, CA, UT, CO, ND, SD, OR, NV, ID, WY, and MT). Private lands comprise 30 percent of the total acreage where existing habitat populations occur and this agency plays a critical role in the conservation of existing habitat through the Farm and Ranchland Protection, Wildlife Habitat Incentives Program (WHIP) and the Environmental Quality Incentives Program (EQIP) Program (FRPP) as well as our general conservation technical assistance. NRCS staff are currently reviewing all existing projects that have a primary or secondary benefit to sage grouse as well as quantifying the total acres and total dollars in support of this species. Some states are also giving more program focus for sage grouse projects under the EQIP program and the NRCS state technical committee.

As we move forward in fiscal year 2005, there are many challenges and opportunities ahead, with NRCS playing a central role in meeting the Administration's conservation objectives. We will look to you to build upon the fine accomplishments achieved this year to reach an even brighter future.

Increasing Third-Party Technical Assistance

With the historic increase in conservation funding made available by the 2002 Farm Bill, NRCS will look to non-Federal partners and private technical service providers to supply the technical assistance needed to plan and oversee the installation of conservation practices. I am proud to report that, as of the beginning of February 2004, NRCS has over 1,500 individuals certified as TSPs, with 1,100 more individuals pending. In terms of businesses, NRCS has certified 130, with over 200 more applications in process. In fiscal year 2003, NRCS set aside $20 million for utilization of TSPs, with that funding quickly utilized across the nation. For fiscal year 2004, we are goaling a figure of $40 million for TSPs. We are excited about the prospect of TSP expertise continuing to complement our ongoing work.

Streamlining and Cost Savings

In 2003, NRCS devoted considerable effort to streamline our operations, becoming leaner and more efficient in delivering our core work. Last year, NRCS:

—Updated nearly 70 conservation technical standards;
—Deployed the NRCS Electronic Field Office Technical Guide;
—Streamlined program delivery, resulting in reduced costs without compromising quality;
—Worked closely with FSA to implement Conservation Reserve Program technical assistance cost savings that resulted in an additional $38 million in allocations to Environmental Quality Incentives Program, Wildlife Habitat Incentives Program, Grassland Reserve Program and the Wetlands Reserve Program;
—Developed new software called PROTRACTS to speed up and keep up with the processing of the large increase in farm bill program contracts to allow more time and dollars to be directed toward planning and applying conservation on the land; and
—Transitioned from an offset to a direct charge method of accounting to be better able to identify and control costs.

In 2005, we will continue working on many fronts. We will continue streamlining and getting more efficient in working with our partners as well.

DISCRETIONARY FUNDING

The President's fiscal year 2005 Budget request for NRCS reflects our ever-changing environment by providing resources for the ongoing mission of NRCS and ensuring that new opportunities can be realized.

Conservation Operations

The President's fiscal year 2005 Budget request for Conservation Operations proposes a funding level of $710 million which includes $604 million for Conservation Technical Assistance (CTA). The CTA budget will enable NRCS to maintain funding for ongoing high priority work.

High priority ongoing work that will be maintained includes addressing water pollution associated with animal agriculture. In addition to regular technical assistance support provided to grazing land customers, the budget proposes to provide funding for the Grazing Land Conservation Initiative (GLCI) at $21.5 million in 2005 which is included in the $604 million for CTA. The GLCI is a private coalition of producer groups and environmental organizations that supports voluntary technical assistance to private grazing land owners and managers.

The Conservation Operations account funds the basic activities that make effective conservation of soil and water possible. It funds the assistance NRCS provides to conservation districts, enabling people at the local level to assess their needs, consider their options, and develop plans to conserve and use their resources. Conservation Operations supports the site-specific technical assistance NRCS provides to individual landowners to help them develop and implement plans that are tailored to their individual goals. It also includes developing and implementing the technology and standards that are used by everyone managing private lands natural resources. It includes our Soil Survey and Snow Survey Programs and other natural resources inventories, which provide the basic information about soil and water resources that is needed to use these resources wisely.

We have made great strides in developing an effective accountability system with the support of Congress. This accountability system has allowed us to accurately track our accomplishments and costs.

Farm Bill Technical Assistance

As I described earlier in my statement, technical assistance funding for farm bill programs continues to be a challenge as we look ahead to fiscal year 2005. Fully funding technical assistance for the Farm Bill programs is essential to ensure the environmental benefits that are expected from the significant increase in conservation spending. The 2005 Budget proposes to establish a Farm Bill Technical Assistance (FBTA) account at a level of $92 million and would provide technical assistance funding for two of the 2002 Farm Bill conservation programs, the Conservation Reserve Program and the Wetlands Reserve Program.

This new account will be used to develop contracts, design, and oversee the installation of conservation practices and maximize the amount of dollars available to help farmers and ranchers install on-the-ground conservation projects. Establishing a technical assistance account for these two programs will also increase the financial assistance dollars available to carry out other Farm Bill programs.

Watershed and Flood Prevention Operations.—The 2005 Budget proposes funding for the Public Law 566 Watershed Program, but requests no funding for the Emergency Watershed Protection program. With emergency spending being so difficult to predict from year to year, the budget proposes instead to direct available resources to those projects that are underway and for which Federal support is critical to their successful implementation. The fiscal year 2005 budget proposes $40,173,000 for this program.

Watershed Surveys and Planning.—NRCS works with local sponsoring organizations to develop plans on watersheds dealing with water quality, flooding, water and land management, and sedimentation problems. These plans then form the basis for installing needed improvements. The Agency also works cooperatively with State and local governments to develop river basin surveys and floodplain management studies to help identify water and related land resource problems and evaluate alternative solutions. The 2005 Budget requests $5.1 million to ensure that this important work is continued.

Watershed Rehabilitation Program.—One of the agency's strategic goals is to reduce risks from drought and flooding to protect community health and safety. A key tool in meeting this goal is providing financial and technical assistance to communities to implement high priority watershed rehabilitation projects to address dam safety. The budget proposes $10.1 million to continue the work begun in 2002.

Resource Conservation and Development (RC&D).—The purpose of the RC&D program is to encourage and improve the capability of State and local units of government and local nonprofit organizations in rural areas to plan, develop, and carry out programs for resource conservation. NRCS also helps coordinate available Federal, State, and local programs that blend natural resource use with local economic and social values. The 2005 Budget proposes a level of $50.7 million which will support the 375 RC&D areas now authorized.

FARM BILL AUTHORIZED PROGRAMS

Environmental Quality Incentives Program (EQIP).—The purpose of EQIP is to provide flexible technical and financial assistance to landowners that face serious natural resources challenges that impact soil, water, and related natural resources, including grazing lands, wetlands, and wildlife habitat management. We have seen that producer demand continues to far outpace the available funding for EQIP. At the end of January 2003, we published revised resource concerns and program rules for EQIP resulting from the changes enacted in the new Farm Bill. We believe that the increased program flexibility and improved program features will continue to make EQIP one of the most popular and effective conservation efforts Federal Government-wide. The budget proposes a level of $1 billion for EQIP. Mr. Chairman, I would also note that NRCS recently announced nearly $20 million in EQIP assistance to support salinity control in the Colorado River Bain.

Wetlands Reserve Program (WRP).—WRP is a voluntary program in which landowners are paid to retire cropland from agricultural production if those lands are restored to wetlands and protected, in most cases, with a long-term or permanent easement. Landowners receive fair market value for the land and are provided with cost-share assistance to cover the restoration expenses. The 2002 Farm Bill increased the program enrollment cap to 2,275,000 acres. In fiscal year 2003, the administration apportioned a total of 213,280 acres for the year. The fiscal year 2005 Budget request estimates that about 200,000 acres will be enrolled in 2005, an appropriate level to keep us on schedule to meet the total acreage authorization provided in the Farm Bill.

Grassland Reserve Program (GRP).—The 2002 Farm Bill authorized the GRP to assist landowners in restoring and protecting grassland by enrolling up to 2 million acres under easement or long term rental agreements. The program participant would also enroll in a restoration agreement to restore the functions and values of the grassland. The 2002 Farm Bill authorized $254 million for implementation of this program during the period 2003–2007. The fiscal year 2005 Budget proposes funding GRP at $84 million.

Conservation Security Program (CSP).—CSP, as authorized by the 2002 Farm Bill, is a voluntary program that provides financial and technical assistance for the conservation, protection, and improvement of natural resources on Tribal and private working lands. The program provides payments for producers who practice good stewardship on their agricultural lands and incentives for those who want to do more. While NRCS is currently in the rule making process, this program will round out the portfolio of conservation programs. The fiscal year 2005 Budget proposes funding the CSP at $209.4 million and would enroll nearly 12,000 contracts. Although the cap of 15 percent on technical assistance funding established in statute continues to be a serious obstacle, through the hard work of the Administration in designing a flexible program, the President's budget request of $209 million will result in nearly $1.7 billion in obligations.

Wildlife Habitat Incentives Program (WHIP).—WHIP is a voluntary program that provides cost-sharing for landowners to apply an array of wildlife practices to develop habitats that will support upland wildlife, wetland wildlife, threatened and endangered species, fisheries, and other types of wildlife. The budget proposes a funding level for WHIP of $60 million.

Farm and Ranch Lands Protection Program (FRPP).—Through FRPP, the Federal Government establishes partnerships with State, local, or tribal government entities or nonprofit organizations to share the costs of acquiring conservation easements or other interests to limit conversion of agricultural lands to non-agricultural uses. FRPP acquires perpetual conservation easements on a voluntary basis on lands with prime, unique, or other productive soil that presents the most social, economic, and environmental benefits. FRPP provides matching funds of no more than 50 percent of the purchase price for the acquired easements. The budget proposes a level of $125 million for FRPP in fiscal year 2005.

Conclusion

As we look ahead, it is clear that the challenge before us will require dedication of all available resources—the skills and expertise of the NRCS staff, the contributions of volunteers, and continued collaboration with partners. Conservation Districts, Resource Conservation and Development Councils, State and local agencies, and other valuable partners continue to make immeasurable contributions to the conservation movement. In fiscal year 2003, these organizations contributed over $1 billion to NRCS programs. It is this partnership at the local level that makes a real difference to farmers and ranchers. And as we move forward, we will accelerate the use of third-party sources of technical assistance as well. We recognize that the workload posed by future demand for conservation will far outstrip our capacity to deliver, and seek to complement our resources with an appropriate system of qualified expertise.

But it will take a single-minded focus and resolve if we are to be successful. I am proud of the tenacity that our people exhibit day in and day out as they go about the work of getting conservation on the ground. I believe that we will be successful. But it will require the continued collaboration of all of us, especially Members of this Subcommittee because available resources will ultimately determine whether our people have the tools to get the job done. I look forward to working with you as we move ahead in this endeavor.

This concludes my statement. I will be glad to answer any questions that Members of the Subcommittee might have.

Senator BENNETT. Thank you very much. Mr. Gonzalez.

STATEMENT OF GILBERT G. GONZALEZ

Mr. GONZALEZ. Good afternoon, Mr. Chairman.

Mr. Chairman, thank you for the opportunity to come before you to discuss the fiscal year 2005 appropriation for Rural Development. I would like to submit for the record my written testimony and share a few highlights and indicate my focus on helping individuals, families and organizations within rural communities.

We are all aware of the priorities of the war on terror, homeland security, and deficit reduction. I am committed to leveraging the precious USDA Rural Development assets to create economic opportunity and improve the quality of life of rural America. Since the beginning of the Bush Administration, USDA Rural Development has provided over $37 billion in investment financing and has assisted with the creation or saving of over 500,000 jobs. We have expanded our investment from $9.6 billion in 2000 to $13 billion this past year.

USDA Rural Development is one of the few Federal agencies that can essentially build a rural community from the ground up through its investment in infrastructure, housing and business programs. However, that is not always enough. I want to leverage the resources that you have provided to work with all agencies, organizations and the private sector in an effort to bring more economic opportunity to rural America.

RURAL DEVELOPMENT ACCOMPLISHMENTS

I have implemented a major marketing effort to improve customer service while expanding our outreach to underserved and qualified individuals and organizations. I am putting especial emphasis on our efforts to increase minority participation in all of our programs. We talk a lot about numbers, but Rural Development is really about people: people who want to find better jobs, people who want better schools and hospitals, people who want to own a home and give their sons and daughters that first room of their own.

I had the opportunity last April to meet with Matt and Riley Reed of Payson, Utah. They had been married 2 years and had one little girl with another baby on the way and no hope for qualifying for a home loan for several years. Matt was an electrician with little construction experience. Under the direction of a construction supervisor, the Reed family started building their own home in September of 2000. They moved into their new house in June of 2001.

Imagine the pride these families must have felt when they walked into their home for the very first time. We are pleased to announce that the number of contracts offered under the self-help program almost doubled from 2002 to 2004.

Through our utility programs, we invested nearly $18 billion in the past 3 years for technology, water, wastewater treatment, and electric infrastructure through loans and grants. These investments have benefitted 2.7 million people in rural areas, providing nearly 2,000 rural educational facilities with expanded access to telecommunications technologies and over 800 health care institutions with enhanced medical care.

We have helped numerous rural communities through value-added grant awards. One interesting project is the United Wisconsin Grain Producers, which received a $450,000 grant for working capital startup costs for a 40 million gallon annual capacity corn ethanol production facility to be built in Freesden, Wisconsin.

In total, there were 184 value-added grants, totaling nearly $29 million, helping stimulate economic opportunity and create jobs in rural America. In support of these local investment efforts, I am working towards the implementation of two key business programs: The Rural Business Investment Program and the Low Documentation Business and Industry Guarantee Program. Both will bring much-needed capital to rural communities to support the development of small businesses and to support the President's efforts to create jobs across rural areas.

These two programs, along with our ongoing efforts to support value-added agriculture and the development of renewable energy will increase the opportunities for communities to thrive and to compete domestically and globally.

PREPARED STATEMENTS

In summary, I would like to thank the members of this Subcommittee and you, Mr. Chairman, for the continued support to USDA Rural Development and the many important programs that we administer.

Mr. Chairman, that concludes my remarks.

[The statements follow:]

PREPARED STATEMENT OF GILBERT G. GONZALES

Mr. Chairman, Members of the Committee, it is a pleasure to present to you the President's fiscal year 2005 Budget request for USDA, Rural Development.

This is my first opportunity to appear before you as Acting Under Secretary of Agriculture for Rural Development. I am honored to serve in this position, and to have the opportunity to work with you to carry out Rural Development's fundamental mission to increase economic opportunity and improve the quality of life in rural America.

Everyday, we bring people and resources together.

As Secretary Veneman recently testified, a primary component in USDA's efforts to better serve rural Americans is through greater customer service and efficiency in the delivery of our programs. At Rural Development we are seeking to accomplish these objectives through better marketing of our programs to qualified applicants and through developing a consistent structure of operation that lends itself to better customer service and improved outreach.

I believe that given the opportunity, Americans will create strength through investments in their own economic future. And I believe it is our role at Rural Development to support these efforts in ways that will maximize the benefits of rural economies.

With the assistance of this subcommittee, the Bush Administration has established a proud legacy of accomplishments in rural areas.

The Bush Administration has committed over $37 billion in rural development investments in the last 3 years to support rural Americans' pursuit of economic opportunities and an improved quality of life.

Rural Development delivers over 40 different loan, loan guarantee, and grant programs enhancing business development, cooperative development, housing, community facilities, water supply, waste disposal, electric power, and telecommunications, including distance learning and telemedicine. Rural Development staff also provide technical assistance to rural families, and business and community leaders to ensure the success of those projects. In addition to loan-making responsibilities, Rural Development is responsible for the servicing and collection of a loan portfolio that exceeds $86 billion.

Rural Development is the only Federal organization that can essentially build a town from the ground up through investments in infrastructure, homeownership and job creation through business development programs. We help rural Americans achieve their part of the American Dream.

To further support these efforts, we are working to build a collaborative group of Federal agencies that will act to strategically put Federal resources in place to serve as a catalyst for private investment. Partners in this effort include: Rural Development; Housing and Urban Development (HUD); the Small Business Administration; the Economic Development Administration; and the National Credit Union Association. In addition, we are working to increase the ability of faith-based organizations that partner with Rural Development to also support rural communities and their economic development efforts.

Successful economic development in rural areas is driven by local strategies where communities take ownership and focus on developing leadership, technology, entrepreneurship, and higher education opportunities.

This new direction of collaborative effort follows the model the President established with the successful minority homeownership initiative he unveiled 2 years ago. This initiative is yielding tangible positive results and creating achievements we all take pride in.

RESPONSIBILITIES

Rural Development provides rural individuals, communities, businesses, associations, and other organizations with financial and technical assistance needed to increase economic opportunities and improve the quality of life in rural America. This financial and technical assistance may be provided solely by Rural Development or in collaboration with other public and private organizations promoting development in rural areas.

VISION

To achieve our dual mission of creating greater economic opportunities and improving the quality of life for rural citizens, we understand the need to structure the delivery of Rural Development programs so that those who are most qualified receive investment assistance. Reaching maximum efficiency and utilization also requires that Rural Development do a better job of outreach and education on the programs that are available. Last year, during our testimony before this Committee, we stated that the marketing of Rural Development programs is a critical component in better serving rural areas. Today, we have embarked upon an aggressive outreach and marketing effort focused on the programs receiving appropriations rather than on the names of individual agencies receiving the appropriations. This effort is a key priority and we believe it will help ensure greater utilization of program investment dollars by those who are most qualified.

Over the last 3 years (fiscal year 2001-fiscal year 2003) with your assistance Rural Development has delivered over $37 billion in loans and grants to rural Americans. Through this infusion of infrastructure investment and local area income stimulus, many rural areas are primed to attract an increase in private sector investment. We expect to see these Federal investments returned many times over in the form of new private ventures, with their associated multiplier effects on household incomes and local quality of life.

Other primary goals include:

Homeownership.—The bedrock of this Administration's commitment to rural America is homeownership and you are key to fulfilling this commitment. A safe, secure home is the foundation for the family unit and owning a home is the oldest and best form of building equity. I am proud of the fact that Rural Development has invested over $10.2 billion in the last 3 years in single family housing, which supports the President's minority homeownership goal.

Entrepreneurship.—I believe there are two key economic drivers for building competitiveness in rural communities. One is our ability to grasp and utilize the power of technology. The Internet, and the technology that has flowed from it, has resulted in the free flow of capital and easy access to knowledge across borders. It has made it possible for competition to develop and build production and value-added systems. The second economic driver is supporting the growth of small businesses in rural communities.

That is why we are focusing our energies on implementing a new low-documentation Business & Industry guarantee loan program, implementing the Rural Business Investment Program, underwriting broadband loans, and employing other new economic development tools to make the most of these key economic drivers.

RURAL DEVELOPMENT BUDGET REQUEST

The President's commitment to rural America remains strong, and our request will support a total program level of $11.6 billion in loans and grants. This program level is very close to the fiscal year 2004 budget request, in spite of elevated priorities in other areas and the increased interest costs of our credit programs.

I will now discuss the requests for specific Rural Development programs.

RURAL UTILITY PROGRAMS

Through the Rural Utilities Service, USDA Rural Development provides financing for electric, telecommunications, and water and waste disposal services that are essential for economic development in rural areas. The utilities program requests a total loan level of $4.9 billion, which is comprised of $2.6 billion for electric loan programs, $495 million for rural telecommunication loans, $25 million for Distance Learning and Telemedicine grants, $331 million in loans for broadband transmission, over $1 billion for direct and guaranteed Water and Waste Disposal loans, $346 million for Water and Waste Disposal Grants, and $3.5 million for Solid Waste Management Grants.

The Rural Telephone Bank (RTB) was established in 1972 to provide a supplemental source of credit to help establish rural telephone companies. This has proved to be remarkably successful, and efforts have been underway to privatize the bank. In 1996, the RTB began repurchasing Class "A" stock from the Federal Government, thereby beginning the process of transformation from a Federally funded organization to a fully privatized banking institution. The fiscal year 2005 budget reflects the Administration's commitment to a fully privatized RTB that does not require Federal funds to finance the loans it makes.

I would like to underscore two points in our Rural Utilities budget request. With the broadband program, we are building on over $2 billion in mandatory and discretionary loan funding that was provided over the last 2 years. To date, approximately 90 applications totaling $1.1 billion have been received and are in the review pipeline. Of those received, $134 million in loans have been approved. Due to the uniqueness of this new program, from evaluating the pricing mechanism and ever-advancing technology component, to the ongoing subsidy debate associated with the prerequisite level of equity requirements, and the built-in commercial nature of the lending competition associated with this program, review of the applications has not been as swift as we would have hoped. However, we do believe that careful deliberation of these elements is required if we are to ensure the credit worthiness and soundness of the loans we make, especially since many of these companies are start-ups. This Administration is firmly committed to developing rural technology infrastructure and we are working hard to meet the expectations of the Congress and the public. For fiscal year 2005, we are requesting $9.9 million in discretionary budget authority, which will sustain an additional $331 million of loans. This level of funding, coupled with the remaining balances from prior years, will provide ample support for the continued expansion of broadband services in rural areas.

Second, we are able to support the funding of water and wastewater infrastructure through heavier reliance on loans rather than grants due to more affordable interest rates which allow rural communities to assume a greater portion of the infrastructure debt.

RURAL BUSINESS-COOPERATIVE PROGRAMS

Since 2001, USDA Rural Development has provided over $3.3 billion for rural business development in the form of loans, grants and technical assistance.

The Rural Development business and cooperative program budget request for fiscal year 2005 is about $738 million, the bulk of which is comprised of $600 million for the Business & Industry loan guarantee program.

As I stated earlier in my testimony, creating economic opportunities is a primary pillar supporting the Rural Development mission. One of my priorities, which I have personally been working to implement, is the Rural Business Investment Program, authorized in the 2002 Farm Bill. This program is being developed in partnership with the Small Business Administration and is critical to economic growth in rural areas. Further, we are working to create a low-documentation version of the business and industry guarantee loan program that has less reliance on paperwork and more flexibility in providing smaller loan amounts to help more smaller businesses access much needed capital.

We are requesting $40 million for the Rural Business Enterprise Grant program, $3 million for the Rural Business Opportunity Grant program, over $34 million for the Intermediary Relending Program, $25 million for Rural Economic Development loans, $5.5 million for Rural Cooperative Development grants, $10.8 million in discretionary budget authority for renewable energy loans and grants, and $15.5 million of discretionary funding for the Value-Added grant program.

The $10.8 million of discretionary budget authority for renewable energy loans and grants will assist in fulfilling the President's Energy Policy that encourages a clean and diverse portfolio of domestic energy supplies to meet future energy demands. In addition to helping diversify our energy portfolio, the development of renewable energy supplies will be environmentally friendly and assist in stimulating the national rural economy through the jobs created and additional incomes to farmers, ranchers, and rural small businesses. The allocation of this budget authority among direct loans, guaranteed loans, and grants is not determined at this time. Once the subsidy rates for the loan programs are finalized we will determine the distribution of loans and grants. This is important for rural communities and our country's ability to rely less on imported energy. I am committed to this program and the benefits it holds for America.

Rural Development has administered the value-added grant program since its inception as a pilot in fiscal year 2001. Over that time, we have concentrated on improving outreach to assist in stimulating the most effective projects, and improving the application review process to ensure an empirically based, evenhanded review. We instituted a contract effort with highly educated and experienced academicians to make certain the scoring was unbiased. Geographic dispersion was not included as an evaluation criterion. However, I am concerned that the distribution of the latest awards does not reflect the breadth of innovative talent that I know is spread across rural America. I am instituting a review of our outreach and technical assistance provisions, to determine if improvements are needed in Rural Development's assistance to potential applicants. I have also initiated a review of project results. We would like to identify the characteristics of successful projects, and what benefits are accruing to rural areas.

As we stated during our testimony last year, one of our top priorities is to review the current cooperative service delivery structure. I am committed to completing this review and ensuring that we have a program that not only meets the current cooperative needs, but also focuses on helping new generations of cooperatives develop structures that will increase bottom lined profitability and allow them to be more competitive in domestic and global markets.

RURAL HOUSING PROGRAMS

The budget request for USDA Rural Development's housing programs totals $5.3 billion in loan and grant funds. This funding commitment will improve housing conditions in rural areas, and continue to promote homeownership opportunities for minority populations. In support of the President's homeownership initiative, Rural Development's goal is to increase minority participation in housing programs by 10 percent over the next few years.

The request for single-family direct and guaranteed homeownership loans exceeds $3.8 billion, which will assist almost 42,800 households, who are unable to obtain credit elsewhere.

The housing program request maintains the program level for housing repair loans and grants, $35 million for housing repair loans and almost $32 million for housing repair grants, which will be used to improve 10,000 existing single-family houses, mostly occupied by low-income elderly residents.

This budget maintains Rural Development's commitment to focus on repair, rehabilitation, and preservation of multi-family housing projects. We have placed a very high priority on completing review and development of a comprehensive strategy for delivering this important program. I am committed to seeing this review completed as quickly as possible. Additionally, we are working to complete the promulgation of revised multi-family housing regulations that we believe will increase program efficiency. We are proposing a multi-family housing request of $60 million for direct loans, $100 million for guaranteed loans, $42 million for farm labor housing loans, $17 million for farm labor housing grants, and $592 million in rental assistance. Rural Development has an existing multi-family housing portfolio of $12 billion that includes 17,800 projects. Many of these projects are 20 years old or older, and face rehabilitation needs. In the face of the demands for repair/rehabilitation and preservation of existing projects, and our ongoing study of program alternatives, we are deferring requesting new construction funding this year. I would add, however, that we are working with the secondary market to increase utilization of the guaranteed loan program, for which the Administration has requested $100 million for new construction needs.

This budget sustains the farm labor-housing program at an aggregate level of $59 million—$42 million of loans and $17 million of grants. Maintaining this level is necessary to support agriculture's need for dependable labor to harvest the abundance produced by rural farms, and provide housing to the poorest housed workers of any sector in the economy.

Rental Assistance payments are used to reduce the rent in multi-family and farm labor housing projects to no more than 30 percent of the income of very low-income occupants (typically female heads of households and the elderly, with annual incomes averaging about $8,000). The budget includes $592 million for Rental Assistance, which will be delivered through 4-year agreements. This level of funding will provide rental assistance to over 42,000 households, most of which would be used for renewing expiring contracts in existing projects. With the fiscal year 2004 reduction in contract term to 4 years, the appropriations act allows Rural Development to utilize unliquidated balances at the end of that contract term for many other eligible multi-family housing purposes. For the history of this program, unliquidated balances remained with the contract, and continued to be expended on that contract until exhausted. This budget reflects a return to that arrangement. We are concerned that providing this extra program flexibility to Rural Development may, in fact, reduce the confidence of future Section 515 participants that necessary Rental Assistance will be provided in the future.

The Community Facilities request totals $527 million, including $300 million for direct loans, $210 million for guaranteed loans, and $17 million for grants. A portion of the direct loan program will be directed to homeland security health and safety issues in rural areas. Community facilities programs finance rural health facilities, childcare facilities, fire and safety facilities, jails, education facilities, and almost any other type of essential community facility needed in rural America. We intend to target $100 million to homeland security uses, such as first responders.

ADMINISTRATIVE EXPENSES

Delivering these programs to the remote, isolated, and low-income areas of rural America requires administrative expenses sufficient to the task. From fiscal year 1996 through fiscal year 2003 Rural Development's annual delivered program level increased by 89 percent. Over that same period Rural Development's Salaries and Expenses appropriation increased only 16 percent. Rural Development has the staff and the dispersed distribution mechanism to reach the ambitious program targets outlined above, but adequate administrative support must be made available.

With an outstanding loan portfolio exceeding $86 billion, fiduciary responsibilities mandate that Rural Development maintain adequately trained staff, employ state of the art automated financial systems, and monitor borrowers' activities and loan security to ensure protection of the public's financial interests. Limited S&E funding could jeopardize our ability to provide adequate underwriting and loan servicing to safeguard the public's interests.

For 2005, the budget proposes a total of $665.6 million for Rural Development S&E, or an increase of $38.9 million over fiscal year 2004. Of this increase, $11.6 million will fund pay costs and related expenses; and $13 million is for increasing Departmental charges (Greenbook and Working Capital Fund increases) and funding to continue to support the move of St. Louis staff to the Goodfellow facility. An additional $14 million will support Information Technology (IT) needs, including data warehousing, continued expansion and upgrading of systems supporting the multi-family housing program, enhancement of the Rural Utilities Loan Servicing system to meet rural utilities program needs, e-Gov requirements, and IT security needs.

Mr. Chairman and Members of the Committee, this concludes my formal statement. We would be glad to answer any questions you may have. Thank you for the opportunity to appear before you to discuss the Rural Development budget request.

PREPARED STATEMENT OF HILDA GAY LEGG, ADMINISTRATOR, RURAL UTILITIES SERVICE

Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to present the President's fiscal year 2005 budget for the USDA Rural Development, rural utilities program. We appreciate the work and support you and other members of this subcommittee have provided for a strong, dependable infrastructure in the rural United States.

All aspects of a rural society are work together to make a strong Nation. Safe, affordable, modern utility infrastructure is an investment in economic competitiveness and serves as a fundamental building block of economic development. Changes in the landscape of rural America, along with developments in technology, and changes in the market structure are combined with an aging utility infrastructure. These changes are occurring in the electric, telecommunications, and water sectors. Without the help of USDA Rural Development rural utilities program, rural citizens face monumental challenges in participating in today's economy and improving their quality of life.

The $42 billion rural utilities program loan portfolio includes investments in approximately 2,000 electric and telecommunications systems and 7,500 small community and rural water and waste disposal systems serving rural communities. This local and Federal partnership is an ongoing success story. Eighty percent of the Nation's landmass continues to be rural, encompassing 25 percent of the population. In a recovering economy, this infrastructure investment spurs economic growth, creates jobs, and improves the quality of life in rural America.

ELECTRIC PROGRAM

The rural utilities program budget proposes $5 million in budget authority (BA) to support a program level of $2.6 billion. This includes $3.6 million in BA for a hardship program level of $120 million, over $1 million in BA for a $100 million program level for direct municipal rates loans, $700 million program level for the direct Treasury rate loans, $60 thousand BA for $100 million program level for guaranteed electric loans, and $1.6 billion for Federal Financing Bank (FFB) direct loans. The Treasury loans are made at the cost of money to the Federal Government; therefore the FFB loans do not require BA. Because Congress has provided very generous loan levels over the past 3 years, we have been able to eliminate most of the backlog in loan applications; and we feel the President's budget level will meet the demand during fiscal year 2005.

To meet the demands of economic growth across our Nation, the need for transmission lines to deliver electric power where it is needed is placing new demands on cooperatives providing transmission service. To protect the quality of our environment while meeting growing power generation needs, the costs of maintaining and building power generation capacity is ever growing. We are seeing requests for large loan generation loans for the first time in almost 15 years.

ADVANCED TELECOMMUNICATIONS IN RURAL AMERICA

No aspect of the rural utilities infrastructure faces more changes than the area of telecommunications. Congress, with the leadership of this Committee, has shown great confidence in the rural utilities program Telecommunications Program's ability to empower rural America with the most modern telecommunication tools to participate in today's global, digital economy. Job growth, economic development, and continued quality of life in rural America is directly tied to access to today's high-speed telecommunications.

I would like to take this opportunity to tell you where we stand with our Broadband Program in terms of (1) program delivery; (2) our drive to balance fiduciary responsibility with mission delivery; (3) our expertise in administering a very complex lending program; and (4) the administration's continued support for the deployment of Nation-wide broadband service.

The Broadband loan program is distinctive from all other lending programs within the agency's portfolio. Nearly half of the applicants are "start-up" companies with little, if any, history of doing business in this industry. In addition, two distinctly different characteristics are at play—competition (rather than a monopolistic environment) and multi-state businesses (rather than a single cooperative or independent company serving a single rural community). Very few of the applications are designed to serve a single rural community or even a small grouping of geographically close rural communities. Most are applications requesting to serve 50, 75, or in excess of 100 rural communities in multiple states. In these multiple community applications, the vast majority of the communities already have broadband service available in some of the proposed service area; in some instances, from more than one provider. Therefore, to determine financial feasibility, the agency must determine what portion, if any, of a competitive market the applicant will be able to penetrate. As you can imagine, these factors contribute to increased review and processing efforts.

I am pleased to report that, as of today, the agency has made 12 loans totaling $134 million which will serve 215 communities with more than 670,000 rural citizens. The agency has also completed its review of every application received in this program. It should be noted that nearly 70 percent of those applications were received within a one-month timeframe between mid-July and mid-August of 2003.

Our country is facing challenging domestic spending decisions. In order to balance fiduciary responsibility with mission delivery, USDA is focusing on "quality loans" that produce exponential benefits through reduced subsidy rates and greater lending levels and that strengthen not only rural economies, but our national economy and its role in the global economic system. A failed business plan translates not only into loss of taxpayer investment, but deprives millions of citizens living in rural communities of the technology needed to attract new businesses, create jobs, and deliver quality education and health care services.

Building on USDA's experience and local presence in serving rural communities, we bring a unique lending expertise that includes the tools necessary to examine, and provide solutions for, the financial and the technical challenges facing entities dedicated to serving rural America. This model has resulted in a lending agency with unprecedented success in our other programs and we are dedicated to bringing that same level of success to this program.

From the beginning, the President has recognized the importance of broadband technology to our rural communities. The President stated, "we must bring the promise of broadband technology to millions of Americans and broadband technology is going to be incredibly important for us to stay on the cutting edge of innovation here in America." The Bush Administration has been unwavering in its support for this and other programs that will revitalize and strengthen our rural communities.

Let me assure you that we are on track, we remain focused, and we will complete our mission. We must continue to balance fiduciary responsibility with mission delivery everyday. Our unique lending expertise—the marriage of financial and technical analysis—helps to maximize the success rate of borrowers' business models. And we will strive to do our part for rural America in fulfilling the President's promise of bringing broadband service to millions of citizens. Making bad loans helps no one, making successful loans helps everyone.

TELECOMMUNICATIONS BUDGET

This year's budget proposes approximately $35 million in budget authority for an overall broadband and distance learning and telemedicine telecommunications program level of $356 million. The fiscal year 2005 budget proposes a broadband loan program level of approximately $331 million. This level of funding, coupled with the remaining balances from prior years, will provide ample support for the continued expansion of broadband services in rural areas. Included in the broadband loans request is approximately $36 million in direct 4 percent loans, $255 million in direct Treasury Rate Loans, and $40 million in guaranteed loans.

In the regular telecommunications program, the fiscal year 2005 budget proposes a program level of $495 million. Included is $145 million in direct 5 percent loans, $250 million in direct treasury rate Loans, and $100 million in Federal Financing Bank (FFB) direct loans guaranteed by the rural utilities program. All of this is driven by $100 thousand in budget authority.

The budget also reflects the Administration's commitment to privatize the Rural Telephone Bank and does not request any budget authority or loan level for fiscal year 2005.

Distance learning and telemedicine (DLT) technologies are having a profound impact on the lives of rural residents by assisting rural schools and learning centers in taking advantage of the information age and enabling rural hospitals and health care centers to have access to quality medical services only found in large hospitals. The distance learning and telemedicine program pulls together the best of Federal assistance and local leadership.

The DLT grants are budgeted at $25 million, the same as Congress appropriated for fiscal year 2004. The Budget proposes to zero out the loan program, simply because loan repayment is out of reach for most applicants, which are schools and hospitals. Even with increased marketing efforts over the past 2 years, less than $21 million in loans were made in fiscal year 2003.

WATER AND ENVIRONMENTAL PROGRAMS

The water and environmental programs provide two of the most basic of infrastructure needs for rural citizens which are clean, safe, and affordable drinking water and ecologically sound waste disposal. The Centers for Disease Control and Prevention in Atlanta, Georgia, reports there are still over 1,000 deaths each year from water borne diseases.

The budget request seeks approximately $439 million in budget authority for a program level of $1.4 billion in water and waste disposal loans and grants. The program consists of $90 million in budget authority to support $1 billion in direct loans and $75 million in loan guarantees and nearly $346 million in water and waste disposal grants. In addition, the budget requests $3.5 million in solid waste management grants.

SUMMARY

Rural utility infrastructure programs are interwoven in the fabric of USDA Rural Development programs. They are utilized to provide clean and safe water; modernize communications; create reliable electric power so that businesses can develop and homes can have lighting and heating, as well as open up access to information from the rest of the world.

Prepared Statement of Arthur A. Garcia, Administrator, Rural Housing Service

Mr. Chairman and Members of the Committee, thank you for the opportunity to testify on the proposed fiscal year 2005 budget for the USDA Rural Development, rural housing program. As an integral part of Rural Development, rural housing program assists rural communities in many fundamental ways. We provide a variety of both single and multi-family housing options to residents of rural communities. We also help to fund medical facilities, local government buildings, childcare centers, and other essential community facilities.

Rural Development programs are delivered through a network of 47 state offices and approximately 800 local offices. In addition, approximately 2,000 guaranteed lenders participate in the guaranteed single-family housing (SFH) program.

The proposed budget for rural housing program in fiscal year 2005 supports a program level of approximately $5.3 billion in loans, grants and technical assistance. The fiscal year 2005 budget for the rural housing program maintains the Administration's strong commitment to addressing the needs of rural America, including the needs of minority homeownership. We believe that our efforts, combined with the best of both the nonprofit and private sectors, will ensure that this budget makes a tremendous difference in rural communities. Let me share with you how we plan to continue improving the lives of rural residents under the President's fiscal year 2005 budget proposal for our rural housing programs.

SINGLE FAMILY HOUSING PROGRAMS

The single-family homeownership programs provide several opportunities for rural Americans with very low-to moderate-incomes to obtain homes of their own. Of the $3.8 billion in program level requested for the SFH programs in fiscal year 2005, $2.5 billion will be available as loan guarantees of private sector loans. An additional $225 million in loan guarantees will be used to refinance more affordable loans for rural families.

The 2005 budget reflects an increase in the fee on new SFH guaranteed loans from 1.5 to 1.75 percent. To offset this increase, the proposed legislation will not only allow the loan amount to exceed 100 percent of approved value by the amount of the fee. This proposal will help ensure that families with limited resources are not prevented from participating in the program.

Our commitment to serving those most in need in rural areas through our direct homeownership program remains strong. The fiscal year 2005 budget includes $1.1 billion in loans to create housing opportunities for low and very low-income families.

SELF-HELP TECHNICAL ASSISTANCE AND OTHER SINGLE FAMILY HOUSING PROGRAMS

The fiscal year 2005 proposed budget requests $76.7 million in budget authority to make over $120 million in program level funding available to assist up to 12,000 families with incomes below 50 percent of the area median income. This includes $35 million in program level for home repair loan funds for 5,800 very low-income families and $31.5 million for grants to assist approximately 6,000 elderly homeowners. The fiscal year 2005 proposed budget for SFH programs also includes $34 million to support the Section 523 mutual and self-help technical assistance grant program, $5 million in loan level for each of two site loan programs, and $10 million in loan level for sales of acquired properties, and $1 million for supervisory and technical assistance grants.

MULTI-FAMILY HOUSING PROGRAMS

The Multi-Family Housing (MFH) budget preserves Rural Development's commitment to maintaining the availability of affordable housing for the many rural Americans who rent their homes.

With a total request of $822.5 million program level, of this amount $592 million would be used for rental assistance payments. The majority of these funds will be used to renew more than 42,000 4-year RA contracts. Most of the remainder will be used to provide new rental assistance contract for farm labor housing programs. We estimate using $60 million for MFH direct loans to provide much needed repairs or rehabilitation to approximately 3,400 units of the 17,800 rental properties in the portfolio. These apartments provide decent, safe, sanitary, and affordable residences for more than 450,000 tenant households.

The budget request will fund $100 million in guaranteed loans that may be used for new construction. In addition, the request funds $42 million in loans and $17 million in grants for the Section 514/516 Farm Labor Housing program, $1.5 million in loans for MFH credit sales, and $10 million for housing preservation grants.

Under the President's fiscal year 2005 budget, MFH guarantee loans will enable 2,500 rental units to be built. In the farm labor-housing program, about 3,000 units will be built or repaired. Both programs provide year-round homes to migrant and farm workers.

COMMUNITY PROGRAMS

The Community Facilities budget will enable rural housing program to provide essential community facilities, such as educational facilities, fire, rescue and public safety facilities, health care facilities, and childcare centers in rural areas and towns of up to 20,000 in population. The total requested program level of $527 million includes $300 million for direct loans, $210 million for loan guarantees, and $17 million for grants.

In fiscal year 2003, we assisted 83 communities by investing over $66 million in educational and cultural facilities, over $54 million in public safety facilities in 359 rural communities, and over $162 million in health care facilities in 124 rural communities. Funding for these types of facilities totaled $282 million. The remaining balance was used for other essential community facilities.

In partnership with local governments, state governments, and Federally-recognized Indian Tribes, the fiscal year 2005 Community Facilities budget will support more than 375 new or improved public safety facilities, 140 new and improved health care facilities, and approximately 100 new and improved educational facilities.

PROGRAM HIGHLIGHTS & INITIATIVES

I am pleased to provide you with an update on several highlights from our major programs, as well as key initiatives being undertaken.

SINGLE FAMILY HOUSING UPDATE

SECTION 523 MUTUAL AND SELF-HELP HOUSING

Funding for our mutual and self-help housing technical assistance (TA) program increased significantly in the 1990s from $13 million per year to $35 million per year. I am proud to report that fiscal year 2003 was the best year ever for our mutual and self-help housing program. A total of $40 million was awarded in contracts and two-year grants to conduct self-help housing programs or assist sponsor groups.

The demand for TA funding continues to grow rapidly. There were 46 "pre-development" grants awarded in fiscal year 2002–03, including many first-time sponsors and groups in states with no self-help housing programs. Pre-development funds may be used for market analysis, determining feasibility of potential sites and applicants, and as seed money to develop a full-fledged application. Groups in the pre-development phase typically need 6 to 12 months before they are ready to apply for full funding. We expect a considerable portion of these groups to seek full funding in fiscal year 2005.

SECTION 502 GUARANTEED PROGRAM

Demand for our section 502 guaranteed program continues to be strong based upon:

—Aggressive outreach and customer service by Rural Development staff;
—Growing recognition and acceptance of the program by the mortgage industry as an outstanding loan product for lower income rural families. The program requires no down payment and no monthly mortgage insurance premiums;
—Historic low interest rates, which coupled with a Rural Development guarantee, have helped moderate income families achieve homeownership;
—Rural Development's commitment to reducing barriers to homeownership, especially for lower-income and minority families;
—Redirecting low-income families who can afford current low interest rates from our Direct homeownership program to our Guaranteed program;
—The Secretary's Five-Star Commitment to increase homeownership, including minority homeownership.

We developed an Automated Underwriting System (AUS), which will allow lenders to input customer application data and determine immediately whether the Agency will issue a commitment. This system should be fully operational by next summer.

Our Centralized Servicing Center in St. Louis, Missouri will soon begin centralizing loss claims submitted by lenders under our guarantee SFH program. This process is currently being done in State Offices. Centralization will improve efficiency, consistency, and provide better management data to program officials.

USDA'S FIVE STAR COMMITMENT TO INCREASE MINORITY HOMEOWNERSHIP

The rural housing program is committed to increasing homeownership for all Americans, including minorities. Approximately 13 percent of rural America is comprised of minorities. We are pleased to report that over 20 percent of our housing resources reach minority families. Several of our programs, most notably our mutual and self-help housing program, serve over 50 percent minorities. In response to the President's minority homeownership goals, USDA is committed to increasing its success. In October 2002, USDA issued a Five Star Commitment to expand homeownership opportunities for all Americans. We believe this plan will also expand minority homeownership by 10 percent by 2010. Our Five Star Commitment includes the following:

—Doubling the number of self-help participants by 2010;
—Increasing participation by minority lenders through outreach;
—Lowering fees to reduce barriers to minority homeownership;
—Promoting credit counseling and homeownership education; and
—Monitoring lending activities to expand minority homeownership opportunities.

Since announcing the Five-Star Commitment, USDA has:

—Awarded a total of $40 million in self-help housing grants in fiscal year 2003, which was the best year ever for the program. Demand for funding continues to grow. There were 46 "pre-development" grants awarded in fiscal year 2002–2003, including many first-time sponsors and groups in states with no self-help programs.
—Entered into a memorandum of agreement with the Federal Deposit Insurance Corporation (FDIC) to promote and utilize their "Money Smart" training program. FDIC assisted us by providing training to all of our State Offices on delivery of this valuable financial literacy program.
—Lowered the fee for the guaranteed SFH loan program from 2 percent to 1.5 percent for purchase loans and 0.5 percent for refinance transactions. This change, coupled with record low interest rates, has increased demand for the program. Although the Administration's fiscal year 2005 budget proposes a small increase in the fee (25 basis points), this is coupled with proposed legislation that will allow the Agency to include the entire fee in the loan. This small increase (less than $500 per loan) will help reduce government outlays and the accompanying legislative proposal ensures that families will not be adversely impacted.
—Obtained commitment from Rural Development State Offices to increase the number of American homeowners, including minority homeowners, served through our direct and guaranteed programs. All states have developed individual plans to increase homeownership levels for all Americans, including minority homeownership, and to expand the availability of the self-help program. We met our overall objectives for fiscal year 2003 and are on target for fiscal year 2004.

MULTI-FAMILY UPDATE

COMPREHENSIVE PROGRAM ASSESSMENT

We are addressing concerns about our aging portfolio of multi-family housing properties through a Comprehensive Program Assessment (CPA). The CPA was designed to evaluate the multi-family housing programs from several perspectives, including program delivery, organizational structure, effectiveness of programs and alternative financing tools, and a comprehensive analysis of the Section 515 properties in our portfolio.

We selected a statistically random sample of properties from the portfolio (333 of 17,800 or about 2 percent) and they are being evaluated for:

—Assessment of a property's physical condition;
—Assessment of a property's financial health;
—Assessment of a property's position in the real estate rental market;
—Determination of continuing need for this rental housing;
—Assessment of needed capital improvements and cost;
—Assessment of future capital reserves needs;
—Analysis of prepayment potential and;
—Analysis of prepayment incentive costs to retain properties and use restrictions.

From this assessment and analysis, we will develop a model to apply to all portfolio properties. It will tell us the cost of capital needs, the current funds available in reserve accounts, and where revitalization efforts should be concentrated.

The CPA review is on schedule. All sample properties were inspected last year. We expect a report on the physical and market analyses by this spring.

The CPA is also evaluating the organizational structure of the MFH division and determining better ways of delivering our loan programs. Through discussions with stakeholders and HUD, the CPA will determine the best organizational method to address prepayment issues. The evaluations are being done by our contractor, ICF Consulting, in concert with Rural Development senior management and our MFH Advisory Board, consisting of National and State Office staff. As the comprehensive program assessment concludes, we will present results and recommendations to the Subcommittee.

RENTAL ASSISTANCE

During the past year, the Agency undertook an initiative to automate the forecasting of the cost of renewals of Rental Assistance (RA) contracts. This automated system uses actual operating and rental data from each MFH property that receives RA and predicts the cost of RA needed for these very low and low-income tenants. The automation initiative started in March 2003 and is currently being tested. We expect the forecasting tool to be available by March of fiscal year 2004.

In other efforts to improve internal controls, we plan to add several staff members to the RA program and to develop an internal operating manual. This month, the Department will undertake a Management Control Review of the Section 521 Rental Assistance program, which entails auditing the performance of State Offices in program and funds delivery, and in compliance with program and National Office policy requirements.

We will continue our efforts to more efficiently deliver RA. Last year, we reported on outstanding unliquidated obligations from prior years' RA contracts. The majority of the unliquidated obligations come from RA contracts entered into between 1978 and 1982. These contracts were vastly overestimated at the time by a methodology that incorporated the lowest social security payment, a 25 percent tenant contribution (since increased to 30 percent), and double-digit inflation. Additionally, over 50 percent of these contracts are concentrated in areas that continue to experience low rents, low tenant incomes, and out migration of the population. These factors combined to yield an extremely low rate of RA usage. In the end, the funds for those contracts between 1978 and 1982 have lasted much longer than originally planned. The funds remain in the form of unliquidated obligations on our books, and will continue to be drawn on until they have been exhausted. For those units, this alleviates having to renew the contract until they have exhausted all funds.

The removal of the 20-year time frame for projections coupled with an improved and automated forecasting methodology over the last 4–5 years has contributed to better accuracy in providing just the right amount of RA to last through the term of the contract. We believe that only a very small amount of the fiscal year 2005 funds, if any, will last longer than 4 years. Administratively, continuation of the original purpose of these funds is the most efficient way to handle any of these small and unanticipated surpluses.

Concerning the unliquidated obligations for the old 20-year contracts, last year, the House Financial Services Committee—Oversight and Investigations Subcommittee asked us to investigate using these outstanding balances. When a rental assistance agreement is terminated because the project owner no longer needs units that are receiving RA or by means of a loan payoff or foreclosure, the unexpended funds are applied to other units in the MFH program. However, our Office of the General Counsel has advised that we do not have the authority to recapture obligated, but unexpended RA funds associated with a still active RA agreement. Even if we had that specific authority, there would be substantial litigative risks that affected project owners would be able to successfully bring breach of contract action against rural housing program under the agreement and the ability to use these funds would be the same as if the funds were appropriated from the General Fund.

PROPOSED RULE 3560

Proposed Rule 3560 consolidates 13 regulations and a number of administrative notices affecting Sections 514, 515, 516, and 521 MFH programs. RHS received 3,000 comments on the proposed rule. We have completed our review and consideration of these comments and are working on drafting the final rule.

SECTION 538 GUARANTEED RURAL RENTAL HOUSING PROGRAM

Currently, the Section 538 Loan Guarantee Program has 16 properties containing 1,111 units that are built and occupied. There are 26 properties containing 1,345 units under construction and another 65 properties containing 3,610 units with the funds obligated. Also, there are applications representing 32 projects containing 2,569 units awaiting approval.

In the built and occupied units, the average monthly rent is $481. This translates to a median income of about 17 percent of area median income. We also have Section 8 vouchers in about 10 percent of the units to serve low and very-low income residents.

This program can be combined with several other funding sources, such as, Low Income Housing Tax Credits; HOME; and Federal Home Loan Bank Affordable Housing Program funds to provide affordable housing to rural residents presently not assisted.

MFH AUTOMATION INITIATIVES

In addition to the automation of RA forecasting, rural housing program has continued to improve its management information systems. The Agency is developing a data warehouse for both its SFH and MFH loans, which will dramatically improve our reporting capabilities. The data warehouse is now functional and continues to be populated with data from several existing databases.

Phase 4 of the Multi-Family Information System (MFIS), scheduled for implementation in May 2004, will provide for electronic debiting and crediting of borrowers' accounts, thereby eliminating funds handling in area offices. Phase 4 will also provide the public with a website to locate all the MFH properties, with pictures, property information, contact information, and links to property or management company websites.

Another automation improvement is the Management Agent Interactive Network Connection, which allows property managers to transmit tenant and property data to RHS via the Internet. This data goes directly into the MFIS database and the data warehouse. This web-based system is now being used voluntarily, and is scheduled to become mandatory this summer with the publication of the MFH Final Rule 3560.

PREPAYMENT

The efforts to preserve the Section 515 multifamily portfolio are a top priority of the rural housing program. These efforts are needed because of the increasing age of the portfolio and the need for existing owners to seek viable exit strategies. However, exceptional efforts are needed by existing owners, potential purchasers, non-rural housing program housing financiers, and rural housing program to make these efforts work. At stake is an irreplaceable affordable housing option in rural America that addresses a critical need for rural residents with few housing alternatives.

Owners wishing to sell their Section 515 properties or their ownership interests in a borrower entity may do so at any time. If the property is sold to another owner who will keep their project in the program, we may make resources available or agree to allow third-party resources to be used to compensate the seller for its equity and make repairs to the buildings. If the owner seeks to sell the property to another owner outside the section 515 program, we offer incentives to the owners to stay in the program or provide a 100 percent equity loan to sell it to a non-profit or public body.

Key factors that affect many owners when selling their property is the effect of exit taxes and expectations for equity. We continue to work with owners to develop realistic exit strategies within the limited resources available to affordable housing providers.

In our efforts to preserve the portfolio, a "revitalization tool kit" is being developed that will enable us to offer several alternatives to rural housing program borrowers in financing, debt write-off and subordination, third party financing, and transfer approvals. Rural housing program is currently working to accelerate the loan approval process at the state level by reducing the number of exceptions and waivers, and streamlining the overall transfer approval process.

We are continuing to work with lenders and nonprofits to leverage our subsidy dollars to the maximum extent. For example, we partnered with Fannie Mae to preserve a 44-unit apartment complex in Saranac Lake, NY by subordinating our debt. We eliminated underwriting duplication and established processes going forward that would permit acceptance of underwriting, appraisals, inspections, and reserve account requirements between partners. This is our first joint effort and it will establish a precedent that we intend to use with other partners in preserving the portfolio.

We continue to work with industry partners to develop options for the preservation of the portfolio. Completion of the comprehensive program assessment and implementation of recommendations to improve program efficiency will enable us to better utilize existing resources such as Fannie Mae, HUD, the Federal Home Loan Bank Board, and others.

RURAL PARTNERS

In our programming for fiscal year 2005, we are stretching the rural housing programs' resources and its ability to serve the housing needs of rural America through increased cooperation with the Department of Housing and Urban Development (HUD) and other partners. We are committed to working with these partners to leverage resources for rural communities. For example, we expect to adopt HUD's TOTAL scorecard for single-family loans. This cooperation between USDA and HUD will save time and money in system development.

In our multi-family housing program, HUD has been extremely helpful in sharing data on their own rural portfolio. We were able to access this information to use in developing comparable properties to those in our section 515 portfolio for our comprehensive property assessment. Additionally, we have approximately 1,700 properties with a rural housing program mortgage and project-based Section 8 from HUD. On these properties, we have an established agreement with HUD that the rural housing program will review and approve operating budgets and rent increases. This eliminates duplicative work and ensures better consistency. In addition, last June USDA and HUD entered into a Memorandum of Agreement committing our mutual efforts and resources to improving the quality of life in the Southwest Border Region. USDA and HUD have also formed an Interagency Task Force that now includes other federal agencies to better direct limited resources to the region, address jurisdictional issues, and further enhance our collaborative efforts.

CONCLUSION

Mr. Chairman and members of the Committee, we thank you for your support, and with your continued support, Rural Development looks forward to improving the quality of life in rural America by providing housing opportunities and building competitive, active rural communities.

We recognize that we cannot address the homeownership and rural community facilities issues alone, and will continue to identify and work with partners who have joined with the President to improve the lives of rural residents. We will continue to reach out to and partner with lenders, the many non-profit organizations, as well as federal, state, local, and Indian Tribal governments to meet the housing and community needs of low-income families and individuals in rural America.

PREPARED STATEMENT OF JOHN ROSSO, ADMINISTRATOR, RURAL BUSINESS-COOPERATIVE SERVICE

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to present the Administration's fiscal year 2005 budget for Rural Development's rural business and cooperative programs.

Mr. Chairman, the programs and services of Rural Development, in partnership with other public and private sector businesses, continue to improve the economic climate of rural areas through the creation or preservation of sustainable business opportunities and jobs. Rural Development continues to invest in rural America, especially in under-served rural areas and populations. Rural Development programs help close the gap in opportunity for these under-served rural areas and populations, moving them toward improved economic growth by providing capital, technology and technical assistance. The budget requests $738 million for Rural Business-Cooperative Service programs.

COOPERATIVE SERVICES

The functions of our cooperative programs are authorized under both the Cooperative Marketing Act of 1926, and the Agricultural Marketing Act of 1946. Our programs serve as the focal point of national activity to help farmers and other rural residents help themselves by providing the necessary advice and assistance. We endeavor to enhance the quality of life for rural Americans by encouraging the use of cooperatively owned business as a self-help tool in the marketplace. Our programs of research, technical assistance, education and information, statistics, and assistance in starting new cooperatives are designed to establish viable business entities that help individual farm operators and other rural residents retain access to markets and sources of supplies and services in a sector that is becoming rapidly vertically coordinated and industrialized. Cooperatives are a means for helping to ensure that rural people are treated more fairly in the marketplace by providing structural strength in dealings with buyers and suppliers.

Some of our State Office technical assistance efforts involve non-agricultural cooperative development. For example, in Wisconsin, our cooperative development specialist was instrumental in developing an effective home health-care cooperative called Cooperative Care. Cooperative Care is a group of home and personal care providers in rural Wisconsin that joined forces with county officials, community leaders, a Federal agency, a technical college, and a community action agency. Together they organized a worker-owned cooperative where the members have a voice and share profits. This program addresses growing concerns about the care of elderly and disabled individuals and provides an efficient alternative to nursing home care.

RURAL COOPERATIVE DEVELOPMENT GRANT PROGRAM

For the Rural Cooperative Development Grant (RCDG) Program, the fiscal year 2005 budget requests $21 million. Of this amount, up to $1.5 million would be used for projects focusing on assistance to small, minority producers through their cooperative businesses. This program, along with our other Rural Cooperative Development grants, complements our national and state office technical assistance efforts by encouraging the establishment of centers for cooperative development. The centers provide expertise for conducting feasibility analysis, outreach, and other forms of technical assistance for new and existing cooperatives.

One example is the Family Farm Opportunity Center in Missouri. The Center has helped form, through feasibility and market analysis, the Gateway Beef Cooperative, the Southwest Missouri Natural Dairy, and the Osage Independent Pork Producers. Several other cooperatives are receiving assistance from the Center, most involving the processing and marketing of value-added agricultural products. Among others, the Center targets Missouri counties with the highest percentage of poverty and unemployment.

We are requesting $500,000 for cooperative research agreements to encourage research on critical issues vital to the development and sustainability of cooperatives as a means of improving the quality of life in America's rural communities. These will address the need for a solid information base on which to render judgments on critical cooperative operational and organizational issues, such as alternative ways of sourcing equity capital from within and outside the cooperative.

The Farm Bill formalized the value-added grant program. Over the past 3 years, 478 grants have been awarded for approximately $86 million. This program has four components including Value-Added Producer Grants (VAPG), Agriculture Innovation Centers (AIC), Agricultural Marketing Resource Center (AgMRC), and university research on the impact of value-added projects. Eligibility for this grant program was greatly expanded in the Farm Bill and the program encourages applications for grants less than the $500,000 maximum allowed to provide benefits to as many producers as possible.

For fiscal year 2005, the budget requests $15.5 million for the value-added grant program. This amount will provide funding for the VAPG and the AgMRC. Funding is not needed in fiscal year 2005 for the AIC program or university research on the impact of value-added projects.

One example of a successful VAPG venture is the Pacific Coast Producers cooperative of Lodi, California. This cooperative used grant funds to pay for the production and marketing of single-serving fruit bowls under the private labels of U.S. retailers. Initially, the cooperative produced single-serving fruit bowls for a national food company under that company's label. The company canceled the contract and began purchasing these items from a foreign company. Pacific Coast Producers viewed this lost contract as an opportunity to capture the emerging market in private label fruit bowls. They have since shipped fruit bowls to 40 customers under 32 different store brands. Those 40 customers have ordered 2 million cases using over 70 tons of fruit. The cooperative has plans to add at least 10 more retail chains to its customer list over the next year.

Another example is Missouri Food and Fiber (MOFF), the first new generation Identity-Preserved (IP) marketing cooperative organized across an entire State. MOFF delivers the highest quality soybeans, rice, corn, wheat, grain sorghum, and cotton to worldwide locations. It specializes in identifying the customer's product needs, matching input seed stock with premium growing environments and managing the IP product during planting, growing, harvesting, storing, transporting, processing, and distributing to the customer's global locations. While MOFF has been extremely successful in the premium IP business, the farmer-owned company is seeking entrance into one of the world's most exclusive and profitable agricultural markets: super-premium, identity-preserved, food-grade tofu beans for the Asian market. MOFF recently received a grant award of approximately $82,000 from USDA Rural Development that will allow it to enter this lucrative market.

BUSINESS AND INDUSTRY GUARANTEED LOAN PROGRAM

For the Business and Industry (B&I) Program, the fiscal year 2005 budget includes $30.2 million in budget authority to support $600 million in guaranteed loans. We estimate that the funding requested for fiscal year 2005 would create or save about 15,020 jobs and provide financial assistance to 367 businesses. We anticipate continued strong demand for this program.

The B&I program allows lenders to better meet the needs of rural businesses. Through the lender's reduced exposure on guaranteed loans, they are able to meet the needs of more businesses at rates and terms the businesses can afford. B&I guaranteed loans may also be used by individual farmers to purchase cooperative stock in a start-up or existing cooperative established for value-added processing.

I would like to share a story to illustrate how this program, partnering with a local lender, allowed a locally owned and operated ethanol producing business in rural Wisconsin to expand, providing security for 35 existing jobs and creating 4 new jobs. ACE Ethanol, LLC received a $10 million B&I Loan guarantee that was used in conjunction with other funding to refinance existing debt and expand the capacity of the ethanol plant to 30 million gallons per year. This expanded plant will purchase 1.5 million bushels of corn from the local market and in effect increase the price of local corn by $0.20 per bushel. This plant provides an alternate market for the corn that historically has been marketed for the declining livestock operations.

INTERMEDIARY RELENDING PROGRAM

The fiscal year 2005 budget also includes $15.9 million in budget authority to support $34.2 million in loans under the Intermediary Relending Program (IRP). We estimate the proposed level of funding will create or save about 26,175 jobs over the 30-year loan term.

Participation by other private credit funding sources is encouraged in the IRP program, since this program requires the intermediary to provide, at a minimum, 25 percent in matching funds. The demand for this program continues to be strong. To illustrate the benefits IRP provides to rural America, I would like to share with you a success story from rural Louisiana. The Coordinating and Development Corporation (CDC) of Shreveport, Louisiana was awarded a $750,000 IRP Loan. Rural Development funds were used to recapitalize a revolving loan fund to be administered by CDC. CDC is a non-profit, private corporation that was organized in 1954 to administer a wide range of Federal, State, and loan development programs and initiatives. CDC's coverage area includes Bienville, Bossier, Caddo, Claiborne, DeSoto, Lincoln, Natchitoches, Red River, Sabine, and Webster Parishes in northeast Louisiana as well as peripheral counties in northeast Texas and southwest Arkansas.

CDC's coverage area includes a special emphasis parish (Lincoln Parish) in the Lower Mississippi Delta Development Initiative and Persistent Poverty Area (Claiborne, DeSoto, Lincoln, Natchitoches, Red River, and Sabine Parishes). In addition, businesses and residents in this area experienced devastating agriculture losses due to Hurricane Isadore and Hurricane Lili in September and October of 2002.

As a result of Rural Development funding, CDC was able to provide low-interest loan funds to area businesses—in turn growing, sustaining, and expanding businesses throughout their coverage area. Because of Rural Development funding, CDC was able to provide critical financial resources to area businesses resulting in 26 jobs created and 205 jobs saved.

RURAL BUSINESS ENTERPRISE GRANT PROGRAM

For the Rural Business Enterprise Grant (RBEG) program, the fiscal year 2005 budget includes $40 million. We anticipate that this level of funding will create or save about 17,200 jobs and impact over 7,900 businesses. The demand for this grant program continues to be strong. The purpose of this program is to assist small and emerging businesses. It is estimated that for each dollar of investment of an RBEG, another $2.40 in private capital is generated.

Among the many eligible grant purposes under this program is the renovation of existing facilities by the grantee to support small and emerging business development in rural areas. I would like to share with you an example of how these funds are being used to support small and emerging business opportunities in rural Idaho. A $59,752 RBEG was awarded to the NEZ Perce Tribe in Lapwai to fund a study on the feasibility of oil seed production as a substantial alternate crop for farming operations in North Central Idaho. Farmers in this highly productive dryland-farming region have demonstrated the land's capacity to grow a range of oil seed crops. The study will determine if it would be feasible to produce and process these crops into value added products such as bio-diesel, meal, edible oil, etc. If the results of this study are favorable, this would provide stabilization to the regions farming operations while creating employment opportunities.

RURAL ECONOMIC DEVELOPMENT LOAN AND GRANT PROGRAMS

The fiscal year 2005 budget includes $25 million in Rural Economic Development Loans (REDL) and $4 million in Rural Economic Development Grants (REDG). This program represents a unique partnership, since it directly involves the rural electric and telecommunications borrowers in community and economic development projects. It provides zero-interest loans and grants to intermediaries, who invest the funds locally. In fiscal year 2003, each dollar invested through these programs attracted an estimated $6.00 in other capital.

The return on our equity investment in rural America is strong. Two examples demonstrate the impact of REDL and REDG. In Missouri, the REDG program has been utilized by the Intercounty Electric Cooperative to provide improved health care and fire protection to rural residents by using a $200,000 REDG grant to provide a portion of the financial assistance needed by the Salem Memorial District Hospital to relocate and expand the emergency room and the Raymondville Fire Department to construct a new fire station. In Iowa, the REDL program assisted business development by enabling the Franklin County Rural Electric Cooperative to utilize a $450,000 loan to assist with financing the construction of a $3.2 million industrial facility in the Hampton Air Industrial Park, which was in turn leased to Northern Pipe Products. As a result of this business locating in the facility, there have been 11 jobs initially created with a potential for a total of 50 jobs.

RURAL BUSINESS OPPORTUNITY GRANT PROGRAM

The fiscal year 2005 budget includes $3 million for Rural Business Opportunity Grants (RBOG) to provide much-needed technical assistance and capacity building in rural areas. The demand for this program continues to grow. We anticipate that this level of funding will create or staff over 8,500 jobs and impact 730 businesses. Many rural areas need to develop economic and community development strategies that will attract private investment capital and Federal and State assistance. Also, the vast majority of rural communities are served by part-time officials who do not have the time or training necessary to compete with large communities for funding that may be available to them. The funds requested under this program will provide invaluable assistance to communities as they take their first step toward overcoming these impediments. The following is an example of how this grant program has been utilized to assist the Qglala Oyate Woitancan Tribe in South Dakota with sustainable economic development on the reservation. The tribe used a $39,000 grant to provide technical assistance and training for tribal business development and planning activities identified in the Tribe's comprehensive strategic plan. The project goal is to start five businesses and create 15 job opportunities on the reservation.

RENEWABLE ENERGY GRANTS PROGRAM

The Renewable Energy Systems and Energy Efficiency Improvements Program was authorized by the Farm Security and Rural Investment Act of 2002. The program authorizes loans, loan guarantees, and grants to farmers, ranchers, and rural small businesses to (1) purchase renewable energy systems, and (2) make energy efficiency improvements. The fiscal year 2005 budget proposes $10.8 million in discretionary funds. The program supports the President's Energy Policy by helping to develop renewable energy supplies that are environmentally friendly. In addition, the program contributes to local rural economies through the jobs created and additional income to rural small businesses, farmers, and ranchers. In addition, we anticipate that 15,000 households will be served, and 156 million-kilowatt hours of energy will be generated, while greenhouse gasses will be reduced by 39,000 metric tons. The following is an example of how this program was utilized in fiscal year 2003 to support renewable energy development in rural Illinois. The Illinois Rural Electric Cooperative was awarded a $438,544 renewable energy grant to construct a 1.65-megawatt wind turbine in rural Pike County. The energy that will be generated from this wind turbine, once constructed and operational, will be distributed to the cooperative members as part of the overall electric power supply to a six county area in west central Illinois served by the cooperative.

Mr. Chairman, and Members of the Subcommittee, this concludes my testimony for the Rural Development fiscal year 2005 budget for rural business and cooperative programs. I look forward to working with you and other Committee members to administer our programs. I will be happy to answer any questions the Committee might have.

Senator BENNETT. Thank you, sir. Dr. Jen.

STATEMENT OF JOSEPH J. JEN

Dr. JEN. Mr. Chairman, thank you for the opportunity to testify before you about important research efforts at the USDA.

GENOMIC SCIENCE

I, too, have submitted written testimony for the record. Due to the limited time here, I will discuss briefly two areas of research: genomics and obesity prevention. Genomic science is the core of 21st Century biology. From the DNA sequencing of genomes to the functional genomic research to translation of genome research to applied biotechnology, genomic science holds the key to agriculture and food research now and for the next several decades.

Genomic science has the potential to provide food to alleviate world hunger, to practice environmentally-friendly production, to create new, nutritious foods, to eliminate animal and plant disease and to conserve the limited resources on Earth, the water, air and land.

I am happy to report that USDA has been very successful in leveraging limited funds to advance genomic research. For example, we launched the DNA sequencing of the bovine genome last December. USDA contributed $11 million toward a total cost of a $53 million project. USDA's contribution would not have been possible without your generous support of the fiscal year 2003 National Research Initiative funding. We hope that you will continue to support more funding for genomic science and the NRI. In particular, we need funding for bioinformatics research, which includes interpreting the results of genomic science data.

OBESITY PREVENTION

Obesity is now epidemic in our nation. USDA would like to be the leader of the Federal agencies in conducting obesity prevention research. We have asked for a modest increase in research funds for the six ARS human nutrition centers in the Presidential fiscal year 2005 budget. We will apply part of the NRI increases in the CSREES budget toward obesity prevention research as well. Most importantly, we are asking for $8.7 million, Mr. Chairman, for ERS to establish a consumer consumption database. This database is essential for us to understand consumer behavior toward eating and consumption.

Obesity prevention must be handled through integrated programs that involve medical, nutritional, and physical activity research, as well as behavioral science research. However, until we are able to have quality behavioral science research to complement the other fields of research, obesity prevention is unlikely to be successful.

PREPARED STATEMENTS

Lastly, investment in agriculture and food research not only solves problems we face today, but it also builds the groundwork for solutions to problems our children, our grandchildren and our great-grandchildren will face in the future.

Thank you for your attention, sir.

[The statements follow:]

PREPARED STATEMENT OF DR. JOSEPH J. JEN

Mr. Chairman, members of the Committee, it is my pleasure to appear before you to discuss the fiscal year 2005 budgets for the Research, Education, and Economics (REE) mission area agencies of the USDA. I have with me today Deputy Under Secretary Brown, Acting Administrator of the Agricultural Research Service (ARS) Knipling, Administrator of the Cooperative State Research, Education, and Extension Service (CSREES) Hefferan, Administrator of the Economic Research Service (ERS) Offutt, Administrator of the National Agricultural Statistics Service (NASS) Bosecker and Office of Budget and Program Analysis Director Dewhurst. Each Administrator has submitted written testimony for the record.

First of all, I appreciate the support received from Congress in our appropriations for fiscal year 2004. With the continuation of a tight domestic, non-homeland security budget, the President's fiscal year 2005 budget proposes $2.403 billion for the four REE agencies, about $66 million less than the level appropriated in fiscal year 2004. However, the agency budgets include important and valuable increases in Food and Agriculture Defense, Bovine Spongiform Encephalopathy or BSE related activities and Better Nutrition for a Healthy US, all strategic target areas within the entire Department.

The budget that we are discussing today obviously relates to requested funds for the four agencies in the REE. In reality, the REE budget is a reflection of the Department budget. An important role for the REE agencies is to provide the science-based information and technology needed by the Department's regulatory and action agencies. To meet this mission, the REE agencies' programs are very broad and numerous. REE is the only mission area that contributes to all five goals and 17 objectives of the USDA strategic plan.

We take our role as the science provider for policy and regulatory decisions very seriously and are proactive in making sure our research agendas are responsive to the needs of fellow agencies. For example, ARS has an annual meeting with Food Safety and Inspection Service (FSIS) to jointly identify research needs and set priorities. ARS and NASS are cooperating with the Natural Resources Conservation Service (NRCS) in an ambitious program to evaluate the effect of the conservation programs in the 2002 Farm Bill. CSREES is working closely with the Animal and Plant Health Inspection Service (APHIS) in developing a national diagnostic laboratory network. ERS routinely provides economic analyses for the Foreign Agricultural Service (FAS) and the Chief Economist, among others, and plays a major role in the analysis of our nutrition assistance programs and policies. The Risk Management Agency (RMA) and the Farm Service Agency (FSA) use NASS statistics heavily. The net effect is that the REE agency budgets not only influence the size and shape of our research, education, and statistical programs, but also our capacity to serve the rest of the Department. The public is calling on the government to provide the scientific evidence in decision-making and science-based solutions for specific production, nutrition, security, and environmental challenges. Secretary Veneman and other USDA officials repeatedly used REE-generated information to guide USDA policy decisions.

It is no news to this subcommittee that the success of the American food and agricultural system over many decades has been built on agricultural research and technology. Numerous studies have found that the return on investment in agriculture research is high. Whether measured in productivity, competitive strength in global markets, use of environmentally sustainable production practices, or new science-based food safety technology, research and development underpins essentially all advances in the food and agriculture system. High quality, relevant research cannot guarantee a successful, competitive food and agricultural business. Natural events, markets conditions, and resistance to the adoption of new technologies can be barriers to the translation of new knowledge and technology into sector gains. At the same time, in the absence of such research, the food and agricultural sector runs the risk of losing its competitive edge in global markets.

As scientific opportunities continue to expand and the agricultural and food system becomes even more scientifically and technologically dependent, the reliance on research to stay competitive is likely to be even greater. The advance of molecular biology and resulting remarkable manner in which plants and animals can be modified to enhance their nutritional value, resistance to disease, or ability to grow in adverse conditions hold amazing possibilities in the near future. In fact, we are already benefiting from such advances with Bt corn and cotton. But advances like these do not happen overnight. Studies show there is a lag of as much as 15 years for the payoffs from research to reach the marketplace. Wonderful advances are coming out of the research and development pipelines today, from programs in universities and colleges across the country and within USDA and other Federal laboratories. Often they are the product of investments started several years, if not decades ago. We must keep up our investment in agriculture now, so our children and grandchildren will benefit years from now. I hope you keep this fact in mind as you appropriate research funds budgets for this and future years.

The REE agency fiscal year 2005 budgets include long-term investments, as well as others that will yield a return in the immediate or near future. Before turning to the specific agency budgets, I would like to highlight three programs.

The Food and Agriculture Defense Initiative.—The fiscal year 2005 budget provides a funding increase of $201 million for ARS and $27 million for CSREES to participate in this interagency Food and Agriculture Defense Initiative, focused on strengthening the Federal Government's capacity to identify and characterize bioterriorist attacks. These increases represent investments that would result in strengthened homeland security.

Under the Food Defense component of the initiative, ARS will conduct research to develop tests that rapidly detect and accurately identify pathogens, toxins and metal contaminants in foods. The actual tests should be available for adoption by APHIS and other agencies within a short time.

The Animal Defense component includes $178 million for ARS to complete the largest facility construction project in USDA history, the modernization of the National Centers for Animal Health in Ames, Iowa by October 2007. This consolidated ARS/APHIS facility, including biosecurity level or BSL–2, BSL–3, and BSL–3 Ag space, will house and support an integrated, multidisciplinary scientific capability, combining animal disease research with the development of diagnostic tools and vaccines. It will produce benefits immediately by replacing inefficient and obsolete facilities.

Other agricultural defense funds for ARS would support research on controlling exotic and emerging diseases and a new National Plant Disease Recovery System that would develop the capacity to help the agriculture sector recover from catastrophic outbreaks of plant diseases, whether naturally occurring or intentionally introduced.

Working cooperatively with APHIS, the budget provides CSREES $30 million, which is an increase of $22 million from last year's appropriation, to maintain and enhance the recently established, unified Federal-State network of public agricultural institutions that serves as a backup to APHIS diagnostic laboratories. The initiative also includes $5 million in CSREES' Higher Education Program for a new competitive program that would promote the training of food system defense professionals who will be critical national assets in the years to come.

BSE Related Activities.—As you know, USDA is responding aggressively to the recent detection of BSE in a cow in Washington State. REE agencies and the knowledge and technology resulting from past research were important to the Department in its actions to deal with the positive BSE test results. ARS also supported APHIS in running several back-up tests to confirm the diagnosis, to validate that the tissue sample was bovine, and to establish the parentage of the index animal. Looking forward, the budget provides ARS an increase of $1 million over last year's appropriation to discover genetic resistance to BSE that could be bred into cattle and other livestock.

Better Nutrition for a Healthier US.—One need only read almost any newspaper in almost any week to be reminded of the epidemic of obesity in this Nation. The causes are many and complex, such as a reduction in physical exercise, greater reliance on the convenience of fast food and restaurants, and consumption of more calories. The consequences of obesity and overweight are well documented in the higher incidence of weight-associated diseases, greater health care costs, and billions of dollars in lost productivity. What is less clear is how to help individuals and families gain and maintain healthy weights with the right balance of nutritious diets and exercise. As a Nation, we spend billions of dollars on diets with little sustained success.

USDA and its research agencies have a valuable role in addressing the obesity challenge. As part of the Department initiative, Better Nutrition for a Healthier US, and the White House "Healthier US" Initiative, the fiscal year 2005 budget proposes increases for ARS, CSREES, and ERS to address this major national health problem and associated issues. The increases will focus principally on gaining a better understanding of the factors influencing food consumption patterns and developing effective and culturally appropriate diet strategies and interventions.

An ARS increase of $5 million will support research on the benefits of self-selected healthy diets in achieving healthy weight and preventing obesity as input to developing and evaluating culturally relevant behavioral strategies to promote healthy diets. The CSREES budget provides an increase of $7 million in the NRI to gain a better understanding of the factors influencing obesity and their interaction, including how they vary by gender, race, age, ethnicity and socioeconomic characteristics. Issues relating to the nutrition value of functional foods will also be addressed. Funding for the Expanded Food and Nutrition Education Program is also provided in the CSREES budget to increase the number of low-income individuals participating in this program, one that has a very impressive track record in achieving sustained, positive changes in behavior related to food and diets.

The President's budget proposes $8.7 million for ERS to establish a new consumer information system designed to gain a better understanding of our increasingly consumer-driven food and agricultural system. An important component of the new system will be a survey on individuals' knowledge and attitudes about healthy diets and how those factors are associated with the quality of their diet and their health status. In collaboration with the Department of Health and Human Services and ARS, the survey will be conducted as part of the National Health and Nutrition Examination Survey or NHANES.

Other survey data and analysis in the proposed information system will be used to identify, track and gain a better understanding of changes in food supply and consumption patterns, valuable input for making policy decisions in the food, consumer and health arenas. While the Department has a robust data system on the production agricultural system, far less is available for understanding the linkages between the farm gate and the consumer. The data and the analysis will be valuable to production agriculture and the processing industry in their adjustment to the growing emphasis on health and nutrition in the consumer-driven food and agricultural system of today.

Before turning to the agency budgets, I would like to express my appreciation for your past support of genomics research. This research continues to be critical to our overall research portfolio, providing the base knowledge on which much of our problem solving research is built. The future of agriculture is in genomics and related fields such as proteomics and functional genomics. Sequencing the genome of important agricultural plants and animals and learning about the functions of different genes hold the promise of a whole new generation of agricultural and food products that are nutritionally enhanced, disease resistant, higher yield, less dependent on fertilizers and herbicides and facilitate better use of land. Genetic research is also central to the development of rapid diagnostic tests, such as the one used by APHIS to identify avian influenza and exotic Newcastle disease. Genomics is a prime example of research that takes years to carry out and realize many of the benefits, but we are well on the way.

USDA has once again been very successful in leveraging our limited genomics research funds with funds from other Federal agencies, the private sector, State government, and foreign partners. Funding for the sequencing of the first large domestic animal, the bovine genome, was secured, with USDA providing $11 million of the total $53 million. The USDA contribution would not be possible without your generous appropriations for the NRI. The actual sequencing began at Baylor University last December. This revolutionary research project will be completed in 18 months. The resulting genome sequence will give animal science researchers new tools for decades to come. USDA also continues to work with the National Science Foundation on the National Plant Genome Initiative and the Microbial Genomics Project.

Both the ARS and CSREES proposed budgets include increases in their genomics programs. The President's fiscal year 2005 budget proposes increases of $12 million in ARS and $9 million in the NRI of CSREES.

REE AGENCY FISCAL YEAR 2005 BUDGETS

I would now like to turn briefly to the budgets of the four REE agencies.

Agricultural Research Service.—The Agricultural Research Service fiscal year 2005 budget requests approximately $1.2 billion, or slightly more than in fiscal year 2004. Within this total $988 million is proposed for research and information programs, approximately $100 million less than in fiscal year 2004. A total of $178 million for buildings and facilities is devoted entirely to the modernization of the ARS/APHIS facilities at Ames.

The ARS budget proposes increases for high priority program initiatives of national and regional importance. In order to accommodate these high priority increases, including homeland security, the budget proposes redirection or termination of approximately $169 million in current programs. As the principal intramural biological and physical science research agency in the Department, ARS continues to play a critical role for the Department and the larger agricultural community in conducting both basic and mission-oriented research. Results from ARS' basic research provide the foundation for applied research carried out by ARS, academic institutions and private industry. ARS' applied research and technology development address the research needs of other USDA agencies, as well as those of the broader producer and processor community.

In addition to the increases previously described, the ARS budget proposes increases for climate change, invasive species research, and for the Abraham Lincoln National Agricultural Library (NAL). Independent of cause, agriculture is vulnerable to changes in climate, such as rising temperatures, changing amounts of precipitation, increased variability in weather, and increases in the frequency and intensity of extreme weather events. While agriculture is vulnerable to these environmental changes, it also offers significant opportunities to mitigate the increase in greenhouse gases in the atmosphere. An increase of $5.2 million in the President's budget for climate change will support research providing information on balancing carbon storage, emissions, and agricultural productivity in different agricultural systems across the Nation.

Invasive species, including weeds, insects and pathogens, are responsible for losses in agricultural productivity, environmental quality and biodiversity. An ARS increase of $5 million will support research to develop new target specific bio-intensive approaches to control invasive weeds, such as purple loosestrife, and insects, such as the Asian longhorn beetle. The increase will also support research for developing highly specific, potent, and inexpensive synthetic agents for controlling the red invasive fire ant and the southern cattle tick.

In the age of digital information, the NAL is providing national leadership through the development of the National Digital Library of Agriculture that will deliver pertinent agriculture-related information and knowledge to the American agricultural community. The requested increase of $2 million will enhance NAL's ability to offer integrated services for accessing, managing, and preserving agricultural information through the application of advanced network technologies.

Advances in information technology, including the ability to share information instantaneously, are enabling agencies such as ARS to gain significant efficiencies and collaborative power in conducting research programs and projects. However, these advances have also made ARS more vulnerable to cyber security attacks. The safety of sensitive research information from unauthorized intruders is critical to the agency's research program. The fiscal year 2005 budget proposes $1.5 million to strengthen ARS' cyber security program.

Cooperative State Research, Education, and Extension Service.—The President's fiscal year 2005 budget provides just over $1 billion for the Cooperative State Research, Education, and Extension Service. Compared to fiscal year 2004, the budget includes an increase of $62 million in on-going programs and the elimination of $166 million in Congressional add-ons and project terminations. The Administration's request places a strong emphasis on increases in the REE mission area for Food and Agriculture Defense and peer-reviewed competitive grants. In providing critical funding for the research, education, and extension programs of the Land Grant system and other universities and organizations across the country, CSREES continues to play a central role in the generation of new knowledge and technology and the transfer of that knowledge and technology to stakeholders.

As described above, the budget provides an increase of $16 million for genomics and nutrition research under the NRI, CSREES' flagship competitive research program. The NRI continues to be a very valuable avenue for supporting cutting-edge research conducted by the finest scientists across the country. In addition to the increases in the NRI and the higher education program under the Food and Agriculture Defense Initiative, the budget calls for an increase of $1.6 million in the CSREES Graduate Fellowship Grant Program. Despite recent gains in support of minority-serving institutions and programs encouraging diversity in higher education and the work force, the Nation faces chronic challenges in promoting human capital development that enables all citizens to realize their educational potential and promise of contributing to the food and agricultural system. The proposed increase will allow CSREES to further expand the number of fellowships offered at the Master of Science level essential for recruiting minority graduate students.

Economic Research Service.—The Economic Research Service is provided $80 million in the President's fiscal year 2005 budget. As the Department's principal intramural economics and social science research agency, ERS conducts research and analysis on the efficiency, efficacy, and equity aspects of issues related to agriculture, food safety and human nutrition, the environment, and rural development.

The Consumer Data Information System described above and supported with an increase of $8.7 million will provide the Department, for the first time ever, the data and analytical capacity to understand the quickly evolving consumer driven food and agricultural system. Knowledge about the dynamics of the system and its relationship to consumer behavior is critical for producers and processors to continue to compete effectively in domestic and global markets and for policymakers to identify and develop strategies addressing nutrition and obesity issues at different stages of the food system chain.

National Agricultural Statistics Service.—The National Agricultural Statistics Service budget requests $138 million, an increase of $10 million over fiscal year 2004. NASS' comprehensive, reliable, and timely data are critical for policy decisions and stable agricultural markets, and to ensure a level playing field for all users of agricultural statistics. The budget includes a decrease of $2.6 million for the Census of Agriculture, due to the cyclical basis of the Census. Preliminary results from the 2002 census were released early last month. Final results will be released in June.

The budget provides $7 million for continuing a multiyear initiative begun in fiscal year 2004 to restore and modernize NASS' core estimates program to meet data users' needs with an improved level of precision. A second increase of $2.5 million will incrementally improve statistically defensible survey precision for small area statistics that are widely used by USDA agencies, such as RMA for indemnity calculations. An additional $.8 million increase will allow NASS to support Presidential, Departmental, and agency eGovernment initiatives.

SUMMARY

In summary, I want to reiterate that, given an overall very tight but sensible fiscal year 2005 budget, the REE budget reflects a continuing commitment to investment in agricultural research, economics, statistics, education, and extension. It also reflects an understanding that research and education are critical for solving both the problems agriculture and its producers and consumers are facing today, as well as emerging problems and opportunities of the 21st century. With continued strong investment, we will be ready to meet future problems and take advantage of new opportunities presented by cutting-edge science. This concludes my statement. Thank you for your attention.

PREPARED STATEMENT OF DR. EDWARD B. KNIPLING, ACTING ADMINISTRATOR, AGRICULTURAL RESEARCH SERVICE

Mr. Chairman, and members of the Subcommittee, I appreciate this opportunity to present the Agricultural Research Service's (ARS) budget recommendations for fiscal year 2005. The President's fiscal year 2005 budget request for ARS is $1.166 billion. This represents a net increase of $20 million from the fiscal year 2004 funding level. Within that total, there is a net reduction of $95 million for research projects and a net increase of $115 million for buildings and facilities. The fiscal year 2005 budget includes increases for new and expanded program initiatives and pay and operational costs. The fiscal year 2005 budget also proposes $178 million to finance the completion of the building and modernization of USDA's National Centers for Animal Health in Ames, Iowa.

The proposed initiatives include research to maintain a viable U.S. food and fiber system and strengthen the Nation's Food and Agriculture Defense in the fight against terrorism. The budget proposes an increase of $23.4 million in support of the Food and Agriculture Defense Initiative for research in food safety, and exotic and emerging diseases of animals and plants, and initiates a National Plant Disease Recovery System. The President's budget also includes increased funding of $34.7 million for: animal and plant genomics; genetic resources; invasive species affecting livestock and crops; obesity prevention; climate change; information technology cyber security; and a National Digital Library for Agriculture.

PROPOSED PROGRAM INITIATIVES

Food Safety ($14,375,000).—ARS research will assist other Federal agencies in providing the technical means to ensure that our food supply is safe for American consumers. Research will focus on the reduction of hazards, both introduced and naturally occurring toxicants in food and feed, including pathogenic bacteria, viruses and parasites, chemical contaminants, mycotoxins produced by fungi growing on plants, and naturally occurring toxins produced by plants. ARS will work with other USDA/Federal agencies to implement a comprehensive Food and Agriculture Defense Initiative.

Exotic and Emerging Diseases of Animals and Plants ($10,722,000).—The globalization of trade, increased international travel of people and movement of goods, changing weather patterns, genetic shifts in pathogen populations, and changes in crop management practices and animal management systems all provide opportunities for the emergence or reemergence and spread of animal and plant diseases. Porcine Reproductive Respiratory Syndrome (PRRS) in swine and virulent forms of Marek's Disease virus in chickens are two examples of diseases that have suddenly emerged. West Nile Virus and Monkey Pox are examples of exotic diseases which have been introduced from other countries. The methods for detecting, preventing, and suppressing animal and plant diseases, whether emergent, exotic, or intentionally introduced, are similar. ARS will use the proposed increase to develop vaccines for high priority threats, such as Foot and Mouth Disease, West Nile Virus, Rift Valley Fever, and Equine Encephalopathy, that could devastate the Nation's livestock. In addition, flexible and responsive surveillance systems that maximize rapid detection, and better methods to prevent and control plant and animal pathogens will be developed and tested. Of the proposed $10.722 million increase, $7.7 million will finance part of USDA's Homeland Security efforts.

Genomics ($12,000,000).—Genetic improvements have been largely responsible for the productivity and quality of America's crops and livestock. Additional research is now needed to exploit the inherent potential in genomes. With the proposed increase, ARS will identify and characterize genes that influence important traits in plants (e.g., plant growth, disease resistance, and stress tolerance) and in animals (e.g., reproduction, feed efficiency, and well-being). ARS will also characterize available germplasm for traits of economic and behavioral importance in cattle, swine, and poultry (e.g., Marek's Disease Virus in poultry).

Genetic Resources (4,000,000).—The prosperity of U.S. agriculture depends on the preservation of plant and animal germplasm collections. The current support of the germplasm program is inadequate to maintain animal and plant germplasm that is threatened or to prevent the loss of genetic diversity. With the availability of new genomic tools, genetic diversity is extremely valuable for improving plant and animal productivity and other important traits. ARS will use the proposed increase to collect, catalog, and preserve selected germplasm of cattle, swine, poultry, and fish. Also, it will collect, identify, characterize, and incorporate plant germplasm into centralized genebanks, and evaluate it for useful qualities (e.g., disease resistance). In addition, official insect and microbial germplasm repositories will be established.

National Plant Disease Recovery System ($6,000,000).—In case of a national emergency involving a disease outbreak in a major economically important crop, a National Plant Disease Recovery System will provide the infrastructure and technology for recovery. With the proposed increase, ARS will establish and coordinate a network of the technology capabilities within Federal, State, and private sector organizations to prevent, slow, or stop the spread of a high consequence pathogen with resistant seed varieties and other pest control measures. This network will utilize the genetic resources contained in the U.S. National Plant Germplasm System which is administered by ARS. The proposed increase will also be used to identify and develop new sources of genetic resistance in crops to important disease pathogens.

Invasive Species Affecting Animals and Plants ($5,000,000).—Invasive weeds, insects, and other pests cost the Nation over $137 billion per year. Weeds, including leafy spurge, melaleuca, salt cedar, water hyacinth, purple loosestrife, and jointed goat grass, infest over 100 million acres in the United States. They reduce crop yields by approximately 12 percent and forage yields by 20 percent. The red invasive fire ant, whose venom can kill young animals, has steadily spread through all the Gulf States and is now reported in Southern California and New Mexico. The southern cattle tick and the disease it causes, once eradicated from the Nation, may reinvade the United States from Northern Mexico. The tick has become increasingly resistant to insecticides and there is no vaccine for the disease it carries. With the proposed increase, ARS will target its research on the southern cattle tick (by identifying the genes responsible for pesticide resistance) and the fire ant (by studying its genomics and developing more effective pesticides and pathogens). In addition, ARS will develop systematics for weeds and arthropods, and develop biologically-based integrated pest management components for pests.

Obesity Prevention ($5,000,000).—Obesity is the Nation's fastest growing public health problem, which is affecting every segment of the American population. Obesity contributes to many diseases, such as heart disease, cancer, and diabetes, resulting in hundreds of thousands of deaths, as well as hundreds of billions of dollars in health care costs each year. The deterioration of American dietary habits has occurred with the increased consumption of low cost, convenient, fast foods that are typically nutrient diluted. ARS will use the proposed increase to assess the benefits from long-term consumption of self-selected "healthy" diets to prevent obesity. Also, ARS will develop and evaluate culturally relevant behavioral strategies that promote the selection of healthy foods.

Climate Change ($5,189,000).—Climate change encompasses global and regional changes in the earth's atmospheric, hydrological, and biological systems. Agriculture is vulnerable to these environmental changes. The objective of ARS' global change research is to develop the information and tools necessary for agriculture to mitigate or adapt to climate change. ARS has research programs on carbon cycle/storage, trace gases (methane and nitrous oxide), agricultural ecosystem impacts, and weather/water cycle changes. ARS will use the proposed increase to develop climate change mitigation technologies and practices for the agricultural sector. Specifically, ARS will: conduct interdisciplinary research leading to technologies and practices for sustaining or enhancing food and fiber production and carbon sequestration by agricultural systems exposed to multiple environmental and management conditions; expand the existing network of ARS sites conducting measurements of greenhouse gas fluxes between the atmosphere and the land; and identify ways to decrease methane emissions associated with livestock.

National Digital Library for Agriculture ($2,000,000).—ARS will use the proposed increase to enhance the National Agricultural Library's (NAL) ability to offer integrated services for assessing, managing, and preserving agricultural information through the application of advanced network technologies. The volume, quality, and timelines of information available to NAL's customers will be increased. In 2001, a "Blue Ribbon Panel" concluded that NAL needed increased resources to take advantage of technological innovations.

Information Technology Cyber Security ($1,507,000).—Information technology is critical for the delivery of ARS' research programs. The use of web-based technology commonly referred to as "e-Government," offers ARS the opportunity to improve the way it conducts business and exchanges information in achieving its research mission and objectives. As technology has enhanced the ability to share information instantaneously, it has also made ARS more vulnerable to cyber security attacks. ARS' mission critical information systems and networks are increasingly exposed to an unprecedented level of risk. Of particular importance is the safety of pathogenic, genomic, and other sensitive research information from being acquired or destroyed by unauthorized intruders through unprotected or undetected cyber links. ARS will use the proposed increase to increase the number of cyber security officers, and to implement cyber security management plans and strategies.

PROPOSED OPERATING INCREASES

In addition to the proposed program initiatives, ARS' budget provides funding to cover costs associated with pay raises and employee performance. These funds, $13,188,000 for pay costs and $1,013,000 for employee performance, are critically needed to avoid erosion of the agency's base resources. Absorption of these costs would reduce the number of scientists and staff who are essential for conducting viable research programs critical to the Nation's security.

PROPOSED PROGRAM DECREASES

The President's budget for fiscal year 2005 addresses a number of national needs and priorities. Protecting the Nation's food and agricultural systems against terrorist attacks is a major concern. In order to finance these high priority initiatives related to Homeland Security and the Food and Agriculture Defense Initiative, the funding for important but lesser priority research must be reduced. Growing Federal deficits also dictate the need to generate savings by termination of unrequested research projects.

The fiscal year 2005 budget proposes $169,472,000 in program reductions. This entire amount represents unrequested research projects added in fiscal years 2001, 2002, 2003 and 2004. The savings achieved will be redirected to finance the higher priority research initiatives related to Homeland Security and the Food and Agriculture Defense Initiative, and to reduce overall Federal spending.

PROPOSED INCREASE FOR BUILDINGS AND FACILITIES

The fiscal year 2005 budget recommends $178,000,000 for the ARS Buildings and Facilities account. In accordance with a previously documented and accepted master plan, the entire amount will be used to complete the modernization of the National Centers for Animal Health in Ames, Iowa. This $460 million construction project is already well underway. The program of work being carried out in the current inadequate facilities is internationally recognized for preventing and controlling animal diseases, and protecting the Nation's food supply and public health. The new facility is critical to supporting and sustaining the Administration's Homeland Security and Food and Agriculture Defense Initiative.

The new facility combines ARS' National Animal Disease Center with two Animal and Plant Health Inspection Service facilities: the National Veterinary Services Laboratory and the Center for Veterinary Biologics. The new facility will provide an integrated, multidisciplinary scientific capability, combining animal disease research with the development of diagnostic tools and vaccines.

Mr. Chairman, this concludes my statement. I will be happy to respond to any questions the Committee may have.

PREPARED STATEMENT OF DR. COLIEN HEFFERAN, ADMINISTRATOR, COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE

Mr. Chairman and Members of the Committee, I appreciate the opportunity to submit the proposed fiscal year 2005 budget for the Cooperative State Research, Education, and Extension Service (CSREES), one of the four agencies in the Research, Education, and Economics (REE) mission area of the United States Department of Agriculture (USDA).

The CSREES fiscal year 2005 budget proposal is just over $1 billion. CSREES, in concert with the Secretary of Agriculture and the intent of Congress, works in partnership with the land-grant university system, other colleges and universities, and public and private research and education organizations to initiate and develop agricultural research, extension, higher education, and related international activities. In addition, CSREES implements grants for organizations to better reach and assist disadvantaged farmers in accessing programs of USDA. These partnerships result in a breadth of expertise that is ready to deliver solutions to problems facing U.S. agriculture today.

The broad portfolio of CSREES supports scientific discovery from idea to application. Formula and other base funds leverage dollars from other sources, provide the start-up funds needed for investigators to establish research programs and build the capacity to compete successfully in competitive programs, and allow for rapid responses to emerging problems. Competitively funded research from the National Research Initiative (NRI) supports individual investigators undertaking basic research aimed at generating new knowledge and supports integrated programs and activities focused on solutions to short- and intermediate-term problems. Research-based guidance is delivered through the Cooperative Extension System's educational efforts. Because these efforts occur primarily at universities, a very broad range of expertise is available to address increasing complex problems, and the research process contributes to an environment that prepares students to meet the ongoing needs of agriculture, the environment, human health and well-being, and communities. Funding for outreach and assistance for socially disadvantaged farmers encourages and assists those farmers by providing technical assistance and education for fuller participation in all USDA programs.

The fiscal year 2005 CSREES budget request aligns funding and performance with the USDA strategic goals. CSREES manages its many budget elements in support of research, education, extension, and outreach programs as part of a cohesive whole supporting all five of the Department's strategic goals. Distinct performance criteria, including strategic objectives and key outcomes with identified annual targets, are defined for each program or activity. As part of an integrated budget and performance process, periodic portfolio reviews by external experts to monitor overall program progress, suggest alternative approaches, and propose management improvements are planned. Although the overall budget supports the breadth of USDA's goals and objectives, the funding increase requested in the CSREES fiscal year 2005 budget proposal emphasizes USDA Strategic Goal 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply, and Strategic Goal 4: Improve the Nation's Nutrition and Health.

In continuing and expanding our efforts for agricultural security and in support of the President's Food and Agriculture Defense Initiative, CSREES, through cooperative efforts with the Animal and Plant Health Inspection Service, has established a unified Federal-State network of public agricultural institutions to identify and respond to high risk biological pathogens in the food and agricultural system. The network is comprised of 13 State animal diagnostic laboratories and 6 plant diagnostic laboratories, dispersed strategically around the country. These 19 key laboratories are developing a two-way, secure communications network with other university and State Department of Agriculture diagnostic laboratories throughout their respective regions. The diagnostic laboratories are responsible for identifying, containing, and minimizing the impact of exotic and domestic pests and pathogens that are of concern to the security of our food and agricultural production systems. The budget proposal requests an increase of $22 million for a total of $30 million to maintain the national diagnostic laboratory network and increase the number of State plant diagnostic laboratories linked with the National Agricultural Pest Information System. The network will continue its link with the Extension Disaster Education Network (EDEN) to disseminate information to producers and professionals at the county level, and to expand these activities to provide more current and timely educational resources.

As a benefit of the research and education information gained through the Animal and Plant Diagnostic networks in conjunction with dissemination efforts of EDEN, an influx of new knowledge will be used to fill gaps in addressing agrosecurity issues, and to educate students in increasing their risk assessment and mitigation skills in order to help manage large scale animal and plant disease outbreaks. CSREES proposes $5 million for the Agrosecurity Education Program that will support educational and professional development for personnel in securing the Nation's agricultural and food supply. The program will develop and promote curricula for undergraduate and graduate level higher education programs that support the protection of animals, plants, and public health. The program also is designed to support cross disciplinary degree programs that combine training in food sciences, agricultural sciences, medicine, veterinary medicine, epidemiology, microbiology, chemistry, engineering, and mathematics (statistical modeling) to prepare food system defense professionals.

CSREES continues to provide new opportunities for discoveries and advances in knowledge through our programs such as the NRI and Integrated Research, Education, and Extension Competitive Grants. Funding for agricultural research, particularly for competitive or basic science programs, has lagged dramatically behind funding for other disciplines. The fiscal year 2005 budget request of $180 million for the NRI reflects the same underlying policy objectives of fiscal year 2004, but in a way that is consistent with increasing overall constraints on the Department's budget. The NRI will continue to support current high priority programs with an emphasis on critical areas. Expanded partnerships with other Federal agencies on research topics of mutual interest will be possible. For example, we may be able to expand working relationships with the National Institutes of Health and others on animal genomics. Current cooperation on the Bovine Genome Sequencing program will contribute to a working draft sequence (approximately 6-fold sequence coverage) of 90 percent of the bovine genome. Sequencing the bovine genome provides the gateway to studies of gene function and improved methods of selection of animals based on genotype. This knowledge will then be used to increase the efficiency and profitability of animal production systems by enhancing animal health and the quality and safety of food production. The goal of the NRI participation in the program is to assure the generation of high quality sequence data, that the assembly of the sequence reads into contiguous sequences, the annotation, and the deposition of all information into a publicly accessible, pre-existing database.

We also will continue our partnership with the National Science Foundation on the Microbial Genome Sequencing program. The program supports high-throughput sequencing of the genomes of microorganisms that are of fundamental biological interest, and are important to the national interest, the productivity and sustainability of agriculture and forestry, or the safety and quality of the Nation's food supply. The fiscal year 2005 budget requests an increase of $9 million in the NRI to support genomics research. Support of animal genomics will increase fundamental knowledge of the composition, organization, and function of the genome and increase the ability to genetically improve the productivity, efficiency, and quality of agriculturally important animals, including horses and aquaculture species. Research also will contribute to reducing adverse environmental changes, preserving genetic diversity of wild stock, addressing new and re-emerging disease and pest threats, and providing new and renewable products to meet consumer needs.

According to the President's Health and Fitness Initiative, Healthier US, too many Americans are overweight, have poor dietary habits, and do not exercise enough. Five chronic diseases associated with obesity—heart disease, cancer, stroke, chronic obstructive pulmonary disease (e.g. bronchitis, emphysema, asthma), and diabetes—account for more than two-thirds of all deaths in the United States. In addition to claiming more than 1.7 million American lives each year, these diseases hinder daily living for more than one out of every ten Americans, or 25 million people. More than 100 million Americans live with chronic disease, and millions of new cases are diagnosed each year. Healthier US concluded that the health of Americans would improve with modest but regular better eating habits and physical activity. Under the NRI, an increase of $7 million in NRI funding is proposed in fiscal year 2005 to address nutrition, food choices, and the growing obesity epidemic. Research will focus specifically on investigating underlying causes of obesity, including physiological, environmental, cultural, social, and biological factors; factors controlling the onset of obesity; determining differences in obesity groups defined by race, age, gender, etc.; and developing and evaluating the weight loss potential of functional foods.

Also within the fiscal year 2005 budget request is a proposed increase of $6 million for the Expanded Food and Nutrition Education Program (EFNEP). This would restore funding to approximately the fiscal year 2003 funding level. The EFNEP program reaches predominantly minority low-income youth and families with nutrition education that leads to sustainable behavior changes. EFNEP works with various partners in providing its services, which include collaborating with the National Institute of Health on the 5-A-Day program promoting increased consumption of fruits and vegetables, and the Centers for Disease Control and Prevention on their VERBtm program sharing curriculum material directed at teaching young people about the importance of nutrition and physical activity. Increased funding also will allow EFNEP to move forward with efforts to add a physical activity focus to help combat the rising problem of obesity in children and adults.

CSREES continues to expand diversity and opportunity with activities under 1890 base and educational programs, and 1994 and Hispanic-Serving Institutions educational programs. Funding for our 1890 base programs provides a stable level of support for the implementation of research and extension programming. Funding for the 1994 Institutions strengthens the capacity of the Tribal Colleges to more firmly establish themselves as partners in the food and agricultural science and education system through expanding their linkages with 1862 and 1890 Institutions. Sustained funding for the Hispanic-Serving Institutions promotes the ability of the institutions to carry out educational training programs in the food and agricultural sciences. This proven path of research, extension, and educational program development rapidly delivers new technologies into the hands of all citizens, helping them solve problems important to their lives.

CSREES also will more effectively reach underserved communities through sustained support for the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (OASDFR). CSREES will award competitive multi-year projects to support outreach to disadvantaged farmers and ranchers. Funds for the OASDFR program will encourage and assist socially disadvantaged farmers and ranchers in their efforts to become or remain owners and operators by providing technical assistance, outreach, and education to promote fuller participation in all USDA programs.

Sustained support through our base programs, including formula funding for research and extension, is providing the foundation for the Federal/State partnership that links science and technology development directly to the needs and interests of people. The formula and other base programs provide discretionary resources that foster regional and national joint planning, encourage multi-State planning and program execution, and minimize duplication of efforts. Formula and other base funding is the foundation from which a competitive grant funded program can be built by developing institutional infrastructure, supporting preliminary studies to strengthen competitive proposals, and bridging gaps related to the scope and continuity of grant supported programs. These funds, along with matching funds from the States, assure responsiveness to emerging issues such as foot-and-mouth disease, E. coli, Salmonella, Listeria, sorghum ergot, potato late blight, Russian wheat aphid, and swine waste. For example, leveraging funds from the Hatch Act with other sources, researchers at Ohio State University are continuing work with bacteriocins, naturally occurring substances in foods that inhibit pathogens. The researchers found that a type of "good" bacteria in milk makes a bacteriocin that appears to inhibit E. coli and Salmonella. The researchers are working with a food packaging company to infuse bacteriocins into packaging material, making containers with a built-in, natural way to help keep food safe.

The higher education programs contribute to the development of human capacity and respond to the need for a highly trained cadre of quality scientists, engineers, managers, and technical specialists in the food and fiber system. The fiscal year 2005 budget provides a $1.6 million increase in the Food and Agricultural Sciences National Needs Graduate Fellowship program. This program will prepare graduates to deal with emerging challenges in such areas as agricultural biosecurity to ensure the safety and security of our agriculture and food supply, new issues in natural resources, and human health and nutrition including problems related to obesity, such as diabetes, cardiovascular health, and osteoporosis. The International Science and Education Grants program (ISEP) will support the land-grant community and other campuses in their efforts to prepare students and help American agriculture to maintain our global competitiveness by internationalizing their agricultural programs. ISEP is designed to assist land-grant and other campus faculty in bringing world issues and awareness into their agricultural teaching, research, and outreach programs. Other higher education programs will provide important and unique support to Tribal Colleges, the 1890 Land-Grant Colleges and Universities, and the 1862 Land-Grant Universities as they pilot important new approaches to expanding their programs.

Peer-reviewed competitive programs that meet national needs are a much more effective use of taxpayer dollars than earmarks that are provided to a specific recipient for needs that may not be national. The scope of the NRI, and the Integrated Research, Education, and Extension Competitive Grants is broad enough to provide a peer-reviewed forum for seeking and assessing much of the work funded through earmarks. For example in the past 4 years, CSREES supported research in animal identification and/or animal tracking under earmarked projects which fit within the scope of the NRI. In addition, earmarked projects for human nutrition are within the program areas of the NRI, and earmarked food safety projects can be supported through the CSREES Integrated Food Safety program. In order to ensure the highest quality research for these national needs within available funding, the fiscal year 2005 budget has therefore proposed to eliminate earmarked projects.

CSREES, in collaboration with university and other partners nationwide, continually meets the many challenges facing the food and fiber system. The programs administered by the agency reflect the commitment of the Administration to further strengthen the problem-solving capacity of Federally-supported agricultural research, extension, higher education, and outreach and assistance programs. In addition, we continue to enhance our responsiveness and flexibility in addressing critical agricultural issues.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions the Committee may have.

PREPARED STATEMENT OF SUSAN E. OFFUTT, ADMINISTRATOR, ECONOMIC RESEARCH SERVICE

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to present the proposed fiscal year 2005 budget for the Economic Research Service (ERS).

MISSION

The Economic Research Service informs and enhances public and private decision making on economic and policy issues related to agriculture, food, the environment, and rural development.

BUDGET

The agency's request for 2005 is $80 million, which includes increases for one initiative and pay costs. The agency is requesting an $8.7 million increase to develop an integrated and comprehensive data and analysis framework of the food system beyond the farm-gate to provide a basis for understanding, monitoring, tracking, and identifying changes in food supply, consumer behavior and reactions, and consumption patterns.

ERS CONTRIBUTIONS TO MISSION AREA GOALS

ERS supports the five USDA strategic goals to: (1) enhance economic opportunities for agricultural producers; (2) support increased economic opportunities and improved quality of life in rural America; (3) enhance protection and safety of the Nation's agriculture and food supply; (4) improve the Nation's nutrition and health; and (5) protect and enhance the Nation's natural resource base and environment.

Goal 1: Enhanced Economic Opportunities for Agricultural Producers

ERS helps the U.S. food and agriculture sector adapt to changing market structure in rapidly globalizing, consumer-driven markets by analyzing the linkages between domestic and global food and commodity markets and the implications of alternative domestic and international policies on competitiveness. ERS economists analyze factors that drive change in the structure and performance of domestic and global food and agriculture markets; provide economic assessments of structural change and competition in the agricultural sector; analyze the price impacts of evolving structural changes in food retailing; analyze how international trade agreements and foreign trade restrictions affect U.S. agricultural production, exports, imports, and income; and provide economic analyses that determine how fundamental commodity market relationships are adjusting to changing trade, domestic policy, and structural conditions. Policy makers and the food and agriculture industry benefit from research contained in reports such as International Evidence on Food Consumption Patterns released in October 2003, that analyze forces shaping the demand for food in global markets, in this case in rapidly growing developing countries, and The Structure of Global Markets for Meat released in September 2003, that analyze the economic forces behind the emergence of specialized trade patterns and new food marketing chains.

ERS will continue to work closely with the World Agricultural Outlook Board (WAOB) and USDA agencies to provide short- and long-term projections of United States and world agricultural production, consumption, and trade. In 2004, several initiatives will increase the accessibility, timeliness and breadth of the data and analysis. We are creating dynamic web pages that offer the latest outlook information, data, and links through a central location on the ERS website. In addition, USDA's agricultural baseline projections will be available on a timelier basis through the release of components as they are completed. ERS continues to work closely with the WAOB and other USDA agencies in developing a commodity market information system that would provide "one-stop shopping" for key USDA data. The breadth of data was expanded in 2002 when ERS launched a unique data series of average monthly retail prices for red meat and poultry based on electronic supermarket scanner data.

ERS continues to expand research on how the dynamics of consumer demand, notably growing consumption and trade in high value products, are shaping global markets. In 2003, ERS organized workshops on global markets for high-value foods, such as meat, processed cereals, fruits, vegetables and specialized markets for grains. These workshops brought together international experts on the food system to discuss the economic implications of the growing importance of high value products and trade for the food and agricultural sector. A report analyzing the forces shaping trade in high value products was released in 2003. These activities enhance our analytic understanding of these fundamental market relationships and continue to improve the analytical base for USDA's foreign market analysis and projections activity.

New appropriations received in 2004 allow ERS to explore in greater depth the market for organic products and other commodities and foods that are differentiated in the marketplace by virtue of how or where they are produced. This form of product differentiation accommodates consumers' preferences (or producers' beliefs about consumers' preferences) for products that guarantee that particular production practices are (or are not) undertaken, or that are assured to be produced in particular countries or regions. In 2004, we plan to document the evolution, structure and function of differentiated product markets, and derive the implications of alternative extents, forms, and timing of government intervention in markets for products that embody production process or location characteristics.

Food price determination is increasingly important for understanding domestic and international market events and opportunities that promote the security of the U.S. food supply. ERS food markets research focuses on enhancing knowledge and understanding of food prices, both their objective measurement and how they are set by firms at different stages of the food system, and of the performance of the food system to most efficiently supply consumers' needs.

ERS research examined whether produce markets' retail consolidation, technological change in production and marketing, and changing consumer demand have altered the traditional market relationships between producers, wholesalers, and retailers. As the market for retail food has changed over time, so has the dynamics of market competition. ERS has begun to use micro-level household and store scanner data to measure the impact of changing store formats on food prices to focus on the changing environment and how these changes could impact our view of how customers make economic decisions in retail food stores. ERS research continues on understanding why food prices change over time and forecasting how they will change in the future. ERS research on the linkage of food and agriculture to the general economy in terms of employment and income provides a statistical foundation for describing both the changing nature of the Food and Fiber System and the economy-wide effects of agriculture.

ERS continues to conduct research to improve understanding among decision makers of changes in the agricultural sector structure (for example, the implications for producers of the increasing replacement of open markets by contractual arrangements and vertical integration). ERS is currently examining the potential efficiency-enhancing motives for the increasing use of contracts by food manufacturers and processors. Hog production, highlighted in Economic and Structural Relationships in U.S. Hog Production released in February 2003, provides a good example of how economic factors can change animal industry structure and practices, and how these changes might affect the environment. Following up on the 2001 reports, Concentration and Technology in Agricultural Input Industries and Public Sector Plant Breeding in a Privatizing World, ERS will publish The Seed Industry in U.S. Agriculture in 2004. This report reviews the factors affecting seed production, consumption, and seed markets, and summarizes the regulatory policy, including the intellectual property rights (IPR) relating to new plant varieties, the role of public and private R&D expenditures in plant breeding for U.S. agriculture, and the influence of concentration on market power and cost efficiency in the seed industry. At the farm level, the new Family Farm Report—Structural and Financial Characteristics of U.S. Farms, which will be published in 2004, documents the ongoing changes in farms' structure, financial performance, and business relationships in response to consumer demands, competitive pressures, and changing opportunities for farm families.

ERS analysis has supported implementation of the 2002 Farm Security and Rural Investment (FSRI) Act, and our ongoing research will provide objective analysis of the impacts of specific programs. Among the studies mandated by this Act is the report Characteristics and Production Costs for Dairy Operations to be released in 2004. This report examines how production costs vary among dairy producers and will indicate possible reasons for the cost variation of different commodities.

In addition, ERS will continue to work closely with the Foreign Agricultural Service (FAS) and the Office of the U.S. Trade Representative to ensure that ongoing negotiations on the Doha Development Agenda under the auspices of the World Trade Organization (WTO) and regional trade agreements are successful and advantageous for U.S. agriculture. In the negotiations, the United States seeks to minimize farm trade distortions while maintaining some level of domestic support. Central to a successful agreement is domestic and international consensus on the trade distorting impacts of various types of domestic agricultural policies, and a recent ERS publication is the first output from ongoing research on the potential distortions caused by U.S. policies. The report, Decoupled Payments: Household Income Transfers in Contemporary U.S. Agriculture, released in February 2003, analyzes the production and trade impacts of the Production Flexibility Contract (PFC) payments enacted under the 1996 Farm Act. Using the data on farm households from the Agricultural Resource Management Survey (ARMS), the report provides the first data-based analysis of direct payments, and finds little evidence that the PFC payments distorted markets.

The Department's implementation of the final rule for organic production and marketing in October 2002 ensured that the goals of the Organic Foods Production Act of 1990 were met, including certification by a State or private agency accredited under the national program of all but the smallest organic farmers and processors. ERS had a large impact on the program through its research and data collection on pre-existing State and private organic certifying organizations, organic production practices, and organic food marketing. Updating an initial report of organic production statistics in 2001 is the report U.S. Organic Farming in 2001: Adoption of Certified Systems, released in April 2003.

ERS analyses can help guide and evaluate resource allocation and management of public sector agricultural research—a key to maintaining increases in productivity that underlie a strong competitive position for U.S. farmers. ERS continues to study the economics of adopting genetically modified seed, the role of patents and intellectual property rights in fostering innovation, and the potential for technology transfer to less developed countries.

Seed genetically engineered to control insects and weeds, initially introduced in 1995, now accounts for nearly 70 percent of U.S. soybean plantings and nearly half of major crop acreage (corn, soybeans, and cotton). An ERS report, Size and Distribution of Market Benefits From Adopting Biotech Crops, released in November 2003, estimated the size and distribution of benefits to consumers and the agricultural sector from adopting Bacillus thuringiensis (Bt) cotton, herbicide-tolerant cotton, and herbicide-tolerant soybeans in 1997. A more comprehensive study of seed industry changes was reported in The Seed Industry in U.S. Agriculture, released in February 2004, which examined the composition of United States and international seed markets, regulations affecting agricultural seeds, the structure and evolution of the seed industry, and trends in private and public R&D in plant breeding. Particular emphasis was placed on seeds for the major field crops: corn, cotton, soybeans, and wheat.

In the publication The Effect of Information on Consumer Demand for Biotech Foods: Evidence from Experimental Auctions, released in March 2003, ERS examined consumer attitudes toward biotechnology and the role of consumer preferences in shaping market trends. Research anticipating the next wave of biotechnology products for crops modified to target consumer needs, such as food with altered nutritional qualities (such as canola with high beta-carotene content), crops with improved processing characteristics (such as naturally-colored cotton), or plants that produce specialty chemicals or pharmaceuticals (such as rabies vaccine in corn), is also being undertaken. This sound research base has been invaluable in tempering exaggerated claims of costs and benefits from both sides of the debate.

Recent innovations in agricultural biotechnology have raised significant policy questions concerning potential research delays, the optimal intellectual property design for maximizing dynamic innovation when innovation is sequential, and the potential effects of concentration of research and market power in the agricultural inputs industry. In cooperation with researchers at Rutgers University and the U.S. Patent Office, ERS created in 2003 a classification system and on-line searchable database of agricultural biotechnology patents and licensing arrangements. This project identifies who generates the innovations, who controls the innovations and, to the extent possible, who has access to the innovations.

Data from the Agricultural Resource Management Survey (ARMS) underlie important estimates of farm income and well-being, and constitute an essential component in much of ERS' research. Reflecting the 2003 budget initiative, in 2003 the ARMS survey sample was expanded sufficiently to allow ERS, with the National Agricultural Statistics Service (NASS), to produce State level estimates for the largest fifteen States (as measured by value of farm output). Also in 2003, ERS collaborated with NASS to develop new survey instruments and data collection approaches that merge mail surveys with in-person surveys, thereby reducing respondent burden and improving the efficiency of data collection. In addition, ERS has developed a path breaking, web-based, secure ARMS data retrieval and summarization prototype tool that is attractive and easy to use despite the complex tasks it performs on this massive data set. When implemented in 2004, this system will retrieve ARMS data in formats customized to the customers' needs while assuring that sensitive data are not disclosed.

Goal 2: Support Increased Economic Opportunities and Improved Quality of Life in Rural America

ERS research explores how investments in rural people, businesses, and communities affect the capacity of rural economies to prosper in the new and changing global marketplace. The agency analyzes how demographic trends, employment opportunities, educational improvements, Federal policies, and public investment in infrastructure and technology enhance economic opportunity and quality of life for rural Americans. Equally important is our commitment to help enhance the quality of life for the Nation's small farmers who are increasingly dependent on these rural economies for their employment and economic support. The rural development process is complex and sensitive to a wide range of factors that, to a large extent, are unique to each rural community. Nonetheless, ERS assesses general approaches to development to determine when, where, and under what circumstances rural development strategies will be most successful.

ERS analyzes changing economic and demographic trends in rural America, with particular attention to the implications of these changes for the employment, education, income, and housing patterns of low-income rural populations. Data from the 2000 Census and other Federal information sources provide the most up-to-date information on the current conditions and trends affecting rural areas and provide the factual base for rural development program initiatives. In 2003, the agency continued its series of publications that report the most current indicators of social and economic conditions in rural areas for use in developing policies and programs to assist rural people and their communities. Rural America at a Glance and Rural Education at a Glance, designed for a policy audience, summarize the most current information on population and migration, labor and education, poverty, race and ethnicity, infrastructure, and rural development policy. The ERS website (www.ers.usda.gov) serves as a major repository of rural data, offering unique mapping utilities and comprehensive county-level data bases. In January 2004, ERS joined Cornell University in sponsoring a conference on "Population Change and Rural Society". This conference showcased an integrated set of demographic studies by leading social scientists that analyzed critical demographic trends from the 2000 Census and drew conclusions about their implications for economic and social life in rural America. The conference focused on the policy implications of changing demographic composition, economic restructuring, changing land use patterns, and geographic patterns of chronic disadvantage and emerging growth. This conference marked the first comprehensive look at rural America based on data from the 2000 Census.

ERS is at the forefront of analysis assessing the critical role of education in local, regional, and national economic development. Rural communities view increased educational investments as an important part of economic development, but are sensitive to the partial loss of their investment, in the form of youth outmigration to areas with better opportunities. ERS is partnering with land-grant universities in a research program designed to measure the relationship between education and economic outcomes, both for the individual worker and rural community, to help local communities better target their economic development and school improvement efforts.

For over 30 years, ERS has captured aspects of the broad economic and social diversity among rural areas in various county classifications. These typologies have been widely used by policy analysts and public officials to determine eligibility for and the effectiveness of Federal programs to assist rural America. In 2003, ERS redesigned a county typology that maps out a geographic portrait of the rich diversity of rural America in ways that are meaningful for developing public policies and programs. ERS will now address how the economic, demographic, and policy themes identified in this typology translate into effective rural development strategies for enhancing rural economic opportunities and well being.

ERS also continues its long tradition of economic research on the welfare of disadvantaged population groups in rural areas, including low-income families, children, the elderly, and racial/ethnic groups, as well as the Federal assistance programs that serve them. Through its research on the measurement and dimensions of rural poverty, ERS helps to better target and improve the effectiveness of Federal assistance programs. One ERS study, Comparisons of Metropolitan-Nonmetropolitan Poverty During the 1990s, documents the greater incidence of poverty in nonmetro relative to metro areas, but finds that metro-nonmetro differences in the depth and severity of poverty are less striking and more variable over time. These findings and differences in the characteristics of the metro and nonmetro poor, suggest that poverty-reduction policies will be most effective when tailored to specific local areas. A second ERS study, published in ERS' new magazine, Amber Waves, assessed the effect of major demographic, economic, and Federal policy changes on the magnitude and dimensions of poverty during the 1990s. Race and ethnicity, family structure, and the ability to work are critical determinants of poverty in rural areas. In 2004, ERS will publish findings from a study assessing the factors affecting geographic and racial/ethnic concentration of high poverty in rural areas. Characteristics such as education, employment, family structure, disability, and language proficiency differentiate these areas with poverty rates of over 20 percent.

The agency focuses research on the implications of changing racial/ethnic composition in rural areas. Hispanics were the fastest growing racial/ethnic group in rural America, and accounted for over 25 percent of the rural population growth during the 1990s. One ERS study on the impacts of Hispanic population growth on rural wages, found that the growth of Hispanics in rural areas has negatively affected the wages of local workers with a high school education and some college, due largely to changes in labor demand in specific industries. A second ERS study examined changing Hispanic settlement patterns over the last two decades, and found extensive Hispanic population dispersion into non-traditional Hispanic settlement regions. These patterns reduced residential separation at the national level between Hispanics and non-Hispanic Whites, but led to increased residential separation at the neighborhood level, especially in rapid-growth counties.

ERS conducts ongoing research on the impact and effectiveness of Federal programs in rural areas. For example, ERS assists USDA's Rural Development mission area in efforts to improve the delivery and effectiveness of rural development programs. In 2003, ERS worked with Rural Development staff to help design measurable performance indicators for their rural development programs. ERS also conducted analyses to help Rural Development staff assess the economic impacts of proposed changes in their rural business loan programs. In addition, in 2004, ERS will focus attention on the effects of Federal farm policy on rural areas and farm households by co-hosting a workshop with the National Center for Food and Agricultural Policy. This workshop will provide policymakers with a better understanding of the linkages between farm policy, farm households, and rural communities well in advance of the next farm bill.

The farm typology developed by ERS researchers, coupled with a new accounting stance that views the farm household as a more relevant decision unit than just the farm business, have been keys to greater insight into the factors affecting the well-being of farmers. A condensed version of the farm typology was an important feature in Secretary Veneman's statement of principles for farm policy, and it continues to inform debates about the incidence of farm profits and government payments. In 2003, ERS researchers developed a new department-wide definition of limited resource farms that will lead to a change in the farm typology in 2004.

Goal 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply

ERS research is designed to support food safety decision-making in the public sector and to enhance the efficiency and effectiveness of public food safety policies and programs. The program focuses on valuing societal benefits of reducing and preventing illnesses caused by microbial pathogens; assessing the costs of alternative food safety policies; assessing industry incentives to enhance food safety through new technologies and supply chain linkages; evaluating regulatory options and change; and exploring linkages between food safety and international trade. ERS has worked closely with various USDA agencies and the Centers for Disease Control and Prevention (CDC) on various pathogen risk assessments and on analyzing the benefits and costs of implementing the Hazard Analysis and Critical Control Points (HACCP) rule. ERS and the Food Safety and Inspection Service (FSIS) work together to identify research projects and activities that address the needs of the Department.

ERS, in cooperation with Washington State University, completed the first post-HACCP national survey of meat and poultry slaughter and processing plants. The survey finds that implementing the 1994 Pathogen Reduction (PR)/HACCP rule raised costs about 1 percent, or about $850 million for the industry. Survey results will allow companies to assess their own adaptation performance vis-a-vis the industry average. While larger than pre-regulation estimates of PR/HACCP costs, the estimated costs are still considerably smaller than expected benefits. Results showed plants with branded products, strong customer requirements, and export orientation made the largest post-PR/HACCP investments in new food safety management processes or technologies, indicating market forces are at work to raise food safety above regulatory requirements in some cases. In 2003, ERS completed a study that summarizes the survey results and made the survey questions and summary results available on the ERS website.

ERS has become well-known for its pioneering estimates of the societal costs associated with foodborne illnesses due to E. coli and other known pathogens. In Spring 2003, ERS launched its first interactive web-based data product, the foodborne illness cost calculator. The calculator allows users to choose a pathogen of interest, the number and severity of illnesses, and from among several alternative methodologies employed by economists for calculating societal costs.

In 2003, ERS researchers completed a project that developed an economic framework for analyzing linkages between food safety and international trade. The project produced an ERS report, International Trade and Food Safety: Economic Theory and Cases Studies, which explores global trends in food safety regulation and food safety-trade policies, and analyzes food safety and trade conflicts and resolutions in various commodity sectors.

In 2004, ERS will publish a study analyzing the private incentives for improving food safety in the U.S. Case studies include innovations the industry has developed and is using to produce safer beef, including new equipment, new testing technologies, and new management systems. Interviews with firms were used to determine the most significant factors contributing to the innovation. The collaborative and contractual relationships among firms in the meat, equipment, microbial testing, and restaurant industries are found to be key.

Recently, policymakers have begun weighing the usefulness of mandatory traceability to address issues ranging from food safety and bioterrorism to the consumer right to know, as well as to inform consumers about food attributes including country of origin, animal welfare, and biotech content. Industry interviews, backed by industry-level market studies, have been used to establish a description of the extent and type of traceability maintained by private sector firms. This information reveals that financial incentives are leading forms to develop a significant capability to trace. The findings indicate that mandatory traceability—possibly a one-size-fits-all regulation can be costly as firms already trace many product attributes. Further, other policies may be better targeted toward augmenting product differentiation or traceback for food safety.

In response to increased risks to the Nation's agriculture and food supply due to bio-terrorism, ERS embarked on an ambitious new project in July of 2002. Security Analysis System for U.S. Agriculture (SAS–USA) establishes a framework to systematically tie all food supply processes from farm production, food manufacturing, distribution of food products, to the food consumption in every region of the country. SAS–USA is capable of quickly distilling massive detailed regional information and displaying the information visually in user-friendly formats. These capabilities mean that emergencies can be managed efficiently and expeditiously by assessing vulnerabilities and predicting outcomes. SAS–USA is truly unique, filling a niche that previously required weeks and months of data assembly, analysis, and interpretation. In 2004, ERS will: continue to integrate agriculture, food, and transportation data to make the system more realistic in simulations; connect the U.S. agricultural/food supply chain to imports and exports; and continue to develop scenarios based on animal and plant diseases and food contamination.

Goal 4: Improve the Nation's Nutrition and Health

ERS studies the relationships among the many factors that influence food choices and eating habits and their health outcomes. The roles of income, aging, race and ethnicity, household structure, knowledge of diet and health relationships, nutrition information and labeling, and economic incentives and policies that affect food prices and expenditures are of particular interest. Obesity—including understanding its costs to individuals and society, how income, diet and health knowledge affect obesity status, and considering private versus public roles in reducing obesity—is a priority for this Administration.

ERS research has a major focus on the economic dimensions of obesity, including understanding the societal costs of obesity, explaining obesity trends among different demographic and income groups, and assessing the benefits and costs of alternative options for influencing Americans' food choices and dietary behaviors, including roles for nutrition education and Federal food and nutrition assistance programs. In April 2003, ERS organized the first national workshop on the economics of obesity. The workshop brought together leading health economists in the Nation and was attended by researchers from Federal agencies such as the CDC, Council of Economic Advisers, the Food and Drug Administration (FDA), the Federal Trade Commission (FTC), and the National Cancer Institute (NCI). Topics encompassed nearly all of the cutting-edge health economics research on the causes and consequences of the rise in U.S. obesity. A conference report has been drafted and is being edited for publication in 2004. Additionally, in 2004 studies will be completed on the effects of snack and fat taxes on food choices and diet quality; the demand for fruits and vegetables by consumers from different income groups; the effectiveness of labeling foods consumed away from home; and the link between obesity and awareness of Federal nutrition information programs.

As part of our effort to improve the timeliness and quality of the Department's food consumption data, in 2003 ERS launched an interagency effort to develop a proposal for an external review of USDA's food consumption data needs and gaps. Enhancements to the food consumption data infrastructure are critical to understanding and addressing many market and policy issues in the Department. The interagency effort led to the funding of a review by the National Research Council's Committee on National Statistics. A panel of experts is being compiled, and the first stage of the data review will be a workshop to be held in spring 2004.

Through the Food Assistance and Nutrition Research Program (FANRP), ERS conducts studies and evaluations of the Nation's food and nutrition assistance programs. FANRP research is designed to meet the critical information needs of USDA, Congress, program managers, policy officials, clients, the research community, and the public at large. FANRP research is conducted through internal research at ERS and through a portfolio of external research. Through partnerships with other agencies and organizations, FANRP also enhances national surveys by adding a food and nutrition assistance dimension. FANRP's long-term research themes are dietary and nutritional outcomes, food program targeting and delivery, and program dynamics and administration.

ERS completed a Congressionally mandated study of USDA's Fruit and Vegetable Pilot Program (FVPP). Section 4305 of the 2002 Farm Act provided $6 million to the FVPP for the 2002–2003 school year to improve fruit and vegetable consumption among the Nation's school children. The FVPP provided fresh and dried fruits and fresh vegetables free to children in 107 elementary and secondary schools—100 schools in 4 States (25 schools each in Indiana, Iowa, Michigan, and Ohio) and 7 schools in the Zuni Indian Tribal Organization (ITO) in New Mexico. The intent of the pilot was to determine the feasibility of such a program and its success as assessed by the students' interest in participating. The ERS monograph, Evaluation of the USDA Fruit and Vegetable Pilot Program: Report to Congress (May 2003), provides an early review of the pilot.

Food pantries and emergency kitchens play an important role in feeding America's low-income and needy populations. During a typical month in 2001, food pantries served about 12.5 million people, and emergency kitchens served about 1.1 million people. These organizations are part of the Emergency Food Assistance System

(EFAS), a network run largely by private organizations with some Federal support. As part of the first comprehensive government study of EFAS, the ERS monograph, The Emergency Food Assistance System—Findings From the Client Survey (August, 2003), presents findings from a national study of EFAS clients who received emergency food assistance from selected food pantries and emergency kitchens.

ERS has continued to fund a national survey of food security and hunger, conducted by the Census Bureau as a supplement to the Current Population Survey (CPS). The survey is designed to measure whether U.S. households always have access to enough food to meet basic needs. ERS focuses its efforts on improving the measurement of food security, promoting the use of the CPS 18-item food security index, and contributing to a better understanding of the determinants and consequences of food insecurity in the United States. ERS released the annual report, Household Food Insecurity in the United States, 2002, that provides statistics on the food security of U.S. households, as well as on how much they spent for food and the extent to which food-insecure households participated in Federal and community food and nutrition assistance programs.

ERS delivered the Congressionally mandated study, Assessment of WIC Cost-Containment Practices: A Final Report to Congress in February, 2003. WIC State agencies adopt various cost-containment practices to reduce food costs, such as limiting food-item selection by WIC participants, limiting authorized food vendors, and negotiating rebates with food manufacturers or suppliers. The study found that cost-containment practices can be relatively inexpensive to operate, reduce food package costs, and have few adverse impacts on WIC participants in terms of participant satisfaction, program participation, and product availability.

CONSUMER DATA AND INFORMATION SYSTEM

The request for an increase of $8,676,000 will fund the development of an integrated and comprehensive data and analysis framework of the post-farm food system to identify, understand and track changes in food supply and consumption patterns and to explore the relationship between consumers' knowledge and attitudes and their consumption patterns. The centerpieces of this framework are nationally representative consumer and retail surveys of food prices, retail sales, consumption and purchases of food for at home and away-from-home eating, as well as data on consumer behavior, reactions, attitudes, knowledge, and awareness. This information system will provide market surveillance and insights into price changes, market demand, and consumer reactions to unforeseen events and disruptions such as the recent discovery of Bovine Spongiform Encephalopathy (BSE). In addition, the data and analysis framework will provide intelligence on diets, knowledge and awareness levels, helping policymakers respond to current events, such as the rise in obesity and overweight, and their interactions with the U.S. food and agriculture system. Such understanding will provide a basis for ensuring that consumers enjoy a low-cost, safe, secure, and nutritious food supply, as well as enhancing their health and productivity, and enabling farmers to prosper with new ways of doing business in diverse and ever-changing food markets by identifying changing consumer demand.

The Consumer Data and Information System has four components providing intelligence across and within the food and agricultural complex. The first component, a Food Market Surveillance System, is an integrated set of surveys and supporting analysis concentrating on production and linkages in agriculture beyond the farmgate. It would be the foundation of a research and monitoring program to: provide timely price, purchase, and sales data; identify food consumption patterns of consumers and how they change; provide consumers with improved information; quickly survey consumers about new issues or developments; and measure and identify strategies for managing food losses and waste. The second component, a new Rapid Consumer Response Module, would provide real-time information on consumer reactions to unforeseen events and disruptions, current market events, and government policies. This module would be integrated into several proprietary consumer data panels currently maintained by private vendors. The third component, a Flexible Consumer Behavior Survey Module (FCBSM), would complement data from the National Health and Nutrition Examination Survey (NHANES). The FCBSM would provide information needed to assess linkages between individuals' knowledge and attitudes about dietary guidance and food safety, their food-choice decisions, and their nutrient intakes. Combining the NHANES with this new module allows analysis of how individual attitudes and knowledge about healthful eating affect food choices, dietary status, and health outcomes. The last component is additional staff to ensure the successful design and implementation of the Consumer Data and Information System.

As a Nation, we face challenges to our health, safety, and food arising from rapid changes in technology, social structure, and a globalizing economy. The cumulative effect of these issues and others is to strain and erode a general understanding of the role food and diet plays in our society. USDA's ability to assure nutritious foods and respond to these issues is grounded on investments in the creation of knowledge.

Goal 5: Protect and Enhance the Nation's Natural Resource Base and Environment

In this area, ERS research and analytical efforts, in cooperation with the Natural Resources Conservation Service (NRCS), support development of Federal farm, conservation, environmental, and rural policies and programs. These efforts require analyses of the profitability and environmental impacts of alternative production management systems in addition to the cost-effectiveness and farm income impacts of public sector conservation policies and programs.

With passage of the 2002 Farm Bill, USDA looked to ERS to provide comprehensive and detailed, yet understandable, information to public and private users, including information on programs in the Conservation Title. In addition, ERS provided extensive support to other USDA agencies in developing rules for implementation of 2002 conservation programs. ERS participated in Farm Service Agency (FSA) and NRCS working groups on the Conservation Reserve Program (CRP), the Environmental Quality Incentives Program (EQIP), the Conservation Security Program (CSP), and implementation of conservation technical assistance by third-party technical service providers. ERS contributed substantially to the NRCS benefit-cost assessments for EQIP, CSP and the third-party technical service provider rule. For instance, ERS participated in the EQIP Benefit-Cost Analysis Team and helped to prepare the NRCS report Environmental Quality Incentives Program: Benefit Cost Analysis released in May 2003. ERS assisted FSA with rulemaking for the CRP program by suggesting ways to decrease the complexity of the Environmental Benefits Index (EBI) used by USDA county office staff, as well as methods to expand the EBI to include program impacts on nutrient loadings in ground and surface waters.

Since 1985, U.S. agricultural producers have been required to practice soil conservation on highly erodible cropland and conserve wetlands as a condition of farm program eligibility. Compliance mechanisms have been criticized, however, for low standards and lax enforcement. A report to be released in 2004, Environmental Compliance in U.S. Agricultural Policy: Past Performance and Future Potential, discusses the general characteristics of compliance mechanisms, their effectiveness in their current form, and the potential for expanding compliance to address nutrient runoff from crop production. This report will empirically assess the extent of erosion reduction that is likely to be the direct result of compliance. NRCS has indicated that the data and analysis developed for the report will be useful in carrying out the benefit-cost analysis of compliance that the agency has been ordered to undertake.

The Congressionally-mandated study, The Conservation Reserve Program's Economic and Social Impacts on Rural Counties, transmitted to Congress in January 2004, addresses a number of concerns about the unintended consequences of high levels of enrollment in the CRP. Long run trends in rural employment and population are influenced by a variety of characteristics, and some have argued that high levels of CRP enrollment exacerbate the declines suffered by many rural communities. However, the report finds no statistically significant evidence that high enrollments in the CRP have had a systematic, adverse effect on population or community services in rural counties across the country. High CRP enrollments were associated with a negative effect on jobs in the years immediately following program introduction, but this effect generally was short-lived as communities adjusted to changing demands and new economic opportunities. In addition, CRP has improved hunting and fishing opportunities in rural areas. Changing the way CRP participants are compensated can affect the productivity profile of enrolled soils, but these changes would be small and represent a necessary cost of enrolling environmentally sensitive land.

ERS researchers have actively assisted NRCS and the Environmental Protection Agency (EPA) in assessing the economic costs and benefits of changes to the rules governing Confined Animal Feeding Operations (CAFOs) under the Clean Water Act, signed on December 16, 2002, with revisions proposed to the Total Maximum Daily Load (TMDL) provisions. Following up on the report Confined Animal Production and Manure Nutrients, published in 2001, is a new report, Manure Management for Water Quality: Costs of Land Applying Nutrients from Animal Feeding Operations, released in June 2003, which analyzes the farm-, regional-, and national-level costs to the livestock and poultry sector of meeting manure management requirements similar to those in the December 2002 rule. Results indicate that meeting a manure nutrient application standard increases the costs of managing manure. Costs are a function of farm size, acres of cropland on the farm, regional land use, willingness of landowners to substitute manure nutrients for commercial fertilizer, and whether a nitrogen or phosphorus standard is met.

As rising populations and incomes increase pressure on land and other resources around the world, agricultural productivity plays an increasingly important role in improving food supplies and food security. The report, Linking Land Quality, Agricultural Productivity and Food Security, released in June 2003, explores the extent to which land quality and land degradation affect agricultural productivity, how farmers respond to land degradation, and whether land degradation poses a threat to productivity growth and food security in developing regions and around the world.

In fiscal year 2003, ERS initiated the Program of Research on the Economics of Invasive Species Management (PREISM). PREISM promotes economic research and the development of decision support tools that have direct implications for USDA policies and programs for protection from, control/management of, regulation concerning, or trade policy relating to invasive species. Accomplishments in PREISM's first year included organizing the Economics of Invasive Species Workshop (May 12–13) and conducting a competitive grants and cooperative agreements program. The workshop brought together invasive species experts from the USDA and other Federal agencies, State governments, universities, industry, and non-governmental organizations to identify research priorities that would inform USDA invasive species policy and program decisions. The competitive grants and cooperative agreements program funded 12 research projects in the areas of bioeconomic modeling and risk assessment, trade and invasive species, and the economics of alternative approaches to managing invasive species. When completed, these projects will provide insights, information, and practical decision tools to help USDA policy makers deal with the uncertainties and risks associated with invasive species outbreaks, jointly account for biological and economic factors in prioritizing invasive species threats, allocate resources between exclusion and control activities, and evaluate new approaches to addressing invasive species threats (including insurance schemes and producer purchased bonds).

CUSTOMERS, PARTNERS, AND STAKEHOLDERS

The ultimate beneficiaries of ERS' program are the American people, whose well-being is improved by informed public and private decisionmaking, leading to more effective resource allocation. ERS shapes its program and products principally to serve key decision makers who routinely make or influence public policy and program decisions. This clientele includes White House and USDA policy officials and program administrators/managers; the U.S. Congress; other Federal agencies, and State and local government officials; and domestic and international environmental, consumer, and other public organizations, including farm and industry groups interested in public policy issues.

ERS depends heavily on working relationships with other organizations and individuals to accomplish its mission. Key partners include: NASS for primary data collection; universities for research collaboration; the media as disseminators of ERS analyses; and other government agencies and departments for data information and services.

CLOSING REMARKS

I appreciate the support that this Committee has given ERS in the past and look forward to continue working with you and your staff to ensure that ERS makes the most effective and appropriate use of public resources. Thank you.

PREPARED STATEMENT OF R. RONALD BOSECKER, ADMINISTRATOR, NATIONAL AGRICULTURAL STATISTICS SERVICE

Mr. Chairman and members of the Committee, I appreciate the opportunity to submit a statement for this Committee's consideration in support of the fiscal year 2005 budget request for the National Agricultural Statistics Service (NASS). This agency administers the U.S. agricultural statistics program, created in USDA in 1863, and, beginning in 1997, conducts the U.S. Census of Agriculture, first collected in 1840. Both programs support the basic mission of NASS to provide timely, accurate, and useful statistics in service to U.S. agriculture.

The continual progression of American farms and ranches to make greater use of agricultural science and technology increases the need for more detailed information. The periodic surveys and censuses conducted by NASS contribute significantly to the overall information base for policy makers, agricultural producers, handlers, processors, wholesalers, retailers, and ultimately, consumers. Voids in relevant, timely, accurate data contribute to wasteful inefficiencies throughout the entire production and marketing system.

Official data collected by NASS are used for a variety of purposes. Absence or shortage of these data may result in a segment of agriculture having to operate with insufficient information; therefore, NASS strives to continuously produce relevant and timely reports, while at the same time reviewing priorities in order to consider emerging data needs. The Farm Security and Rural Investment Act of 2002 created the need for several new data series. For example, NASS designed a new survey in cooperation with the Natural Resources Conservation Service (NRCS) and the Farm Service Agency (FSA) to collect information on land management and conservation practices. This assessment will be used by NRCS and FSA to report annual progress on the Farm Bill conservation program implementation. Additionally, the Act introduced several other new agricultural data needs and reinforced the importance of existing data series to ensure the continuation of farm security and rural investments. For example, counter-cyclical payments are determined in part by market year average prices determined by NASS. Each $0.01 change in the average corn price can result in a change of more than $80 million in counter-cyclical payments. Similarly, large payment changes also apply for the other program crops. These are only a few specific data needs required by the Act, but they clearly highlight the importance of a strong, reliable agriculture statistics program.

The NASS works cooperatively with each State Department of Agriculture throughout the year to provide commodity, environmental, economic, and demographic statistics for agriculture. This cooperative program, which began in 1917, has served the agricultural industry well and is often cited by others as an excellent model of successful State-Federal cooperation. This joint State-Federal program helps meet State and national data needs while minimizing overall costs by consolidating both staff and resources, eliminating duplication of effort, and reducing the reporting burden on the Nation's farm and ranch operators. The success of this partnership was demonstrated by NASS, through its State-Federal cooperation, during the planning, collection, and preliminary release of the 2002 Census of Agriculture. Improved quality, an 88 percent response rate, and professional customer service through the use of a toll-free telephone number are direct results of the State-Federal partnership. NASS's 46 field offices, which cover all 50 States and Puerto Rico, provide statistical information that serves national, State, and local data needs.

NASS statistics contribute to providing fair markets where buyers and sellers alike have access to the same official statistics, at the same pre-announced time. This prevents markets from being unduly influenced by "inside" information which might unfairly affect market prices for the gain of an individual market participant. Empirical evidence indicates that an increase in information improves the efficiency of commodity markets. Information on the competitiveness of our Nation's agricultural industry has become increasingly important as producers rely more on the world market for their income.

Through new technology, the products produced in the United States are changing rapidly as producers continue to become more efficient. This also means that the agricultural statistics program must be dynamic and able to respond to the demand for coverage of newly emerging products and changing industries. For example, during fiscal year 2003, NASS issued the U.S. Broiler Industry Structure report. This report provided a summary of the changes in the structure of the U.S. broiler industry from 1934 to present.

Not only are NASS statistical reports important to assess the current supply of and demand for agricultural commodities, but they are also extremely valuable to producers, agribusinesses, farm organizations, commodity groups, economists, public officials, and others who use the data for decision making. For example, a special report titled Corn, Soybeans, and Wheat Sold Through Marketing Contracts 2001 Summary was released in February 2003. This report included information on marketing contracts at the United States and regional levels by Economic Sales Classes and by Farm Production Region and was developed to help identify changes in the structure of the Nation's grain and oilseed markets.

All reports issued by NASS's Agricultural Statistics Board are made available to the public at previously announced release times to ensure that everyone is given equal access to the information. NASS has been a leader among Federal agencies in providing electronic access to information. All of NASS's national statistical reports and data products, including graphics, are available on the Internet, as well as in printed form. Customers are able to electronically subscribe to NASS reports and can download any of these reports in a format easily accessible by standard software. A summary of NASS and other USDA statistical data are produced annually in USDA's Agricultural Statistics, available on the Internet through the NASS Home Page, on CD–ROM disc, or in hard copy. All of NASS's 46 field offices have Home Pages on the Internet, which provide access to special statistical reports and information on current local commodity conditions and production.

Beginning in fiscal year 1997, NASS received funding to conduct the Census of Agriculture on a 5-year cycle. The transfer of the responsibility for the Census of Agriculture to USDA streamlines Federal agricultural data collection activities and has improved the efficiency, timeliness, and quality of the census data. Preliminary results of the 2002 Census of Agriculture were released on February 3, 2004. The preliminary release included selected demographic data at the National and State level and are available by request via CD-Rom, the NASS Website, or in paper copy. The final National, State, and county level data are scheduled to be released on June 3, 2004. The 2002 Puerto Rico Census of Agriculture was also released on February 3, 2004.

Statistical research is conducted to improve methods and techniques used in collecting and processing agricultural data. This research is directed toward providing higher quality census and survey data with less burden to respondents, producing more accurate and timely statistics for data users, and increasing the efficiency of the entire process. For example, NASS has implemented statistical methodology to measure and adjust for the incompleteness of its list sampling frame. This allows for more complete coverage of farms traditionally difficult to identify during list building activities, mainly small and disadvantaged farm operations. The NASS statistical research program strives to improve methods and techniques for obtaining agricultural statistics with improved levels of accuracy. The growing diversity and specialization of the Nation's farm operations have greatly complicated procedures for producing accurate agricultural statistics. Developing new sampling and survey methodology, expanding modes of data collection including Internet contacts, and exploiting computer intensive processing technology enables NASS to keep pace with an increasingly complex agricultural industry. NASS is making considerable advancements in providing respondents the option of reporting via the Internet with the ultimate goal of giving the Nation's farmers and ranchers the opportunity to electronically respond to the 2007 Census of Agriculture.

The fiscal year 2004 budget included $4.8 million for agricultural estimates restoration and modernization. These funds provided a much needed foundation for quality improvements in forecasts and estimates and are greatly appreciated. The 2004 funds are being used to improve the precision level from commodity surveys conducted by NASS. The majority of the funding is being allocated to increased sample sizes and the data collection activities of local interviewers throughout the Nation.

MAJOR ACTIVITIES OF THE NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

The primary activity of NASS is to provide reliable data for decision making based on unbiased surveys each year, and the Census of Agriculture every 5 years, to meet the current data needs of the agricultural industry. Farmers, ranchers, and agribusinesses voluntarily respond to a series of nationwide surveys about crops, livestock, prices, chemical use and other agricultural activities each year. Periodic surveys are conducted during the growing season to measure the impact of weather, pests, and other factors on crop production. Many crop surveys are supplemented by actual field observations in which various plant counts and measurements are made. Administrative data from other State and USDA agencies, as well as data on imports and exports, are thoroughly analyzed and utilized as appropriate. NASS prepares estimates for over 120 crops and 45 livestock items which are published annually in over 400 separate reports.

The Census of Agriculture provides national, State, and county data for the United States on the agricultural economy every 5 years. The Census of Agriculture is the only source for this information on a local level which is extremely important to the agricultural community. Detailed information at the county level helps agricultural organizations, suppliers, handlers, processors, and wholesalers and retailers better plan their operations. Important demographic information supplied by the Census of Agriculture also provides a very valuable data base for developing public policy for rural areas.

Approximately 65 percent of NASS's staff are located in the 46 field offices; 23 of these offices are collocated with State Departments of Agriculture or land-grant universities. NASS's State Statistical Offices issue approximately 9,000 different reports each year and maintain Internet Home Pages to electronically provide their State information to the public.

NASS has developed a broad environmental statistics program under the Department's water quality and food safety programs. Until 1991, there was a serious void in the availability of reliable pesticide usage data. Therefore, beginning in 1991 NASS cooperated with other USDA agencies, the Environmental Protection Agency (EPA), and the Food and Drug Administration, to implement comprehensive chemical usage surveys that collect data on certain crops in specified States. NASS data allows EPA to use actual chemical data from scientific surveys, rather than worst case scenarios, in the quantitative usage analysis for a chemical product's risk assessment. Beginning in fiscal year 1997, NASS also instituted survey programs to acquire more information on Integrated Pest Management (IPM), additional farm pesticide uses, and post-harvest application of pesticides and other chemicals applied to commodities after leaving the farm. These programs have resulted in significant new chemical use data, which are important additions to the data base. Surveys conducted in cooperation with the Economic Research Service (ERS) also collect detailed economic and farming practice information to analyze the productivity and the profitability of different levels of chemical use. American farms and ranches manage nearly half the land mass in the United States, underscoring the value of complete and accurate statistics on chemical use and farming practices to effectively address public concerns about the environmental effects of agricultural production. Through funding provided by this Committee in fiscal year 2003, data on the status of the farm economy will now be expanded to the State level for 15 major agricultural States.

NASS conducts a number of special surveys as well as provides consulting services for many USDA agencies, other Federal or State agencies, universities, and agricultural organizations on a cost-reimbursable basis. Consulting services include assistance with survey methodology, questionnaire and sample design, information resource management, and statistical analysis. NASS has been very active in assisting USDA agencies in programs that monitor nutrition, food safety, environmental quality, and customer satisfaction. In cooperation with State Departments of Agriculture, land-grant universities, and industry groups, NASS conducted 148 special surveys in fiscal year 2003 covering a wide range of issues such as farm injury, nursery and horticulture, farm finance, fruits and nuts, vegetables, and cropping practices. All results from these reimbursable efforts are publicly available to benefit all of agriculture.

NASS provides technical assistance and training to improve agricultural survey programs in other countries in cooperation with other government agencies on a cost-reimbursable basis. NASS's international programs focus on developing and emerging market countries in Asia, Africa, Central and South America, and Eastern Europe. Accurate information is essential for the orderly marketing of farm products. NASS works directly with countries by assisting in the application of modern statistical methodology, including sample survey techniques. This past year, NASS provided assistance to Brazil, China, Ecuador, El Salvador, Ethiopia, Kazakhstan, Mexico, Russia, South Africa, and the Ukraine. In addition, NASS conducted training programs in the United States for 168 visitors representing 27 countries. These assistance and training activities promote better quality data and improved access to data from other countries.

NASS annually seeks input on improvements and priorities from the public through the Secretary of Agriculture's Advisory Committee on Agriculture Statistics, displays at major commodity meetings, data user meetings with representatives from agribusinesses and commodity groups, special briefings for agricultural leaders during the release of major reports, and through numerous individual contacts. As a result of these activities, the agency has made adjustments to its agricultural statistics program, published reports, and expanded electronic access capabilities to better meet the statistical needs of customers and stakeholders.

FISCAL YEAR 2005 PLANS

The fiscal year 2005 budget request is for $137,594,000. This is a net increase of $9,433,000 from fiscal year 2004.

The fiscal year 2005 request includes increases for the continuation of restoration and modernization of NASS's core survey and estimation program ($7,045,000); improvement in the statistical integrity and standardization of the data collection and processing activities of the Locality Based Agricultural County Estimates/Small Area estimation program ($2,500,000); collaborative Presidential and Departmental eGovernment initiatives ($785,000); funding for increased pay costs ($1,812,000) and funding to recognize employee performance ($465,000). The request also includes a decrease due to the cyclical activities associated with the Census of Agriculture program (−$3,174,000).

An increase of $7,045,000 and 10 staff years are requested to fund phase II of the restoration and modernization of NASS's core survey and estimation program. This increase will be directed at continuing to restore and modernize the core survey and estimation program for NASS to meet the needs of data users at an improved level of precision for State, regional, and national estimates. The program covers most agricultural commodities produced in the United States, as well as economic, environmental, and demographic data. Funding in fiscal year 2004 is primarily being used to restore sample sizes for greater statistical defensibility. These changes are designed to increase precision at the State and regional levels to promote the NASS goal for fiscal year 2004 of reaching precision target levels at least 60 percent of the time for major survey indications. The additional funding requested in fiscal year 2005 will allow continued improvements and provide the necessary resources to reach precision target levels an estimated 77 percent of time.

An increase of $2,500,000 and 4 staff years are requested to provide for data acquisition for the annual integrated Locality Based Agricultural County Estimates/Small Area estimation program. Local area statistics are one of the most requested NASS data sets, and are widely used by private industry, Federal, State and local governments and universities. This funding supports the NASS goal to incrementally improve survey precision for small area statistics. Proper follow-up data collection activities and redesign of survey systems will improve the critical annual county-level data. The Risk Management Agency (RMA) uses these statistics in indemnity calculations for Group Risk Plans and the Group Risk Revenue Plans as part of the risk rating process. This affects premium levels paid by producers. The FSA uses county estimates to weight posted county prices to national loan deficiency payments, and as an input to assist producers to update their base acreage and yields as directed by the 2002 Farm Bill. In addition, financial institutions, agriculture input suppliers, agricultural marketing firms, and transportation utilize county level data to make informed business decisions.

An increase of $785,000 for collaborative eGovernment efforts is requested to support Presidential and Departmental eGovernment initiatives. Specifically, the funding will support NASS's share of the USDA Presidential initiatives, the continued development of the USDA Enterprise Architecture, and the USDA Enablers initiative. Without this funding, NASS's efforts to increase the percentage of questionnaires available via the Internet will be negatively impacted.

A net decrease of $2,610,000 and 7 staff-years is requested for the Census of Agriculture. The Census of Agriculture budget request is for $22,520,000. This includes a cyclical program cost decrease of $3,174,000, partially offset by $564,000 for employee compensation. The available funding includes monies to finalize analysis, summary, and dissemination of the 2002 Census of Agriculture. The reduction reflects the decrease in staffing and activity levels to be realized due to the cyclical nature of the 5-year census program and the postponement of the Census of Horticultural Specialties. Historically the Census of Horticultural Specialties has been conducted every 10 years, but due to the dynamic growth of this industry, NASS was planning to measure this component of agriculture every 5 years. Competing funding priorities have precluded this accelerated schedule. The annual program covering selected horticultural commodities will continue to be available.

This concludes my statement, Mr. Chairman. Thank you for the opportunity to submit this for the record.

Senator BENNETT. Thank you all for your testimony.

FACILITY FEASIBILITY STUDIES

Dr. Jen, in the Senate report that accompanied our bill last year and the narrative that accompanied the conference report, we both included direction to ARS to provide feasibility reports on various buildings and facilities projects. Took a little heat on that from some of my colleagues who said we want our building money right now without having to go through a feasibility report.

But the House and Senate Committees both agreed that funding requests for construction projects would not be considered until a feasibility study and forwarded to the Committee by March 1, and we requested that FAS prioritize these projects. To date, we have not received your reports. I do not think that that means that there are not going to be any ARS appropriations, but I would like to know what the status of the preparation of these reports are and why they have not been forwarded to the Committee.

Dr. JEN. Mr. Chairman, it is my understanding that those feasibility study reports have been delivered already to the Committee members. Is that correct?

Senator BENNETT. They came up by courier last Friday? Okay; has the courier reached us?

Well, the report is in the mail.

I think we better find out where it is, because obviously, if we are going to act on that basis, we need the reports, so I assume you kept a copy.

Dr. JEN. We did. We will check on the courier.

Senator BENNETT. Send us another one.

Dr. JEN. Yes.

Senator BENNETT. And when the courier shows up, wherever he or she may have wandered, why, then, we will have two, but we would appreciate getting those as quickly as we possibly could.

Dr. JEN. We will make sure that you have them, Mr. Chairman.

CONGRESSIONAL ADD-ONS

Senator BENNETT. Okay; now, while I have you, let us concentrate on the impact on ARS. The fiscal year 2005 budget request assumes the termination of all additional funding provided by Congress during the last four appropriations cycles; that is, where the initiative came from the Congress. We are talking about $170 million roughly. Setting aside for the moment the debate about whether members of Congress have a better idea of the needs of their particular areas than the Department does, let us concentrate on the impact on ARS.

If Congress were to agree to these terminations, we calculate 312 ARS scientists, researchers and support staff in 42 States would lose their jobs, which is roughly 3 percent of the total ARS staffing. That is not a huge amount of people unless you happen to be one of the 312, but that does not count the people that ARS is currently in the process of hiring with fiscal year 2004 monies, nor does it include the impact on cooperative agreements with the various universities.

I have been out and visited the universities and found the ARS to be probably the most popular single program at various agricultural schools, because of the synergy that they feel between their faculty and ARS people. When universities say we really do not know or care whether a researcher is an ARS type or a member of our faculty, the cooperation is so close.

So this would be a very serious reduction, and how would you plan to go about conducting a reduction in force of this size, and do you have any ideas what it would cost?

Dr. JEN. Mr. Chairman, I think I appreciate particularly your comments about the fact that ARS scientists are very well respected in the university campuses. In my travels, I have found it to be the same. Many universities would prefer that ARS scientists would never be relocated or change direction, and many of them wish ARS scientists would become university faculty members.

Senator BENNETT. Is that how we are going to do the RIF is get them all hired by the universities?

Dr. JEN. No, I do not believe so, sir. Some of them probably will have that opportunity. Other ARS scientists would be offered reassignment in funded vacant positions either at the location or at other ARS locations throughout the country.

We are under a very difficult budget situation. Personally, I recognize that this is a very difficult situation.

Senator BENNETT. Well, does that mean we no longer need to provide funding for diet, nutrition and obesity research at the Pennington Biomedical Research Center or Pierce's Disease research in California or Sudden Oak Disease research in Maryland? These are all projects that are terminated apparently because Congress thought of them rather than the Administration. Do we consider that these projects are now complete?

Dr. JEN. Yes and no, sir. Some of the projects are being carried out in more than one location, so some of the slack will be picked up by the other research locations.

ARS has over 1,100 projects. Some of the projects will have to be terminated after the job has been completed. However, if you allow researchers to determine when projects have been completed, they will never be done.

Senator BENNETT. I understand that.

Dr. JEN. And so, sometimes, you know we have to make that hard choice.

Senator BENNETT. I understand that. I would just hope, and it does not appear, that the controlling factor as to which projects get terminated and which ones do not is which ones came from the Congress and which ones did not. I would like to think maybe Congress knows a little bit about some of these things and has a role to play as to who gets funded and who does not. There is an uncertainty here if, in every instance, and your Administration is not the first, in every instance where they request termination of every Congressionally-originated project, Congress somehow finds the money to fund them anyway, but this is a year-to-year funding situation without the stability that comes elsewhere, and I would think it would have an unfortunate impact on the efficiency and continuity of some of these programs. Do you have any sense that the Congressionally-sponsored programs are, by definition, inferior to the others?

Dr. JEN. I do not believe so, sir. In fact, we make a very conscious effort to coordinate the projects that were initiated by Congress with the base programs.

Senator BENNETT. Well, we will look at this closely. I note that the budget requests termination of the diet research and obesity research program at Pennington Biomedical Research Center at ARS headquarters and then requests funding for an Administration initiative to do similar research at the same facility. I am not sure we are going to do that. We will have this discussion as we go forward, and I appreciate your candor and your sensitivity to this issue.

CONSERVATION SECURITY PROGRAM

Mr. Rey, you have estimated the cost for the CSP at $13.4 billion. Did I get that number right?

Mr. REY. That would be our computation of the cost of the proposed rule projected forward through the life of the program. That is a theoretical estimate, obviously.

Senator BENNETT. That is a theoretical estimate.

Mr. REY. Right.

Senator BENNETT. All right; never mind. I had another name for it, but I will not put it on the record.

Mr. REY. Theoretical works better in a public hearing.

Senator BENNETT. Yes, yes; well, okay, if the program becomes an open-ended entitlement, as some have suggested, do you have any estimate of the cost?

Mr. REY. That is somewhat difficult to anticipate. I do not think anyone really knows what the total cost would be at that point. One of the limitations would be the limitation of a 15 percent cap on the use of technical assistance in delivering the program. That will limit how many NRCS employees and hours could be spent delivering it, because there are, as I said in my remarks, 700,000 farmers and ranchers that would be eligible.

So I think it is conceivable that there would be an excess of what we have projected the proposed rule forward to cost. But that would be hard to predict based on what we know today.

Senator BENNETT. All right. Senator Kohl has joined us, so I will stop in this round and turn it over to Senator Kohl, reserving the option of a second or third round.

Senator KOHL. Thank you, Senator Bennett.

DAIRY FORWARD CONTACTING

Dr. Collins, in 1999, Congress passed legislation to set up a dairy forward contracting pilot program, which is set to expire at the end of this year. Dairy forward contracting, as you know, allows buyers and sellers to voluntarily agree upon delivery of a specific amount of milk for a set price over a specified period. About 655 of Wisconsin's dairy farmers have participated in the pilot program. Many of them recommend making this voluntary program permanent because it gives them a new way to manage their risk.

Can you tell us the Administration's position on this program? Do they support legislation that would make the dairy forward contracting program permanent?

Dr. COLLINS. Senator Kohl, to answer that directly, I think I would have to see the legislation and get the Secretary's view on that. I would say that, however, we have looked at this program a couple of times. We did a mandated study of the program in 2001. We followed that up with a supplement to the report based on the experience of 2002. And in those cases we found that the forward contracting program worked perfectly fine. In 2001, producers actually were slightly worse off than they would have been had they not participated in forward contracting. In 2002, we found just the opposite, that producers were slightly better off than had they not participated in forward contracting.

The only issue that the Department has raised with respect to this is, while it sees no problem with continuing a forward contracting program for milk used for Class III and Class IV purposes, it has been concerned about legislative proposals that would allow forward contracting for milk used for Class I purposes. So that would be the one reservation that I would raise on legislation on this issue.

REOPENING EXPORT MARKETS FOR BEEF AND POULTRY

Senator KOHL. All right. Secretary Penn, following the BSE discovery in Washington State last December, our beef export markets, as you know, were badly shaken. Similarly, we have seen problems with certain poultry export markets due to avian influenza. In both these cases, the problem originated in another country and was imported to the United States. Open markets are a two-way street. They allow our products to move in foreign commerce, but they also raise the possibility that we are importing serious problems.

Could you update us on what USDA is doing to reopen export markets for our beef and poultry products? And can you please comment on how we protect our export markets from problems which are themselves foreign in origin?

Dr. PENN. Well, thank you for the question, Senator. I think you characterized the situation very aptly. Since the discovery of this one cow on December 23rd in Washington State, and since early-year outbreaks of avian influenza on the east coast and the hi-path avian influenza case in Texas, we have seen our export markets summarily closed for beef and a large amount of our poultry products.

Before the BSE outbreak, we had anticipated exporting $3.8 billion worth of beef and beef products this year, and we had anticipated our poultry products to be $2.3 billion. Together, that is about 10 percent of the total amount of exports that we had forecast for the year.

So this is very important to us, and we have set about immediately trying to engage our customers, our trading partners, and to try to get the markets reopened.

In every case, we have tried to make sure that we do this on the basis of sound science, that is, that we try to make sure that we have taken all of the amelioration measures that are warranted, and then we have gone to great lengths to explain to our trading partners what we have done and why that ensures the safety of the product that we are trying to sell to them and the safety of the product for our own consumers.

We have provided a large amount of technical information to all of these markets. We have sent technical teams to several of these countries to more fully explain what we have done and why our products are safe. And in several cases, we have invited technical teams from various countries to come and review our procedures and visit our plants and facilities. This has certainly been the case with Japan and Mexico. We anticipate a technical team to come from Korea in the very near future.

Again, the international standards that govern trade in both of these products indicate that once certain measures have been taken, then it is okay for trade to resume. We think that we have taken all of the measures that are appropriate to take, all the measures that are based upon science, and we are now in the process of encouraging these countries to resume trade as quickly as possible.

I am pleased to say that in the case of Canada, much of that market for beef has reopened. In the case of Mexico, we have restored about 65 percent of what we were formerly exporting to Mexico. And in the case of poultry, we have managed to get most of the pipeline shipments—those shipments that were caught on the water between the export point and the delivery point moved into the country. And we have managed to get many of those markets to regionalize, to only ban products from States in which we have had actual outbreaks of avian influenza, rather than banning all exports from the United States.

So we are continuing to work diligently on this, and I hope that we get a substantial portion of these markets restored in the very near future.

Senator KOHL. You said at the outset of your statement that we were predicting exports of beef products—did you say three-point——

Dr. PENN. $3.8 billion for beef.

Senator KOHL. And poultry at?

Dr. PENN. $2.3 billion.

Senator KOHL. Yes. So what is your anticipation now for the year? Are you prepared to make some estimate?

Dr. PENN. I have not done a new rack-up in a while, but we think that for beef, out of the $3.8 billion, we have about $1 billion restored at the moment. We are hoping to get more of that restored, of course, with our big markets like Japan and Korea and Hong Kong, in the very near future.

For poultry, the situation is much better. I don't know the percentages, but of the $2.3 billion, we now have trade flowing for a substantial part of that. We are not exporting from the State of Texas, where we had hi-path avian influenza, and a few other States. But we are doing much better for poultry than we are for beef at the current moment.

TRADE IMPLICATIONS OF GENETICALLY MODIFIED CROPS

Senator KOHL. Dr. Penn, given the fact that there has been a tremendous increase in U.S. production of genetically modified crops, and given the trade implications, do you think that we have allowed for too much production of biotech crops before we had the knowledge and the tools in hand to make sure contamination would not occur? If we have moved so quickly on biotech crops that we placed some of our export markets at risk, what steps are you taking to meet concerns of some countries that will not even accept those genetically modified crops as food aid?

Dr. PENN. Well, this question has a connection to the previous question, and that is, we are increasing our exports of agricultural products almost every year, and more and more of our agricultural products involve genetically modified products. These are products that have gone through the regulatory system in this country, and we think that we have got one of the best, strictest regulatory systems anywhere in the world.

We continue to insist that these trading rules must be based on solid scientific underpinnings, and there are international organizations that are involved more and more in helping to establish these trading rules—the OIE or the International Organization for Animal Products, the IPPC, which relates to plants, CODEX, which relates to food products—and I think more and more we are going to have to rely on these international standard-setting bodies to be the ones that govern rules for trading in various kinds of products.

Now, with respect to biotech products, as you correctly note, biotechnology in a very substantial way burst upon U.S. agriculture in 1996, sort of all of a sudden, with Roundup Ready soybeans. In our most recent crop report, the acreages for corn, cotton, and soybeans, the proportion of the acreage that is biotech has substantially increased: 46 percent of the corn acreage for the coming year, farmers are indicating, will be biotech, and about three-quarters of our soybean and cotton acreage will be biotech.

Now, these products have been approved by our regulatory authorities. They are as safe as other products. And we see no reason why there should be any restraint of trade in those products. We continue to have problems with some markets, most notably the European Union, of course, but we are continuing to try to educate and persuade in that case.

You mentioned specifically food aid. I think that is very, very unfortunate that we have people who are literally starving and who are being denied perfectly safe food simply because their authorities are insisting that for various reasons no genetically modified food aid be allowed.

Now, I am aware of the case, the most recent case in Angola that you mentioned, and our USDA authorities are working with the World Food Program and with the nongovernmental organizations that are supplying food in Angola. And we are trying to work around this problem because literally people's lives are at stake in this case. So we are trying to work through this, and then we are also trying to educate other countries about the safety of genetically modified food so that we don't have these kinds of disruptions of food aid in the future.

GEOSPATIAL INFORMATION SYSTEM

Senator KOHL. All right. Finally, Dr. Penn, in the Common Computing Environment account, there is a request for $9 million for FSA to complete digital data maps for rural farm communities across the country. These maps are an important tool to the farmer and for the agency to effectively administer farm, conservation and disaster programs and also to provide critical information with animal or plant disease outbreaks.

It is my understanding that the data must be digitized and as a last step certified before this information can be of any use to the farmer or agency. In my own State of Wisconsin, not a single county has been certified.

Can you tell us how many of the 3,051 counties in the United States targeted by FSA have been digitized and certified? When do you expect to finish this work?

Dr. PENN. I cannot tell you that right now off the top of my head, but I will certainly be happy to get that information and we will provide it to you. We won't use Dr. Jen's courier.

We will try to make sure that we hand-carry that information so that you have it in a short period of time.

But I can say that this is, as you note, a very important step forward, being able to have these maps. They are important not only for FSA, but they have benefits for our colleagues in the natural resources conservation area and in the crop insurance area. It is very important that we complete this project, which is a multi-year task. We not only have money in the FSA budget, but there is also a request for support of the Geospatial Information System within the $18 million increase in the budget of the Office of the Chief Information Officer for USDA, which funds our common computing environment. And we very desperately need to get that funding because our efficiency gains in the future very much depend on being able to implement a lot of this new technology. Our budget does not support additional numbers of people, so we really do need the new technology.

Senator KOHL. I do appreciate your willingness to supply a progress report on where we are.

Dr. PENN. We will do that.

[The information follows:]

GEOSPATIAL INFORMATION SYSTEM (GIS) PROGRESS

As of April 7, 2004, 1,767 counties have digitized common land units (CLU's) and 381 of these counties have been certified. Of the 72 counties in Wisconsin, 20 counties have digitized CLU's. While no counties in Wisconsin are currently certified, about 10 counties are planned for certification by the end of fiscal year 2004.

Approximately 2,100 to 2,200 counties should be digitized by the end of the fiscal year. At the current rate, we would expect to have as many as 700 to 800 counties certified by the end of the fiscal year.

Senator KOHL. Thank you so much, and thank you, Mr. Chairman.

Senator BENNETT. Thank you, sir.

Senator Harkin.

Senator HARKIN. Thank you very much, Mr. Chairman.

NATURAL RESOURCES AND ENVIRONMENT

First, I would like to start, if I could, with Under Secretary Rey. Mr. Rey, you are obviously the top official at the Department of Agriculture in the area of conservation and natural resources and environment. Dr. Penn sitting next to you there, he is the lead when it comes to commodities, like corn and wheat and beans and other products that are important to society.

Mr. Rey, your responsibilities, I believe, also involve products or commodities that farmers and ranchers produce and which are very important to society and for which society has said that it is willing to pay. Those products or commodities include, of course, clean water and air, productive soil, wildlife habitat, and so forth.

This idea of conservation and environmental benefits as commodities or products was part of our thinking in the Farm Bill. And as you know, it has further evolved, for example, when we envisioned carbon credit trading.

CSP PROPOSED RULE

So, Mr. Rey, with that in mind, I want to convey my thanks to the Secretary, to you, to Mr. Knight, for providing public access to the comments on the CSP proposed rule. Farmers, ranchers, and the general public have sent more than 14,000 comments, as I understand it, and I understand virtually all expressing disappointment in the proposed rule. I also know that you attended the listening session on the proposed rule in Des Moines in February, where over 250 people attended, again, which I understand most of whom opposed the proposed rule and everybody who spoke was against the proposed rule.

So I guess I would just start off by saying that I am sure you acknowledge that there is a very high level of interest in the CSP and that there is a widespread disagreement with the proposed rule and that these are serious and substantive concerns. And I would just ask, you know, again, for any comments you have on what I have just said and what is happening to the proposed rules and when we can expect to see a final rule.

Mr. REY. First of all, I don't disagree with your characterization of how the comments were transmitted to us. As I said before you arrived, I think many of the comments expressed concerns which we have an obligation to address in clarifying our intent about how the rule is drafted and how it will work in practice. Other comments are concerns that are going to drive changes to the proposed rule, and that is why we have comment periods, to get those kinds of comments.

We are trying to bring forward a final rule in time for there to be a CSP sign-up this year so that we can use the money that you and other Members of Congress appropriated in the fiscal year 2004 Agriculture and Related Agencies Appropriations bill. And I would be happy to share with the Committee for the record our current schedule, which we think will get us there in time to start a sign-up this year.

[The information follows:]

TIMELINE TO FIRST CSP SIGN-UP

Mid May	Complete analysis of the Public Comments on CSP proposed Rule
Mid June	Clear and Publish CSP Final Rule
Early July	Conduct First CSP Signup
End of July	Complete Signup
August	Begin enrolling CSP contracts
September	Complete full obligation of fiscal year 2004 CSP funding

Mr. REY. I won't repeat my summary of some of the basic concerns and where we think we can either clarify our intent to address those concerns or make some changes to address those concerns. But I will share them with your staff today and later as we move forward in the rulemaking process.

I will say that the Des Moines hearing was, I thought, a good one. I remarked to all of the assembled commentors that, because of their numbers, we had asked them to be very brief in their comments. And I told them that I was pleased that they were respectful of the time limits that we imposed on them, if not the regulatory proposal on which they were commenting. But we got a lot of good comments. I took somewhere in the neighborhood of eight or nine pages of notes from the session.

Senator HARKIN. I appreciate that, and I have heard from other States where you have had the forums, and I understand they were also well attended in other States and that the general consensus was that most of the farmers were very upset, ranchers that came in were very upset with the proposed rules, thinking that it really was going to cut a lot of them out of the program. That seems to be the general consensus, at least as I have heard from the input that I got.

CSP FUNDING CAP

Now, again, in the proposed rule, USDA complains about the difficulties that come from running a program open to all producers but with a strict funding limit. The proposed rule says, "The greatest challenge was to design a new conservation entitlement program with a cap." Well, as we both know, CSP does not have a set funding limit starting October 1st of this year.

Mr. REY. Right. At the time that the rule——

Senator HARKIN. And you talked about that in your statement. I read that. I read that. But the President's budget proposes one.

Mr. REY. We propose a cap for fiscal year 2004 and—well, Congress provided one for 2004.

Senator HARKIN. Yes.

Mr. REY. We are proposing an amount of money for 2005.

Senator HARKIN. Well, do you see the irony that I have just—the irony that USDA is complaining about the difficulty of implementing a rule that is open to all with a cap, okay? But we took off the cap. Then the Administration turns around and requests a cap for next year.

Mr. REY. But I think the order of sequence was that the cap was taken off after our budget was sent forward. It was taken off in the Omnibus Appropriations Bill for fiscal year 2004.

Senator HARKIN. Well, that is true. That is true. I don't know the sequence of events, but that is true. It was taken off in the Omnibus Appropriation before the budget.

Mr. REY. So, I mean, I think that is an issue——

Senator HARKIN. So is the Administration requesting a change then in their budget proposal to reflect what we did?

Mr. REY. Well, I don't think we have to. That is now before you, and I assume that Congress will continue to give us clear direction.

FISCAL YEAR 2005 FUNDING REQUEST

Senator HARKIN. Well, I mean, the Administration could come back and say look, you know, we do not need a cap now since Congress has taken it off, that—what, $205 million, I think it was, if I am not mistaken.

Mr. REY. $209 million for fiscal year 2005.

Senator HARKIN. For next year, yes, right.

Mr. REY. I think the more useful thing for us to provide to the Congress at this juncture as you consider the 2005 bill is our best estimate of what the different program options would cost.

Senator HARKIN. So you are no longer requesting a cap?

Mr. REY. We are going to abide by whatever Congress eventually tells us to do, which we should do.

Senator HARKIN. Which we said no cap.

Mr. REY. Right.

Senator HARKIN. I appreciate that. So, again, to continue this, the full funding was restored, as you pointed out, in the Omnibus

Appropriations Bill. But the proposed CSP rule—I am getting back to that proposed rule again—would bar the vast majority of producers from participating.

I wanted to do an analogy of what it would be like if we took the commodity program, which is an uncapped entitlement program. And I said, What would be the equivalent? In Iowa, with the proposed rule, if we did this on the commodity program, it would be like USDA arbitrarily limiting commodity payments only to those Iowa farmers who produce more than 200 bushels an acre of corn and only if they live in one of 12 of our 99 counties chosen here in D.C. And, further, these farmers would receive no payments for their soybeans. To top it off, the payments would only be one-tenth of what is in the Farm Bill. And any farmer who does not qualify for the commodity program 1 year has to wait another 8 years to apply again.

So I am just saying, if we think about conservation as a commodity, compared to the commodity programs, and one for which society has said it is willing to pay, then it would seem that we need some kind of equivalency. We need to start looking at this a little bit differently than what we have in the past.

ACCESS TO CSP BY PRODUCERS

USDA says only 14,000 producers will get into CSP a year. Is that not your—you are looking at me quizzically. Did I misstate myself?

Mr. REY. No, that is——

Senator HARKIN. 14,000 a year. Again, in Iowa, with this percentage only 700 Iowa farmers out of 93,000 would get into the CSP a year.

Now, I have tried to figure that out, and I figure it would take about a little over 100 years for them to get into the program if that is what we are going to do. My point is it would not be acceptable for a commodity program to do that, and it should not be acceptable for this kind of commodity program.

TECHNICAL ASSISTANCE

Mr. REY. But, again, to talk about terms of equivalency, one of the key limitations to the rate of entry of the program is how we provide NRCS technical assistance to producers who want to come into the program. That 14,000-producer limit is as much a reflection of the cap on the use of technical assistance funding in implementing the program as it is anything else. And with the commodity programs, we do not have such a limit on how the agency brings people into the program. That is something we can obviously work on and fix.

Senator HARKIN. I heard about that, and I read it in your testimony, and I heard you mentioned it earlier, too, I think, in answer to a question here. I thought about that. And so I asked my staff, I said, What do we provide, what is the technical assistance under EQIP? I think it is 19 percent.

Mr. REY. Yes, it is a little higher.

Senator HARKIN. Nineteen, but I am told that it has been much less than 19 percent.

Mr. REY. In the past, we have had the latitude to use conservation assistance funds to provide part of the support for EQIP, which is something that we have separately argued about over the last couple of appropriations cycles.

Senator HARKIN. My staff informs me that it was capped at 19 percent in the past, the EQIP funding, my point being that if you can implement EQIP at that rate—I just want to take issue with you on the 15 percent being some kind of a problem for you. For the life of me, I do not understand that. I mean, 15 percent is, I think, a considerable amount of money to implement a program. And keep in mind, this is a program, albeit a new one, but relying upon a lot of things that you have already developed in the past, Bruce, and all of you. You have got these things. You know what they are. It is not like it is making something out of whole cloth. I mean, this is something that you have all done in the past.

So I cannot believe that a 15 percent limitation is any kind of a real onerous limit.

Mr. REY. Well, it is based on things that NRCS has done in the past.

Senator HARKIN. Sure.

Mr. REY. But it is clearly a new program that farmers are going to be facing for the first time, including, if the program works as Congress has intended, and we would like it to work, farmers that have not participated in some of the basic conservation programs like EQIP.

Last year, I am told that we used 24 percent, which was the level for technical services in EQIP. I think, for a new program, it is not a reasonable assumption to assume that you can do it for 10 percent less. Much of the cost of technical assistance that is going to be provided for a new program is not going to be things that NRCS does by itself in developing the program, but rather the time NRCS field agents spend with farmers explaining how a new program works, particularly farmers who have not participated in EQIP or any of the other basic conservation programs in the past. So this is a problem we can fix working together, but I think it is a problem.

TECHNICAL SERVICE PROVIDERS

Senator HARKIN. And we also provided, if I am not mistaken, and I am reaching back now, we also provided in the Farm Bill that in this regard I believe you can use people outside of NRCS for the technical—what is the word I am looking for?

Mr. REY. Technical service providers.

Senator HARKIN. Technical service providers can be used for that that also have this knowledge and can assist in doing that. So, again, I just have a hard time thinking that 15 percent is going to be a real onerous limitation on providing this because a lot of the practices that we are talking about are already being done by some farmers, not by others, but by some. So, therefore, since NRCS has got this history, they know the practices, it just does not seem to me to be a problem to transfer this over to others besides using the availability of outside people that we allowed you to use in the Farm Bill.

Mr. REY. The Technical Service Providers program is going to be instrumental in helping us deliver conservation programs, but that program itself has a ramp-up period to get technical service providers certified. And, moreover, they are going to be most useful in helping us apply specific conservation practices in existing programs. Now, that will help because that means that we can transfer some of our staff time out of EQIP, out of the Wetlands Reserve Program, out of the programs that are better established and use that time and effort to work on CSP, but that is going to be a ramp-up period as well.

I think this is an issue that we should continue to discuss. It is not going to be a problem in fiscal year 2004. We will begin to see the effect of the limitation on technical services in 2005 and beyond, and I think we will have time to adjust, if we need to.

But, at this point, I think I would say there is, if not the reality, then a high potential for a disconnect between the desire to bring as many producers into the program as quickly as possible and a limitation on how much NRSC staff time we can devote to going out and educating people about a new program and what their interests in it are and why they should be participants. That is a very resource-intensive process.

TIME LAG ON CSP IMPLEMENTATION AND RULEMAKING

Senator HARKIN. I appreciate that, and I have not—Mr. Chairman, I thank you for your indulgence—I have not been too hard on this in the past. I have worked with the Secretary and others. But when we passed the Farm Bill, we put in a 270-day requirement to get the rule out. That did not happen. Then, they said, "Well, we will get it out in a year." That did not happen. And they said, well, they had a lot of other things to do. And I understand that. They had new commodity programs and everything like that. So I think we have been fairly indulgent on this.

We are now coming up on 2 years since the Farm Bill was passed—2 years—and not one farmer has been signed up in the CSP program. Now, you can understand why I am a little quizzical about the pace at which this is proceeding and whether or not—and I said this to the Secretary when she was here. Is there an attempt by some to kill the suborning—to kill it before it even gets off the ground?

Mr. REY. No such attempt.

Senator HARKIN. Well, it looks like that. I am just telling you. It is 2 years and not one farmer.

Mr. REY. Senator Harkin, you can usually explain most things by malfeasance rather than conspiracies. There is no conspiracy to do away with this program. It is a difficult program to implement. It is essential that we get it right because I believe we agree that it is the future of conservation on working lands. My testimony has said that. That is not a hollow commitment.

We are grateful for the Committee's indulgence. You could do just one more thing to help us, and that is not help us again by changing it one more time between now and when we get the final program out.

Senator HARKIN. There are few things that I can assure you of. But because of what happened last year and the assurances I have from the Chairman of the Appropriations Committee, it will not happen again until the Farm Bill is up.

Mr. REY. Excellent.

Senator HARKIN. Take it to the bank—as long as I am here. I mean, you know——

And as long as the Chairman is here. The Chairman has been very, very helpful on this, and I would not let this opportunity pass without thanking Chairman Bennett for his strong support of conservation programs, and I appreciate it very much.

Mr. Chairman, I spent all of my time on this. Are you going to have a second round?

Senator BENNETT. Well, I was going to, but I find most of the burning questions that I had Senator Kohl has asked. If you want to pursue another issue, we can do that.

Senator HARKIN. Just a little bit, I would appreciate it.

Senator BENNETT. Yes.

Senator HARKIN. Thank you, Mr. Chairman.

STANDARD REINSURANCE AGREEMENT

J.B., late last year, USDA cancelled the Standard Reinsurance Agreement—and I am sorry I am late. Has this been talked about? They cancelled the Standard Reinsurance Agreement with the crop insurance industry. I understand you are now in the process of negotiating a new one. I have heard a second draft of the SRA would impose $40 million in cuts annually from the delivery system.

We have lost five companies in the last few years—five companies, the largest writer, American Growers, Fireman's Fund is now a reinsurer. Anyway, we have lost all of these companies. Two major reinsurers left the reinsurance market, and I understand there are a number of areas that are just served by only one company. So I am concerned about the proposed $40-million cut and what will that do to any competition that we might even have left in the crop insurance industry.

Dr. PENN. Well, Senator Harkin, as you know, this is a process. It is a negotiation. And as you go through the negotiation, everybody makes their case, and everybody puts their most compelling arguments forward. And these are some of the arguments that are being put forward by some of the companies as we go through the negotiation.

Since the passage of ARPA in 2000, the risk management area or crop insurance area has changed substantially. We have had a large expansion in the crop insurance program. Last year we covered about 218 million acres. The liability insured was about $40 billion. We have tremendously expanded the number of products that are available. There is continued expansion underway as the board reviews and approves new products, and the overall operating environment has changed.

So we thought it was prudent to review and renegotiate the insurance agreement. This is the agreement by which we deliver all of the services to the producers in this very unique public-private partnership. I mean, this is a public program that is delivered through the private sector. And we thought that it was time that we reviewed that contract, and we take account of all of these changes that have occurred.

As you said, it is a dynamic industry. There are companies that leave the industry. There are companies that come back into the industry. There are reinsurers that leave, reinsurers that come back. But we had one chance in the legislation and a 5-year period to revise this standard reinsurance agreement. This is the last opportunity that we had. So we thought we should do it.

RMA prepared a first draft to begin the process. And I have to say that first draft was pretty roundly criticized. We spent a lot of time with the companies, we listened to their concerns, and we have now prepared a second draft. That draft was made available last week to the companies, and they are beginning to review and to go through that now, and we are starting the process of having individual sessions with them to go through the second round.

We have proposed some $40 million in savings. We think that we have a good basis for doing that, of course, or we would not have done it. Of course, it will be resisted. But there is more to it than just savings. There are some regulatory aspects of the agreement that we think need to be reviewed and revised, and a lot of the companies have said that they think it is good for the industry, that it is time that we try to achieve some new efficiencies, that we try to tighten up the possibilities for fraud, waste and abuse, and that we also try to give RMA a better opportunity to monitor the financial health of the companies.

As you said last year, the largest insurer in the business left the business, and the American taxpayer had to step up and sweep up after that——

Senator HARKIN. I know.

Dr. PENN [continuing]. It cost some $35 million of taxpayer money to do that. And we think that, by rights, RMA ought to have a little more authority to anticipate that kind of situation and to avoid that happening in the future. So we have tried to make some changes in the SRA to account for that.

So we are in the middle of this process, and it is a negotiation. In a negotiation everybody wants to paint the situation in the most compelling way they can that would be to the greatest advantage to them. And so I think that is what you are hearing, but we are in the middle of a process. All we are asking now is to give us a little more time and let us work through this draft, and then we will come forward with a third, and we hope final, version of this.

RURAL BUSINESS INVESTMENT CORPORATION

Senator HARKIN. Thank you very much, Dr. Penn.

Two quick ones. Mr. Gonzalez, will you have the final rules out on the RBIC Program this summer, the Rural Business Investment Corporation?

Mr. GONZALEZ. Yes, Senator Harkin. We will have that application window open in the summer or at least the fall of 2004.

Senator HARKIN. Summer or early fall. How about summer?

Mr. GONZALEZ. Well, we are trying our hardest. We are looking at the fall of 2004 to have the application window for that program.

Senator HARKIN. So the first applications would be available this fall.

Mr. GONZALEZ. Yes, sir.

Senator HARKIN. Well, okay. I wish it was earlier.

Dr. Jen, are you working with HHS and with maybe FDA—well, that is in HHS—maybe NIH to revise the food pyramid? Is that underway now?

Dr. JEN. Senator Harkin, the USDA is responsible for the Food Guide Pyramid. It is Under Secretary Eric Bost's group, CNPP.

Senator BENNETT. We discussed that at the last hearing.

Dr. JEN. Yes, last week.

Senator HARKIN. What is that, Mr. Chairman?

Senator BENNETT. We discussed that at the last hearing with the other Under Secretary.

Senator HARKIN. It is being done.

Dr. JEN. Yes.

Senator BENNETT. Yes, we are monitoring that.

Senator HARKIN. Thank you, Mr. Chairman. I appreciate that. With that affirmation, I do not have any more questions.

Thank you, Mr. Chairman.

Senator BENNETT. Having gotten the attention of all of the fat doctors in the world——

I raised that a year ago, why we have to keep on top of it.

Senator HARKIN. So it is being—I mean, it is actually under review.

Senator BENNETT. Yes.

Senator HARKIN. That is good. Thank you.

Senator BENNETT. Are you through, sir?

Senator HARKIN. Yes, I am. Thank you.

SUPERCOMPUTER RESOURCES

Senator BENNETT. Dr. Jen, I have one last question. I was recently contacted about USDA's access to supercomputing resources, and I would appreciate it if you would furnish to the Committee information about the supercomputing resources that you currently have access to, I assume, in conjunction with universities, and how frequently you need this kind of power. And do you believe that you would benefit from a dedicated supercomputer facility?

If you can answer that quickly, why we can do that now or you can furnish it.

Dr. JEN. Genomic science research benefits from the use of supercomputers, particularly when the research moves from the DNA sequence, the nucleics, into the proteomics. Our need for analysis by supercomputers will increase in the future especially due to the extreme complexity of protein research.

Currently, some universities have supercomputers, but I think we will also work with Department of Energy. A dedicated facility probably would be desirable a few years down the line, especially considering the other research that USDA has. At this point I could not even think about it because the cost is not only the cost of the computer itself, but it also includes associated operation and maintenance costs. That would be something that would worry me because I have absolutely no idea how much it costs.

Senator BENNETT. Thank you very much. That is helpful.

Senator Kohl, do you have any last questions?

Senator KOHL. Just one. Mr. Gonzalez, in fiscal year 2003, Wisconsin had four applications for funding through the Section 525

Technical Assistance Account to provide homeownership education for people in rural areas.

Wisconsin has historically received funding for our good work in this area. In fiscal year 2003 funding, I understand the Administration selected priority States primarily within one region of the country, with justification that there was not enough funding to reach more applicants for other regions.

I included language in the fiscal year 2004 bill that increased funding, and provided limits any one State could receive under this account.

How will you ensure that States like Wisconsin receive a fair consideration for funds available this year?

Mr. GONZALEZ. Thank you, Senator Kohl.

In terms of the 525, there was a $2-million grant amount that was allocated to that program for homeownership training and credit counseling. And we are closely following the conferees' report in terms of administering that program. There was a 10-percent cap to those 10 States in terms of providing that technical assistance, and we are looking at a NOFA being published May of 2004.

Senator KOHL. I appreciate your consideration.

Mr. GONZALEZ. Thank you, sir.

Senator KOHL. Thank you.

Senator BENNETT. Thank you. I do have one last question for Dr. Collins. You say the ag economy is booming, exports, consumption, industrial use, all the rest of it. Any chance that this can mean lowering of mandatory payments, mandatory support payments to help us out with the budget?

Dr. COLLINS. Sure, Mr. Chairman. I think that is exactly what is going to happen. When you say "mandatory payments," if you look at Commodity Credit Corporation expenditures on price support and related activities, in the year 2000, it hit an all-time record of $32 billion. In 2003, it was down to about $17.5 billion. In 2004, the President's fiscal year 2005 budget released in February estimated a spending level of about $14.8 billion. I think that that number is more likely to come in closer to $10 to $11 billion rather than $14.8, which is in the President's budget. That will be updated in the President's Mid-Session Review of the Budget that will be released in July.

Clearly, there are a couple of expenditure categories that do not change, such as direct payments, which are not a function of prices, and they are about $5.5 billion a year.

And then there is also conservation spending, such as the CRP, which is about $2 billion a year. Those things are not going to change, but the loan deficiency payments, the loan programs, the countercyclical payments all are coming down dramatically, including the milk income contract payment program as well. So, yes, I think we are looking at a several-billion dollar decline below the President's budget and a number that is probably about a third of what it was in the year 2000.

Senator BENNETT. I would like to find a way to get that into discretionary funds. I am not sure we can.

You have a last question?

Senator HARKIN. Let me just follow up on that because I think it is an interesting story. When we passed the Farm Bill in 2001—

I think that is right, 2001—we were given a budget to work with by the Budget Committee for 10 years for our programs. We stayed within that. We did not go beyond what was allotted to our Committee for our mandatory programs, and so we passed that.

In that estimate, there was an estimate for how much the outlays would be for 2002, 2003, 2004 or 2005, et cetera. And, Dr. Collins, you can correct me if I am wrong, but I believe, Mr. Chairman, that if you look at just the 2002, 2003, 2004 estimate, basically, since we kind of know what 2004 is going to be, that we have spent about $15 billion less than what we were allotted; in other words, what the Budget Committee gave us to spend, we have spent about $15 billion less; is that about correct?

Dr. COLLINS. I have not done that calculation, but I can tell you that what we are spending is tracking very closely to what we would have expected spending to be with an extension of the 1996 Farm Bill, that is, before you even added on the programs of the 2002 Farm Bill. So, yes, it is running below the spending levels that were projected in the spring of 2002 for the life of the 2002 Farm Bill.

Senator HARKIN. Well, my figures show about $15 billion less, so I think agriculture has got a good story to tell there. Of course, I come back to things like the other commodity program, the Conservation Security Program, that when people start talking about capping and stuff, we have saved $15 billion less than what we were allotted to spend. I think that is pretty darn good. Surely, we could get a couple of billion out of that or a billion-and-a-half at least to help on the conservation program. I just want to make that point. I think it is a good story.

Senator BENNETT. We may make an attempt at that. I am not sure whether we will get——

My comment is, repeating what I say in my role as Chairman of the Joint Economic Committee, I do not know various estimates about the economy. People ask me about it. Can we cut the deficit in half in 5 years? Will the Kerry numbers hold up? Are the Bush numbers accurate?

And I say the one thing I know about them is that they are all wrong.

They have always been proven wrong. Any attempt to make a forecast in an $11 trillion economy that goes out much more than 6 months fits into the category that we decided not to use earlier as we were describing one of the other estimates. It is basically a guess, and it may be a very well-educated guess, but it is basically a guess. And I think this illustrates, also, we made the best guess we could, and then the economy behaved differently.

And for those who say, "Well, why can you not be more accurate?" I will use the phrase with which all politicians are very familiar, "The numbers are all within the margin of error."

The difference between surplus and deficit on a $2.7 trillion budget, when you move a couple of hundred billion either way, is within the margin of error that a pollster might use. And we get carried away with our rhetoric around here about we created this huge deficit or are we not wonderful, we have created this huge surplus. The economy has done what it has done, and we are kind of following along on the trail of that and hoping to take credit when it is good, and hoping to point and assume blame when it is bad.

ADDITIONAL COMMITTEE QUESTIONS

But, apparently, this is the same kind of situation, and I am glad that this one was wrong on the right side of things instead of wrong on the other side of things.

Senator HARKIN. Mr. Chairman, it is just not pencil dust. Let us just be careful of that phrase.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

CONSUMER DATA AND INFORMATION SYSTEM INITIATIVE

Question. Dr. Jen, the Economic Research Service is looking for a significant increase in fiscal year 2005—$9 million and 6 additional research staff. The majority of this increase and all of the new staff would be for the Consumer Data and Information System initiative. The components of this initiative are a food market surveillance system, a rapid consumer response module, and a flexible consumer behavior survey module. What exactly, do you hope to accomplish with these additional information-gathering capabilities?

Answer. Data and analysis from this initiative would provide a basis for understanding, monitoring, tracking, and identifying changes in food supply and consumption patterns. Without this increase in funding, many problems facing Americans will go unsolved. The data and analysis capability embodied in this forward-looking initiative will prove invaluable for policymakers in addressing issues ranging from obesity prevention to understanding market opportunities to food safety. Currently, large gaps exist in USDA's data and analysis system in the areas of consumer and industry behavior. Our Nation does not have timely consumer information upon which to base policy decisions and program actions. The centerpieces of this budget initiative are nationally representative consumer and retail surveys of food prices, retails sales, consumption and purchases of food for at-home and away-from-home eating, as well as data on consumer behavior, reactions, attitudes, knowledge, and awareness.

This information system will provide market surveillance and insights into price changes, market demand, and consumer reactions to unforeseen events and disruptions such as the recent discovery of bovine spongiform encephalopathy (BSE). In addition, the data and analysis framework will provide intelligence on the public's diets, knowledge and awareness levels helping policymakers respond to current events, such as the rise in obesity and overweight, especially in minority populations, and their interactions with the U.S. food and agriculture system.

In addition, as our country faces bio-terrorist threats, increased knowledge about American eating behavior and its implications for food markets are of heightened importance. Understanding, where food is eaten and purchased and the amounts of different foods consumed by various demographic groups is important for understanding how to best protect our food supply, for designing and implementing rapid and effective government responses to unforeseen food related events, and for the management of events after they have occurred.

The four components of the initiative in order of priority are:

—The Flexible Consumer Behavior Survey Module would complement data from the National Health and Nutrition Examination Survey (NHANES). This module provides information needed to assess linkages between individuals' knowledge and attitudes about dietary guidance and food safety, their food-choice decisions, and their nutrient intakes. Combining the NHANES with this new module allows analysis of how individual attitudes and knowledge and healthful eating affect food choices, dietary status, and health outcomes. Cost: $3 million.

—The Rapid Consumer Response Module would provide real-time information on consumer reactions to unforeseen events and disruptions, current market events, and government policies. This module would be integrated into several proprietary consumer data panels currently maintained by private vendors. Consumer reactions would be linked to actual food purchases, sales, consumption, and price information. For example, the module could be executed to gather information on consumer reactions to food safety problems and issues. Cost: $1 million.

—The Food Market Surveillance System would consist of an integrated set of surveys and supporting analysis concentrating on linkages in the food and agriculture system. This system would be the foundation of a research and monitoring program designed to: provide timely price, purchase, and sales data; identify food consumption patterns of consumers and how these change as people age, households change, new products are introduced, and new information is acquired; identify and develop consistent strategies for consumers to adopt the Dietary Guidelines for Americans; better understand the market dynamics of food safety and other consumer health issues; and understand links between foods, physical activity and health outcomes. Cost: $4.176 million.

—Funding is needed to support 6 additional staff to ensure the successful design and implementation of the initiative. Cost: $500,000.

Question. Is this a one-time expenditure, or are you envisioning continuing this level of funding in fiscal year 2006 and later?

Answer. I envision that this level of funding will continue in fiscal year 2006 and beyond. This data system is a continuous, real time surveillance, tracking, and research vehicle whose demand will only grow over time as it becomes completely integrated into USDA operations.

AGRICULTURAL ESTIMATES RESTORATION

Question. The National Agricultural Statistics Service is requesting a healthy increase in fiscal year 2005—almost $9.5 million and 14 new staff. Of this amount, $7 million and 10 new staff would go to the Agricultural Estimates Restoration and Modernization project. This is on top of $4.8 million provided in fiscal year 2004 for this purpose. Why is this additional funding necessary?

Answer. Escalating survey expenses, unfunded pay costs, and declining response rates have forced adjustments to many of the Agency's survey and estimates programs, reducing the quality of survey data on which NASS estimates are based. The consequences of poor estimates can involve millions of dollars. For example, inaccurate crop and livestock forecasts may result in unstable market conditions for producers and consumers resulting in large price fluctuations. Funds are needed to increase area frame survey sample sizes to meet precision targets for major estimates from the base survey conducted in June, improve non-response follow-up for specialty commodities, increase sample sizes for surveys to measure coverage error, and increase list sample sizes to further improve commodity yield forecasts and production estimates. The fiscal year 2005 request will allow for continued progress in these areas, in addition to supporting adequate resources necessary to process, analyze, and disseminate vital statistical data.

Question. Do you expect to request additional funds in fiscal year 2006?

Answer. At the present time, we do not know what will be reflected in the fiscal year 2006 budget request.

HORTICULTURAL SPECIALTIES

Question. The National Agricultural Statistics Service is responsible for conducting the Census of Horticultural Specialties every 5 years. The fiscal year 2005 budget recommends that this program be delayed and, as a result, reduces the NASS budget by $3 million and the staffing by 6 staff years (FTE). When was the last Census of Horticultural Specialties conducted?

Answer. The 1998 Census of Horticultural Specialties was conducted following the 1997 Census of Agriculture. This Census of Horticultural Specialities is completed on a 10 year schedule.

Question. Why was the decision made to delay this next Census?

Answer. The Census of Horticultural Specialities has traditionally been conducted every 10 years. Due to the dynamic growth of this industry, NASS was planning, pending available funding, to measure this component of agriculture every 5 years. Due to the tight budget constraints placed on all discretionary Federal spending, difficult decisions were necessary to maximize use of the available funds for improving and modernizing our base agricultural statistics, which are indispensable to the entire agricultural sector. The annual program covering selected horticultural commodities will continue to be available.

Question. Who benefits from these updated statistics? How will they get their information absent this Census?

Answer. The information provided by NASS surveys and the Census of Agriculture help to ensure an orderly flow of goods and services among agriculture's producing, processing, and marketing sectors. Many segments of the horticulture sector utilize NASS census data to make informed business decisions at the local level. Additionally, policymakers use NASS data in assessing the impact of potential legislation. In the absence of the Census of Horticultural Specialities, the NASS annual program provides information for selected horticultural commodities at the State level.

The annual statistics program includes several reports on the production, value, and chemical usage for nursery and floriculture crops. Three main reports constitute the annual program. The Floriculture Crops Annual Summary is released each April and includes production, price, and wholesale value for growers having $100,000 or more in sales in 36 selected States. It also includes the number of growers and growing area for growers with $10,000 or more in sales. This report can be accessed via the Internet at http://usda.mannlib.cornell.edu/reports/nassr/other/zfc-bb/. The Nursery Crops Summary is conducted periodically in tandem with the Agricultural Chemical Usage—Nursery and Floriculture Summary. The Nursery Crops Summary includes gross sales and the number of trees/plants sold for 17 selected States and growers having $100,000 or more in sales. It also includes area in production and the number of growers and workers for operations having $10,000 or more in annual gross sales. The next summary will be released on July 26, 2004 and will be available at http://usda.mannlib.cornell.edu/reports/nassr/other/nursery/index.html. The Agricultural Chemical Usage—Nursery and Floriculture Summary is scheduled for release on September 15, 2004. This summary includes chemicals used (by active ingredient) and to what crop the chemicals were applied, the amount of chemicals applied, the method of application, who made the application, and the pest management practices used on operations for six selected States. Agricultural Chemical Usage Summaries are available at http://www.usda.gov/nass/pubs/estindx1.htm#A.

In addition to the annual program, the Census of Agriculture provides basic data on the area of nursery and floriculture crops grown, by crop, under protection or in the open, the total area irrigated, and an aggregate value of sales for nursery, greenhouse, floriculture, and sod. These data will be available in June 2004 at the National, State, and county level.

SMALL AREA ESTIMATION

Question. Dr. Jen, $2.5 million and 4 new staff are requested by NASS for data acquisition for the Small Area Estimation Program. It is my understanding that this information is used by the Risk Management Agency and the Farm Service Agency. How will these USDA agencies benefit by this increased funding and staff?

Answer. The Risk Management Agency and the Farm Service Agency are two of the major users of the NASS small area estimates. Due to the dynamic growth of the agricultural insurance programs and the farm bill utilization of these estimates, both agencies rely heavily on the precision of county level estimates produced by NASS. Due to limited funding, current estimates are derived through a survey process that does not allow for full implementation of the probability design that produces statistically defensible survey precision. This funding will be used to allow follow-up data collection activities to support the probability design in an initial one-third of the U.S. counties. Therefore, users of NASS small area statistics will be able to accurately define the statistical precision of each estimate.

Question. What additional data will be acquired?

Answer. This funding will allow the initial implementation of follow-up data collection activities necessary to calculate statistically defensible survey precision for the current program. The county estimates program continues to grow in scope and importance for Federally administered farm programs, thus increasing the need for defensible survey precision.

Question. What is the impact on these agencies if these funds are not provided?

Answer. These agencies will be forced to continue to administer Federal farm programs based on data which does not have a calculated level of precision. As the number of farm programs, and Federal outlays, which depend on these estimates continues to grow, the absolute level of precision must be known. Without a calculated level of precision, some payment decisions to farm operators may result in either an overpayment to farmers at the taxpayers expense or an underpayment to farmers who have a legitimate claim.

BSE TRADE RESTRICTIONS

Question. Last week Secretary Veneman sent Japan a proposal to break the impasse over BSE trade restrictions. The Japanese in turn sent a letter rejecting the proposal. In a joint statement released Thursday, Secretary Veneman and Trade Representative Zoellick expressed their disappointment in the Japanese response.

Would you care to comment on the current situation regarding Japan's trade restrictions on the import of U.S. beef?

Answer. The Department has been and remains in close contact with Japanese government officials. Immediately following USDA's announcement of the BSE case, senior USDA officials held talks with Japanese officials in Tokyo, Japan, on December 29 and January 23. A Japanese technical team visited USDA in Washington, D.C., and the BSE-incident command center in Yakima, Washington, during the period January 9–15. On March 23, the Agricultural Affairs Office, American Embassy in Tokyo, reported meetings with the Japanese Ministry of Health and Welfare (MHLW), Ministry of Agriculture, Fish and Food (MAFF), and the Food Safety Commission (FSC).

There is still a significant difference in our official positions regarding BSE testing and specified risk materials (SRM) removal. On March 29, Secretary Veneman sent a letter to Japanese Agriculture Minister Kamei proposing to have a World Animal Health Organization (OIE) technical experts panel meet before April 26 to discuss a definition of BSE and related testing methodologies as well as a common definition of SRM. On April 2, Japan rejected the proposal, reasoning that the United States first needed to reach a bilateral scientific understanding on BSE. USDA is planning another high-level visit to Japan to continue talks in late April. The United States exported over $1.3 billion in beef to Japan in 2003, representing over 50 percent of Japan's total beef imports. The import ban has severely impacted Japan's market supplies and beef prices. Given Japan's need for beef imports and the importance of beef exports to Japan to the U.S. beef and cattle industry, we are hopeful that a solution can be found.

GENTICALLY MODIFIED FOOD

Question. A recent Wall Street Journal article states that last week Angola decided to ban imports of genetically modified grain, even though it will disrupt the country's food aid. In 2002, 13 member countries of the Southern African Development Community all balked at accepting genetically modified food aid. Last year 17 scientists from the same Development Community conducted a fact-finding mission and concluded that genetically modified foods posed no danger to people or animals. What is FAS doing to educate countries regarding genetically modified foods?

Answer. FAS is actively engaged in the interagency process to provide accurate information on the benefits and risks of agricultural biotechnology to food aid recipient countries. In the wake of the food crisis in southern Africa in the summer of 2002, USDA, the State Department, and the U.S. Agency for International Development committed to identifying food aid recipient countries where the issue of biotechnology could hamper relief efforts. Since being formed in the fall of 2002, this interagency group has also addressed new challenges to the delivery of food aid, including the entry into effect of the Cartagena Protocol on Biosafety in September 2003. This group has and will continue to work with foreign countries, international organizations and the private voluntary community to ensure that safe and wholesome U.S. food aid reaches those in need.

Issues related to biotechnology are both varied and complex, affecting every country to differing degrees. FAS attaches are often relied upon in their host countries to provide answers to questions regarding the benefits and risks of agricultural biotechnology. A high premium is thus placed on ensuring that FAS attaches are properly trained in all facets of agricultural biotechnology and that they receive updated information regarding political, scientific, and trade developments affecting biotechnology.

One of the most effective ways to encourage the acceptance and adoption of agricultural biotechnology around the world is to provide foreign regulators, policy makers, farmers, consumers, and members of the media with accurate information on agricultural biotechnology. FAS understands this and is heavily involved in developing exchange projects that showcase the U.S. regulatory system for agricultural biotechnology and allow foreigners to see firsthand how the technology is being used to benefit Americans. These programs are extremely effective in creating advocates for the technology at all levels of society, from farmers to high ranking government officials.

International standards play an integral role in the movement in international trade of agricultural products of all types, including those containing the products of biotechnology. FAS plays the critical role of representing U.S. interests in a number of international fora that promulgate standards affecting agricultural biotechnology. FAS works with interested stakeholders to develop and advance U.S. positions within CODEX, the Cartgena Protocol on Biosafety, the World Trade Organization, the Organization for Economic Cooperation and Development, and the Food

& Agriculture Organization, among others. Playing a prominent role in these international standards setting bodies is one of the many ways FAS encourages other countries to adopt science-based, transparent approaches to the regulation of agricultural biotechnology.

Question. Is USDA currently conducting any research on the effects of genetically modified foods?

Answer. The Agricultural Research Service (ARS) has identified three general areas for research on the effects of genetically engineered foods: environmental effects of crops, genetic effects from the introduction of new DNA into crop plants, and food safety/quality. The ARS research portfolio encompasses all three areas. Safety evaluations are currently focused on genetically engineered foods created by ARS research.

The most notable genetically engineered food currently undergoing scrutiny by ARS is a soybean genetically engineered to reduce allergic reactions by two-thirds. Soy is one of the "big eight" sources of food allergies, estimated to affect 6 to 8 percent of children and 1 to 2 percent of adults. The issue is especially important to vegetarians, for whom soy protein often serves as a staple of their diet. This example shows that genetically engineered foods can have highly beneficial effects, and they can in fact be less risky to human health than conventional foods.

The Cooperative State Research, Education, and Extension Service (CSREES) also manages a Biotechnology Risk Assessment Competitive Grants Program that supports research to examine the effects of genetically engineered crops. This program, funded by a 2 percent set-aside from all biotechnology research funding in USDA, is mandated to target only environmental risks.

IRAQ FOOD AID

Question. Last month it was reported that 110,000 metric tons of wheat is destined for export to Iraq. This is good news and will certainly be beneficial to the Iraqi people. Can you update the Committee on the current situation regarding food aid for Iraq?

Answer. There are no U.S. plans to provide additional food aid to Iraq this year. The renegotiated Oil for Food contracts and some additional World Food Program commercial tenders, using Iraqi funds, are expected to keep the pipeline sufficiently supplied into the summer. The Ministry of Trade, through the Iraqi Grain Board, is expected to take over commodity purchasing this spring and to buy commodities commercially for delivery during the remainder of the year. Additional food aid would simply displace the emerging commercial markets in Iraq.

FSA FARM LOAN PORTFOLIO

Question. Dr. Penn, in fiscal 2003 the delinquency rate for direct farm operating loans was 12.5 percent and the default rate was 4.7 percent. Fiscal 2003's delinquency and default rates are similar to past years even though last year was a good year for farm prices. Can you explain why this is?

Answer. FSA has made considerable progress during the past 5 years in reducing both delinquency and loss (default) rates. In fiscal year 1998, the direct farm operating loan program delinquency rate was 16.78 percent; at the end of fiscal year 2003, it was 12.5 percent. The loss rate in 1998 was 5.6 percent, and in 2003 was 4.7 percent.

A portion of the loss rate can be attributed to long-term indebtedness from the farm crisis period of the late 1980's and early 1990's that had never been written off the Agency's books. Some of these debts had been reduced to judgments, which were still uncollected. Other loans could not be finally written off because of litigation and other circumstances.

Implementation of the Debt Collection Improvement Act of 1996 in the past few years has resulted in more efficient and effective collection from the judgment accounts and delinquent debtors. This has allowed both greater recovery and final determination that some accounts are uncollectible, resulting in writing off of the latter debt, which had the effect of inflating losses during this period.

Question. Does USDA believe these rates are acceptable?

Answer. While the Agency would certainly like to see lower delinquency and default rates, the current numbers represent a vast improvement over historical rates. FSA will continue to make efforts to reduce these numbers. However, as the Government's "lender of last resort," FSA can lend only to farmers who cannot obtain commercial credit. Providing credit to those who do not meet standard lending criteria will inevitably result in higher default and delinquency rates than are experienced by commercial lenders.

Question. What specific actions are you taking to lower the delinquency and default rates?

Answer. FSA has purchased and begun implementation of an automated, web-based farm business planning system widely used by commercial farm lenders. The new system will permit FSA staff to easily identify borrowers who, as the result of economic or production issues, will likely have financial problems. FSA loan personnel will then be able to proactively work with them to avoid delinquencies or mitigate them before financial problems become insurmountable. It will also help staff work with applicants and borrowers to identify potential risks and formulate risk management strategies.

For those cases that do go into default, FSA and the Department of the Treasury continue to work together to enforce collection of delinquent debt through offset of Federal payments and salaries, income tax refunds, and a statutorily authorized portion of Social Security benefits, as well as other methods. In some cases, offset provides sufficient funds to cure the default, thereby reducing the delinquency rate.

Through the cross-servicing program, Treasury contracts with private collection agencies to locate and attempt collection from delinquent debtors. Where the borrowers have no assets or prospects from which collection can be made, those accounts can then be written off, further reducing the delinquency rate.

FSA also provides primary loan servicing to delinquent borrowers, through which their accounts can be restructured or written down to an amount they can repay, eliminating the default.

Question. What level of delinquency and default are you aiming for?

Answer. We aim for the lowest levels possible, given the type of customer we serve. FSA establishes goals for reduction of delinquency and loss rates, and has already exceeded those goals for the current year. Goals are revisited and adjusted each year, and the Agency will continue to make efforts to reduce these rates to the greatest degree possible.

Question. FSA is requesting a loan level of $25 million for emergency disaster loans for fiscal year 2005. The default rate in fiscal 2002 was 20.3 percent and 11.5 percent in fiscal 2003. Based on historical data, we know there will be high loss rates on emergency loans. Do the benefits of these loans justify the high levels of loss?

Answer. This assistance is available only to borrowers who have suffered losses through natural disasters and cannot obtain credit from commercial lenders. As in the Operating Loan program, this means that losses will always exceed those experienced by commercial lenders. Further, loans made to recover from disasters carry inherent risks that do not apply to normal operating and ownership loans. However, this program does appear to be the best method of providing assistance to those who have suffered disaster losses, especially considering that the alternative—grants and other aid that does not have to be repaid—would increase the cost to the Federal Government.

Question. What specific actions are you taking to lower the default rate?

Answer. FSA has purchased and begun implementation of an automated, web-based farm business planning system widely used by commercial farm lenders. The new system will permit FSA staff to easily identify borrowers who, as the result of economic or production issues, will likely have financial problems. FSA loan personnel will then be able to proactively work with them to avoid delinquencies or mitigate them before financial problems become insurmountable. It will also help staff work with applicants and borrowers to identify potential risks and formulate risk management strategies.

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PERFORMANCE REVIEW

Question. Based on an OMB assessment, FSA is conducting a performance review of its loan portfolio. When will this review be complete?

Answer. The Program Effectiveness Study of the FSA direct loan portfolio will be complete by June 2005. Preliminary data is expected by August 1, 2004.

Question. What do you hope to learn from this review?

Answer. We expect to learn more about financial characteristics of program participants as a group and how those characteristics change during the time borrowers have debts with FSA; how many participants "graduate" to commercial credit and subsequently return to FSA for loans; the effectiveness of statutory assistance targets; potential improvements for administering the “credit elsewhere” requirement; and alternatives for reducing program subsidy rates.

Question. Will you please share the results of the review with this Subcommittee?

Answer. Yes, FSA will share the findings with the Subcommittee when the program effectiveness study is complete.

FARM LOAN STAFFING

Question. FSA is requesting 100 new staff years to administer its farm loan programs. In the FSA administrator’s testimony, he states that the new staff will “help avert increases in direct loan delinquency and loss rates.” Is that the best we can do—attempt to stop the rate of increases? Why won’t these staff contribute to decreasing the overall level of defaults and delinquencies?

Answer. The FTE request is intended to avert increases in loan delinquency and loss rates, and continue improvement in loan performance. FSA’s Farm Loan Program has an urgent need to establish a training “pipeline” of loan officers and technicians to replace large numbers of anticipated retirees, to maintain a cadre of experienced loan program delivery personnel. Adequate training for a loan officer takes at least 2 years. Inadequately trained staff cannot be efficient because they must learn as they work, and they make more and potentially more serious errors. Because FSA farm loan programs are complex, poorly or partially trained loan officers are prone to errors that create substantial program vulnerability and result in higher loss rates. Merely replacing retirees with new hires is ineffective in the short run and will adversely affect program performance in the long run.

Question. How was this level determined?

Answer. In determining the request, the agency took into account the fact that resources are limited and proposed an increase that, while not completely solving the trained loan officer “pipeline” problem, will be a major step in that direction.

Question. Does it not make sense to wait for the results of the performance review before creating 100 new positions?

Answer. No, these two issues are not directly related. The Program Effectiveness Study will provide data that will allow more informed policy decisions, and possibly result in administrative or policy adjustments to make the programs more effective. The FTE request is necessary to maintain a cadre of fully trained staff which will maintain and enhance current performance, protect the government’s financial interest in existing loans and guarantees, and help existing borrowers stay on the path to financial success.

Question. How do you know this is the agency’s most pressing need?

Answer. The Agency has a combined guaranteed and direct loan portfolio of nearly $17 billion, annual loan and guarantee commitments approaching $4 billion, and a commitment to assist nearly 120,000 borrowers. Farm loan programs make FSA the largest single farm lender in the country. Given the level of financial exposure and the anticipated scope of retirements of seasoned staff in the farm loan programs, the need for this additional staff is critical.

CROP INSURANCE

Question. The Risk Management Agency (RMA) is currently working to renegotiate the Standard Reinsurance Agreement (SRA). This agreement establishes the terms and conditions under which the Federal Government will provide subsidies and reinsurance on eligible crop insurance contracts. Can you provide the Committee with an update on the negotiation process and have you set a deadline for completion?

Answer. The Department announced on December 31, 2003 that the current standard reinsurance agreement would be renegotiated effective for the 2005 crop year. The first proposed reinsurance agreement was made publicly available at that time. Based on the advice of the Department of Justice, RMA established a process by which we renegotiate the agreement individually with each company and meet with each company in detailed negotiating sessions. Interested parties had until February 11, 2004 to provide written comments about the proposed agreement. RMA reviewed comments from insurance companies and interested parties to revise the first draft. On Tuesday, March 30, RMA announced the release of the second SRA proposal. RMA believes that the second draft demonstrates responsiveness to concerns raised by companies and interested parties. The proposed SRA will enhance the Federal crop insurance program by: encouraging greater availability and access to crop insurance for our nation’s farmers; providing a safe and reliable delivery system; and reducing fraud, waste, and abuse, while achieving a better balance of risk sharing and cost efficiencies for taxpayers.

As part of the process, RMA will meet with the insurance providers in individual negotiating sessions the last 2 weeks of April and will receive public comments until April 29. At that point RMA will evaluate the comments and negotiating session materials and develop another draft for discussion with the companies. There are several remaining issues of substance to resolve before a final draft may be completed. While it is the agency's desire to resolve them and complete the process before July 2004, given that this is a negotiation, RMA is not able to determine how long it will take to resolve issues to all parties' satisfaction. Prior SRA negotiations have taken well past July to conclude, but have not affected the continuing delivery of the program.

Question. The Administration's Budget request for the RMA includes an increase of over $20 million to improve information technology. Within the increase, the Budget requests funding to monitor companies and improve current procedures to detect fraud and abuse. Can you explain how the department will monitor companies and improve detection of fraud and abuse?

Answer. The current systems are based on technology that is more than 20 years old. The information that is collected from the Insurance Companies is distributed to a collection of 100+ databases. Any subsequent updates or changes, received from the Insurance Companies, to this information overlays the original information. This architecture does not allow RMA to track changes in the submissions from the external entities.

As the data requirements of the current data structures change from year to year, new databases are created for each crop year. The prior years databases are problematic due to the intense effort needed to convert the historical information to formats that are consistent with the more recent years. This creates problems in data analyses when trying to use data from multiple crop years.

The requested increase in funds is directed at the establishment of a consistent enterprise architecture and enterprise data model. This would replace the 100+ databases with a single enterprise data model that would be consistent across the organization. This enterprise data model would allow data mining operations to be conducted without first converting the data to a consistent useable format.

By moving the data to a modern relational database system RMA will be able to track detailed changes that are made to the data that is received from the Insurance Companies. This will allow RMA to monitor the timing of the changes as they occur and identify those changes that could potentially be related to fraud and abuse.

ADVENTITIOUS PRESENCE

Question. The U.S. government's intent to implement a science-based policy with respect to adventitious presence (AP) was announced by the Office of Science and Technology Policy (OSTP) in August 2002 (Federal Register Notice 67 FR 50578). The seed, grain, and food industry continue to face the possibility of disruptions in trade due to uncertainty around low levels of biotech events in conventional and biotech products. Can you update the Committee on this situation and what actions USDA may take this year?

Answer. The biotechnology, food, and grain industries have all identified adventitious presence (AP) as a priority issue and development of an AP policy is a priority for APHIS as well. AP refers to the intermittent low-levels of biotechnology derived genes and gene products occurring in commerce as a result of the field testing of biotechnology crops. In August 2002, OSTP began coordinating a government-wide approach to AP, which involves updating APHIS field testing requirements and establishing early food safety assessments at the Environmental Protection Agency and the Food and Drug Administration. APHIS has participated in the Agricultural Biotechnology Working Group (ABWG) to develop an AP policy under the auspices of the White House and OSTP. APHIS is working as quickly as possible to establish an AP policy as part of its upcoming regulatory revisions.

RENTAL ASSISTANCE

Question. Mr. Gonzalez, GAO has recently assessed the Rural Housing Service's rental assistance program. I understand that USDA does not generally agree with GAO's conclusions. Does USDA agree with the idea that rental assistance contracts should last only as long as the life of the contract, that is, in our current situation, for 4 years?

Answer. RHS has worked diligently over the last 6–7 years to estimate rental assistance (RA) needs as closely as possible to the contract term. However, it is impossible to estimate the contracts exactly due to tenant turnover and market conditions in the last 2 years of the contract. Therefore, requiring a set term provides an additional burden to both the borrower and the Agency in the monitoring of these contracts. Within the last year, automated technology has made it possible for the Agency to drill down to a per-property basis to determine the most current usage rate of rental assistance. Development of an automated rental assistance forecasting tool, now completing the testing phase, will enable RHS to establish a more accurate per property cost of RA over the life of the contract.

Question. Do you believe that the fiscal 2005 request will be completely spent within 4 years (If not, why not?)

Answer. RHS believes that the fiscal 2005 request will be completely spent within 4 years.

MANAGEMENT CONTROL REVIEW

Question. Mr. Gonzalez, I understand that the rental assistance program will undergo a "Management Control Review" this month. Who will conduct this review?

Answer. The Financial Management Division of the Rural Development mission area oversees the conduct of all Management Control Reviews (MCRs) within RD done on all programs deemed assessable. This includes most loan and grant programs, including the Section 521 Rental Assistance Program. The review is performed by subject matter experts, generally 8–10 field staff who work in the particular program area, as well as Civil Rights personnel, who conduct their review from a perspective of fair housing regulations and civil rights compliance.

Question. Why did you choose to begin this review?

Answer. MCRs are generally done on a 5-year cycle. In this case, the last MCR done on the Section 521 program was in 1999 and is due again in 2004.

Question. What are the goals of this review?

Answer. The general goals of a MCR are to improve the accountability and effectiveness of USDA's programs and operations through the use of sound systems of internal and management controls. The specific objectives of the MCR on Section 521 assistance are to ensure:

—Priority of Rental Assistance (RA) applications properly processed in accordance with RD Instruction 1930–C Ex. E IV;
—That any denial of RA requested is in accordance with RD Instruction 1930–C Ex. E V C 4;
—Recordkeeping responsibilities are in accordance with RD Instruction 1930–C Ex. E VII & X;
—That borrower's administration of the RA program is in accordance with RD Instruction 1930–C Ex. E VIII;
—That assigning RA to tenants is in accordance with RD Instruction 1930–C Ex. E XI;
—Suspending or transferring existing RA is in accordance with RD Instruction 1930–C Ex. E. XV;
—That unused RA units are reviewed and transferred in accordance with RD Instruction 1930–C Ex. E XV B 5;
—That AMAS (the automated multifamily accounting system) is maintained to support the Rental Assistance program.

Question. Will you please share the results of the review with this subcommittee?

Answer. The MCR is expected to be completed this summer, and the report should be available by August 2004. RHS will provide the subcommittee with a copy of the report at that time.

COMPREHENSIVE PROGRAM ASSESSMENT

Question. Mr. Gonzalez, the Section 515 housing program is currently undergoing a "Comprehensive Program Assessment". When will the Comprehensive Program Assessment be complete?

Answer. Our target date for completion of the physical inspections and market analysis portions of the study is the summer of 2004.

Question. How much did this assessment cost?

Answer. The assessment cost is $1.8 million

MULTIFAMILY HOUSING

Question. As part of this review, why did USDA choose to evaluate the organizational structure of the Multifamily Housing division?

Answer. The Section 515 Rural Rental Housing program has 17,314 properties in its portfolio as of April 2003. We have undertaken an effort to develop a comprehensive assessment of these properties. The Rural Housing Service has initiated an effort to determine the condition of the portfolio from several perspectives. The Comprehensive Property Assessment (CPA) has several objectives, all of which are designed to provide an all-encompassing evaluation of the state of the portfolio. These objectives include:

—Assessment of property's physical condition,
—Assessment of property's financial health,
—Assessment of property's position in the real estate rental market,
—Determination of continuing need for this rental housing,
—Assessment of needed capital improvements and cost,
—Assessment of future capital reserve needs,
—Analysis of prepayment potential, and
—Analysis of prepayment incentive costs to retain properties/use restrictions.

The Department convened a Multifamily Advisory Group to oversee completion of the study, and ICF Consulting, Inc. was hired in September 2003 to undertake the study. At the completion of this study, we will be able to determine the long-term capital needs of the portfolio for budget purposes.

The study will make recommendations on needed modifications to the program delivery system to meet the long-term capital needs of the portfolio.

BROADBAND

Question. The Rural Broadband Program has received a great deal of interest from Congress, rural communities, and the broadband industry. Of particular interest is the status of many of the loan applications. Could you please provide us with an update on the loan program and some of the issues you are dealing with?

Answer. There are 40 loan applications pending totaling $438.8 million; 14 loans have been approved totaling $201.8 million; 20 loan applications totaling $300.3 million have been returned as ineligible; and 17 loan applications totaling $195.4 million have been returned as incomplete.

The Broadband loan program is distinctive from all other lending programs within the RUS portfolio. Broadband is currently viewed as a commodity that must be properly marketed and potential customers must be made aware of the benefits of broadband service if they are to spend their discretionary dollars on it. As such, it is difficult to predict what penetration rates will be today and in the future.

Nearly half of the applicants are "start-up" companies with little, if any, history of doing business in this industry. There are two distinctly different characteristics at play-competition (rather than a monopolistic environment) and multi-state businesses (rather than a single cooperative serving a single rural community).

Applications for the Broadband Program are different from those in the other RUS infrastructure programs. Very few of these applications are designed to serve a single rural community or even a small grouping of geographically close rural communities. Most are applications requesting to serve 50, 75, or in excess of 100 rural communities in multiple states.

Furthermore, the vast majority of the communities already have broadband service available in some of the proposed service area; in some instances, from more than one provider. To determine financial feasibility, RUS must determine what portion, if any, of a competitive market the applicant will be able to penetrate. As a result, working with each applicant is also uniquely time consuming.

Finally, many of the first applications submitted were assembled hastily to secure positions due to our first-in first-out review procedures. Valuable time was used helping applicants assemble complete loan application packages.

Based on this experience, RUS changed its review procedures to expedite reviews and has instituted new techniques to determine whether an application is complete and can be processed; is incomplete but can be completed with the submission of additional information; is incomplete and will require a significant amount of additional work and must, therefore, be returned; or is ineligible and must be returned.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

DAIRY FORWARD CONTRACTING

Question. Dr. Collins, in 1999, Congress passed legislation to set up a dairy forward contracting pilot program, which is set to expire at the end of this year. Dairy forward contracting allows buyers and sellers of milk to voluntarily agree upon delivery of a specific amount of milk for a set price over a specified period of time. About 655 of Wisconsin's 16,000 dairy farmers have participated in this pilot program. Many of them recommend making this voluntary program permanent because it gives them a new way to manage risk. What is the Administration's position on this program? Does the Administration support legislation that would make the dairy forward contracting program a permanent program?

Answer. The Consolidated Appropriations Act of 2000 required USDA to conduct a study to determine the impact of the Dairy Forward Pricing Pilot Program on milk prices paid to producers. Data from the mandated study indicates that the program can help stabilize the price dairy producers receive for their milk and thereby be a valuable risk management tool. For this reason, USDA does not oppose extending or making permanent the current Dairy Forward Pricing Pilot Program.

EXPORT MARKET PROBLEMS

Question. Following the BSE discovery in Washington State last December, our beef export markets were badly shaken. Similarly, we have seen problems with certain poultry export markets due to avian influenza. In both of these cases, the problem originated in another country and was imported to the U.S. Open markets are a two way street, they allow our products to move in foreign commerce, but they also raise the possibility that we are importing serious problems.

Please update us on what USDA is doing to reopen export markets for our beef and poultry products. Also, can you please comment on how we protect our export markets from problems which are, themselves, foreign in origin?

Answer. Re-opening foreign markets for U.S. beef and beef products is a top priority for USDA. As a result of USDA's efforts, Mexico and Canada, which are the second and fourth largest U.S. beef export markets, have opened their markets to selected U.S. beef, beef products, and ruminant by-products exports. Further, USDA is working very closely with NAFTA trading partners to harmonize animal health standards and regulations with regard to Bovine Spongiform Encephalopathy (BSE).

USDA continues to work closely with foreign trading partners to re-establish U.S. beef and beef product exports as quickly as possible. We are working with foreign officials at all levels to personally assure them of our robust safeguards and to indicate that trade can safely resume. The Animal and Plant Health Inspection Service (APHIS) was in constant contact with its counterparts providing them with updates on the BSE investigation, as well as new USDA regulatory policies imposed on BSE testing and specified risk material (SRM) removal. USDA continues to be engaged with foreign governments at the technical level responding to all of their questions and encouraging them to make trade decisions based on sound science.

With respect to poultry exports, USDA responded quickly and effectively to control the spread of Avian Influenza (AI) in the AI-affected states. Throughout this process, USDA officials were in constant contact with their foreign counterparts to provide timely information about the outbreaks and quarantine control measures. U.S. export markets accounting for 66 percent of total U.S. poultry meat export value continue to import U.S. poultry meat. In 2003, the export value of poultry meat to these markets was $1.31 billion.

On April 1, the USDA Chief Veterinary Officer (CVO) announced the completion of the required surveillance and testing protocols per the World Animal Health Organization (OIE) guidelines. An official request from the CVO has been sent to major U.S. poultry export markets requesting the removal of all import bans on U.S. poultry and poultry product imports. The Department, at all levels, is diligently pursuing with its trading partners the lifting of all AI trade restrictions on products from the United States. By the summer of 2004 or earlier, the remaining countries imposing nationwide bans on U.S. poultry meat are expected to at least regionalize their import bans to those states affected by Low Pathogenic Avian Influenza (LPAI).

The U.S. Department of Agriculture takes protecting U.S. agriculture from animal and plant diseases very seriously. APHIS makes its regulatory decisions using a science-based evaluation. Before approving a product for import from a given country, a rigorous risk assessment is conducted to determine the risk associated with introducing a particular disease. Once approved, APHIS continues to monitor that country's animal health standards to ensure implementation is enforced. Because of these standards and controls, USDA can assure countries that imports of agricultural and food products from the United States are wholesome and fit for human consumption.

GENETICALLY MODIFIED CROPS

Question. USDA has pointed out the ever-increasing importance of biotechnology and its implications for U.S. agricultural trade. The more U.S. agricultural production includes elements of genetically modified (GM) materials, the more at risk our foreign markets become as long as there is a general reluctance throughout the world to accept such products.

Over the past several weeks, items appeared in the Washington Post and the New York Times reporting that genetically modified traits are appearing in traditional seed supplies with unknown consequences.

Secretary Penn, given the fact that there has been a tremendous increase in U.S. production of GM crops, and given the trade implications, do you think that we have allowed for too much production of biotech crops before we knew we had the knowledge and tools in hand to make sure contamination would not occur? In other words, have we moved so quickly on biotech crops that we have placed our exports markets at risk?

Answer. USDA's Prospective Plantings report, released on March 31, 2004, indicates that U.S. production of crops produced using modern biotechnology will continue to increase in 2004. However, U.S. farmers are not alone in their rapid adoption of this technology. According to the International Service for the Acquisition of Agri-biotech Applications, 2003 saw the 7th year of double-digit global growth in the production of biotech crops. Over 7 million farmers in 18 countries produce 167 million acres of crops enhanced though modern biotechnology. Farmers are increasingly using biotechnology for improved control of pests and weeds. In addition to these economic benefits, in some instances, farmers are realizing environmental benefits through increased use of no-till' and reduced use of chemicals and fuel.

USDA will continue to work very hard to promote U.S. crops in overseas markets and is engaged on many levels to provide trading partners with accurate information regarding the benefits and risks associated with agricultural biotechnology.

Question. What steps are you taking to meet concerns of some countries that won't even accept GM crops as food aid?

Answer. FAS is actively engaged in the interagency process to provide accurate information on the benefits and risks of agricultural biotechnology to food aid recipient countries. In the wake of the food crisis in southern Africa in the summer of 2002, USDA, the State Department and the U.S. Agency for International Development committed to identifying food aid recipient countries where the issue of biotechnology could hamper relief efforts. Since being formed in the fall of 2002, this interagency group has also addressed new challenges to the delivery of food aid, including the entry into effect of the Cartagena Protocol on Biosafety. This group has and will continue to work with foreign countries, international organizations, and the private voluntary community to ensure that safe and wholesome U.S. food aid reaches those in need.

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International standards play an integral role in the movement in international trade of agricultural products of all types, including those containing the products of biotechnology. FAS plays the critical role of representing U.S. interests in a number of international fora that promulgate standards affecting agricultural biotechnology. FAS works with interested stakeholders to develop and advance U.S. positions within CODEX, the Cartgena Protocol on Biosafety, the World Trade Organization, the Organization for Economic Cooperation and Development, and the Food & Agriculture Organization, among others. Playing a prominent role in these international standards setting bodies is one of the many ways FAS encourages other countries to adopt science-based, transparent approaches to the regulation of agricultural biotechnology.

SOUND SCIENCE

Question. I agree that these crops provide the opportunity for much improved food security throughout the world, and possibly, reduced pesticide use. But world-wide acceptance of these products will depend on world-wide acceptance of the science used to establish their safety. This is true for plant science, this is true for animal science, this is true for all science.

Dr. Jen, would you please respond to the questions that have been raised regarding the use, or abuse, of science in the pursuit of certain policy objectives? What are you doing at USDA to ensure that the term "sound science" is a truly scientific term and not a political term?

Response. USDA is committed to an open and transparent regulatory process that reflects the latest science to protect America's agricultural and natural resources. One of the purposes of our Office of Risk Assessment and Cost Benefit Analysis is to review risk assessments for certain regulatory actions. As part of the regulatory process, risk assessments are also made available for comment and input from stakeholders, industry, and the general public. Further, in the area of biotechnology policy and regulations, we have requested input from the National Research Council of the National Academy of Sciences. On the question of BSE risks, we have requested analyses by Harvard Center for Risk Analysis. These examples illustrate that we attempt to find and use the best science based information available in a transparent process to help guide our decisions.

DOWNED ANIMAL RISK MANAGEMENT TOOLS

Question. Dr. Penn, it was recently announced that downed cattle will no longer be accepted for slaughter at plants destined for the food chain. Since that announcement, producers have pointed to their potential lost income as a result of this policy. Would you recommend that RMA develop a risk management tool to help these producers seek compensation for lost income resulting from this new policy, as crop producers have tools for similar losses?

Answer. Section 523(a)(2) of the Federal Crop Insurance Act (Act), states the Corporation shall not conduct any pilot program that provides insurance protection against a risk if insurance protection against the risk is generally available from private companies. It is my understanding there are a number of private insurance products in the market that cover livestock from injury or disease loss, which would prohibit the Federal Crop Insurance Corporation Board of Directors from approving such a product. However, if it is determined that insurance protection for downed cattle is not generally available, the Risk Management Agency could contract for a feasibility study to determine if an appropriate insurance product may be developed to protect against the risk of loss due to downed cattle.

FARM LOAN STAFFING

Question. Dr. Penn, you have requested an increase of $7,395,000 for 100 new Federal permanent employees. Your justification indicated these new employees will prevent direct loan delinquency and loss rates from increasing and assist in loan processing and servicing. We also understand that FSA faces tremendous problems in the future related to large numbers of senior loan officers eligible for retirement. How will you allocate these resources, will it be used primarily to backfill senior loan officers in the field that retire?

Answer. The staff years would be deployed first to States with the highest attrition rates of loan officers and secondly to high loan volume offices.

Question. Will other factors, for example loan processing delays, servicing of large loan portfolios be considered?

Answer. Offices with larger portfolios and those that are experiencing difficulty in delivering farm loan programs due to lack of trained staff will be considered. It should be noted that new hires must complete a training program that can last up to 2 years, so the workload in these offices will not be immediately affected.

Question. Will racial, ethnic and gender diversity be considered when filling these positions in the field?

Answer. Certainly, there will be discussion about hiring employees who represent the States' underserved constituencies. The States are being encouraged to use outreach efforts to ensure that qualified diverse individuals are hired for these positions.

Question. The farm credit programs have remained relatively flat in the past few years. Isn't there a need to address retirement or work flow needs in other areas of FSA that are outside of the positions devoted to farm credit programs?

Answer. There are definitely attrition and workflow issues in other programs within FSA. However, the farm loan program area is unique in that adequate training for loan officers can take up to 2 years. Many of the other jobs in FSA have training programs that would allow the employee to be fully functional in their jobs much sooner. In the farm loan program area, retirees cannot be replaced with untrained new hires.

DIGITAL DATA MAPS

Question. In the Common Computing Environment account, there is a request for $9,000,000 for FSA to complete digital data maps. In my home State of Wisconsin, not a single county has been certified and it is my understanding the only State that has every county certified is Minnesota. This has been an ongoing effort for several administrations. How many counties are certified, when do you expect to finish this work, and what has been spent to date by FSA to complete this effort?

Answer. As of April 7, 2004, 1,767 counties have digitized common land units (CLU's) and 381 of these counties have been certified. Of the 72 counties in Wisconsin, 20 counties have digitized CLU's. While only one county in Wisconsin is currently certified, certification is planned for about 10 counties by the end of fiscal year 2004.

Within current funding constraints, approximately 2,200 counties should be digitized by the end of the fiscal year. At the current rate, we would expect to have as many as 600 to 800 counties certified by the end of the fiscal year. Minnesota, Nebraska, Oregon, and Massachusetts are fully certified, and Kansas has 102 of 105 counties certified.

To date, USDA has spent about $16,000,000 on contracts to digitize the Common Land Unit. The expectation is that all of the CLU will be completed except for some areas in Alaska and the territories by the end of fiscal year 2005. Not all of the $9,000,000 in the current request is for the CLU. Most of this request is for annual expenses for obtaining compliance imagery (National Agricultural Imagery Program).

Question. What other Federal agencies have this capability, and can you use their information for your purposes?

Answer. Many other Federal agencies have GIS capability and the ability to digitize information, either directly or through contract support. However, the Common Land Unit is information collected and managed only by USDA. No other Federal Agency tracks this kind of information for private (non-Federal) land nationwide. U.S. Department of Interior, Bureau of Reclamation tracks similar information for watersheds in the Western United States and USDA has worked with them to share information. There are similarities between this information and information tracked by some State and local agencies, but there is no consistency across States and local areas and no single authoritative source for this information outside of the Farm Service Agency.

BROADBAND LOAN PROGRAM

Question. Secretary Gonzalez, please elaborate upon the RUS broadband loan program internal review process. Your response should detail the average timeframe for: (a) acknowledgement of an application by RUS; (b) the actual review of an application including review by the RUS senior loan review committee; (c) the preparation of recommendations to the Administrator; (d) the consideration of the recommendations by the Administrator; and (e) notification to the applicant regarding the final ruling upon an application including instances when any further action is requested of the applicant.

Answer. When an application is received, RUS performs an initial review for eligibility and completeness within 20 working days. When that review is complete, a letter is sent to the applicant detailing the results of the review: (1) the application is complete and will be processed; (2) the application is incomplete, including details needed for making the application complete; or (3) the application has been determined ineligible in accordance with program regulations. If the application is determined to be complete, upon assignment, the application should be processed within 60 days, including the following committee reviews. If the application is feasible and adequately secured, the loan is presented to the Assistant Administrator's Loan Committee (AALC) for recommendation. At a minimum, this committee meets twice a week or as necessary to review loans. Upon approval from the AALC, the loan is forwarded to the Senior Loan Committee (SLC) for review and recommendation. Again, at a minimum, this committee meets twice a week or as necessary to review loans. The Administrator participates as chair of the Senior Loan Committee. Upon final action from the SLC, applicants are immediately notified of the status of their application. If the SLC approval is conditional upon the applicant agreeing to complete further action, then the action is stated in the letter notifying the applicant of the status of the application.

Question. Please provide an accounting of the total number of applications that have been received, approved, returned, currently under review and not yet reviewed under the RUS broadband program. Please include detailed information about the corresponding loan levels for each category.

Answer.

[Dollars in millions]

Applications	Number	Amount
Received	93	$1,157
Approved	18	216
Returned	40	538
Under review	34	386
Not yet reviewed	1	17

Question. When will the RUS announce the opening of the application process for funds appropriated in fiscal year 2004? What will be the deadline for submitting applications for fiscal year 2004 loans? What actions have been taken by RUS to ensure that potential RUS applicants submit complete and thorough applications?

Answer. The "application window" for fiscal year 2004 has been open since the beginning of the year, since mandatory funding from the previous year was carried forward to fiscal year 2004. There is no "deadline" for the submission of applications—applications are accepted year-round. On March 24, 2004, RUS published a Notice of Funds Availability that detailed the amount of funding available, including the mandatory funding and the fiscal year 2004 appropriation. The notice also detailed the amount of funding available by category (4 percent direct, direct cost-of-money, and guaranteed). The notice also sets forth the maximum and minimum loan levels as well as the definition of broadband service to be used for loans made this fiscal year.

To ensure timely loan processing, RUS has been diligent in reviewing and re-engineering its Broadband Program loan processing procedures in an effort to expedite loan processing. The agency has instituted new triaging techniques to more rapidly review applications upon submission to determine whether the application is complete and can be processed; is incomplete but can be completed with the submission of additional information; is incomplete and will require a significant amount of additional work and must, therefore, be returned; or is ineligible and must be returned. In addition, field personnel have been trained and instructed in working with potential applicant borrowers to facilitate the submission of completed applications.

Question. Please detail the overall number of applications that have been received by RUS under each of the various RUS Rural Broadband Access Loan and Loan Guarantee Programs loans: (1) direct cost of money loans; (2) direct 4 percent loans; (3) private lender guaranteed loans. How many applications have been approved under each category of loans?

Answer. The overall number of applications received by RUS under the requested categories follows: (1) Under the direct cost of money category, 92 applications totaling $1,153 million. Of those, 18 totaling $216 million have been approved. (2) Only one application has been received under the 4 percent direct program totaling $4.2 million. This application has been approved. (3) No applications for private lender loan guarantees have been received.

Question. Please detail the current and planned allocation of your staffing resources among the various RUS administered programs including how many FTE's are solely devoted to loan processing and servicing for the broadband loan program.

Answer. The RUS telecommunications program currently has a total of 128 assigned FTEs (including the broadband program), of which 113 positions are filled. This office is responsible for the telecommunication loan program, DLT, Broadband loans and grants and other programs like the weather radio grant program. No new FTEs have been added since receiving the broadband program and the Local to Local TV loan guarantee program.

A team of 14 headquarters individuals were initially assigned to the Broadband program. Under a recently approved reorganization plan, approximately 25 individuals will be assigned to it, pending filling vacancies which currently exist.

Question. Secretary Gonzalez, please provide the private contracts for services including the dollar amount and purpose that were provided in fiscal year 2003 and fiscal year 2004 to date. Please include carry-over funds from previous appropriations that have been placed in the FISERV and GOVWORKS accounts.

Answer. The information is provided for the record.

[The information follows:]

RBS—BUSINESS PROGRAMS

FISCAL YEAR	PERFORMING AGENCY	AMOUNT	PROJECT
2003	Mineral Management Service (GovWorks).	$60,000	Enhancement to RBS Data Project.
2003	GSA/FEDSIM	97,000	Web-delivery of Moody's Financial Analyst software training.
2003	Farm Credit Administration	542,600	Assist redevelopment of the Business Programs Assessment Review process.
2003	GovWorks	30,000	Assist in development of regulations for Section 9006 of the Farm Bill.
2004	MACTEC (GovWorks)	25,712	Assist in development of regulations for special project for Under Secretary.
Total		755,312	

GUARANTEED SINGLE-FAMILY HOUSING PROGRAM

Question. Secretary Gonzales, the President's budget request for the Section 502 Guaranteed Single-Family housing program for fiscal year 2003 was below what your agency really needed. I have been told you face similar problems for fiscal year 2004. In fiscal year 2003, this Committee, at USDA's informal request, provided an additional $900 million in loan authority. Now, we are told by concerned housing lenders that the President's request for fiscal year 2005 will once again fall short and you will be forced to shut this program down prior to the end of the fiscal year.

Since this program is highlighted as part of the President's Homeownership Initiative, why haven't you asked for a reasonable program level to carry you through this year? Will this program run out of money before the end of the year? If so, when?

Answer. The Agency is considering administrative measures to supplement its program level this fiscal year. Early this year, we discussed funding management options with the Office of Management and Budget and Senate and House staffs. We are in the process of approving and implementing some of the options we discussed, including a 25 basis point increase in the fee on guaranteed loans. Certain administrative transfers of funds are also being considered. These should alleviate any problems that might have arisen due to the demand for funds exceeding the amount of funds available in 2004.

Question. Will you ask this Committee again to increase this program during this current fiscal year or in fiscal year 2005 prior to the depletion of funds?

Answer. There are no plans to request an increase in the Guaranteed Loan Program funding during the current fiscal year and we do not anticipate requesting an increase to GLP funding during fiscal year 2005.

Question. The President's fiscal year 2005 budget request increases the origination fee from 1.5 percent to 1.75 percent. Additionally, I understand that you may consider raising this fee administratively to 2 percent during the current fiscal year to stretch your funding. In fiscal year 2003, the President's Housing Initiative at RHS entitled "Lowering Fees to Reduce Barriers to Minority Homeownership" reduced the fee for this program from 2 percent to 1.5 percent. What impact will reinstating what you previously considered a "barrier" have on borrowers?

Answer. The 25 basis point increase in the fee will be negligible for homebuyers. The increase of less than $250 per loan will not be a barrier to homeownership. The resultant monthly payment increase will be about $2, on average. Raising the fee will allow about 1,000 more families to be served this year than would have been possible otherwise.

Question. When you run out of funding before the end of the year, do you lose many rural lenders you have worked so hard to bring into the program? What will you do to keep these lenders in the program?

Answer. We are currently exploring the potential of transferring unused budget authority to the program.

SECTION 515 MULTI-FAMILY HOUSING PROGRAM

Question. Transfers of Sec. 515 properties typically require new financing from sources other than USDA—from banks, Low Income Housing Tax Credit equity investors and public agencies. RD typically does not give any indication prior to the transfer itself that it will approve the resources and other items it must provide required for the transfer to work. Would the Department be able to provide formal binding commitments (with reasonable conditions for final approval and closing, as other lenders do) at a stage earlier in the transfer process in order to facilitate the approvals of other parties to transfer transactions?

Answer. The Department has tried to be sensitive to the timing requirements of our lending partners, while at the same time, performing the required due diligence for underwriting transfers and maintaining as much flexibility as possible. We have modified our proposed regulations and will soon issue an Administrative Notice (AN) designed to improve and streamline transfer processing. In addition, the Department has been actively working to develop methods to ease the transfer process. We are currently working with Fannie Mae and the Federal Home Loan Mortgage Corporation (FHLMC) to create a standardized process to accommodate transfers that involve multiple parties. This process, once completed, will remove duplication of effort for each agency and allow for work done by either Fannie Mae or FHLMC to be accepted by Rural Development and vice versa. Another step that has been taken by the Agency is the proposed transfer that will replace RD AN 3767 (1965–B). The new AN outlines standardized processing guidelines and a checklist for the transfer process. This will ensure that all transfers completed by Rural Development are consistent across the country. The Agency is attempting to utilize more creative and innovative approaches and is developing alternative tools to leverage other financing in our multifamily properties. Through these steps, we hope to expedite the transfer process.

Question. Under what conditions will Rural Development approve forgiveness of Section 515 debt? What has been RD's historical experience—under what circumstances and for what amounts has RD approved debt forgiveness and when has the Department not approved this? Is there national policy (regs, ANs) providing guidance? What are the constraints? Is debt forgiveness viewed as a tool to facilitate transfers of Sec. 515 properties?

Answer. Rural Development has approved forgiveness of debt in circumstances where the appraised value of the property no longer supports the debt and the borrower intends to make substantial improvements to the property to prevent loss of affordable housing. This has occurred when the property is being rehabilitated or when transfers are required due to administrative or legal actions. In these instances, no equity exchange is made. Historically, Rural Development has written off $171,800,000 since inception of the housing loan programs. This represents 1,013 loans. This is 1.45 percent of the $11.8 billion multifamily portfolio. Most recently, RD has received 5 debt forgiveness requests in the last 3 years: three of those were disapproved and two were approved. The National policy governing debt forgiveness is in regulation 7 CFR Ch. XVIII § 1956 Subpart B, which is provided for the record. Debt forgiveness is not viewed as a tool to facilitate transfers of Section 515 properties but rather a method by which to retain properties that would otherwise no longer be available because of severe deterioration, bankruptcy or foreclosure, or legal action against the borrower. [The information follows:] § 1956.54 Debt forgiveness. For the purposes of servicing Farm Loan Programs (FPL)loans, debt forgiveness is defined as a reduction or termination of a direct FLP loan in a manner that results in a loss to the Government. Included, but not limited to, are losses from a writedown or writeoff under subpart S of part 1951 of this chapter, debt settlement, after discharge under the provisions of the bankruptcy code, and associated with release of liability. Debt cancellation through conservation easements or contracts is not considered debt forgiveness for loan servicing purposes.

Question. Nonprofit owners of Sec. 515 properties are not permitted any distributions of project surplus cash as are for profit owners. What would be the Department's position on establishing a national policy allowing non profit owners a fee from surplus cash in order to cover the costs of asset management, accounting, compliance reporting and other obligations to government, lenders and investors which participate in the financing of transfer and rehabilitation of older properties? Currently, there is a mixture of state RD guidance in this area.

Answer. The proposed regulation 3560 included a provision for nonprofit borrowers to earn an asset management fee in lieu of a return to owner. This fee is intended to pay expenses directly attributable to ownership responsibilities. Many nonprofit borrowers also serve as the property management agent and, as such, are entitled to a management fee. In these identity of interest situations, we must ensure that duties as outlined in the management plan are appropriate to earn a management fee but are not also charged as an asset management fee. A final rule on the regulation is being developed.

RENTAL ASSISTANCE

Question. What do you do with rental assistance in projects that prepay? How is it distributed?

Answer. Rental assistance in properties that prepay their mortgage is returned to the State for distribution in accordance with Regulation 1930 Subpart C, Exhibit E, paragraph XV A 2.

Question. I understand that you have indicated there is not enough rental assistance for preservation efforts. Have you or will you consider unobligated transfers to this account similar to your activity in the last 2 years with the Section 502 guaranteed program? Isn't preservation a priority with this administration?

Answer. Preservation of the multifamily portfolio has been and continues to be a priority with this Administration; however, the Agency does not have the authority to convert other appropriated funds to rental assistance.

SECTION 502 SINGLE-FAMILY HOUSING PROGRAMS

Question. It has come to the Committee's attention that RHS has different policies for making section 502 direct and guarantee loans available under continuing resolutions. We understand that, in general, less money is made available for direct loans under continuing resolutions and that this policy has made it more difficult for builders to plan for and deliver houses for construction under the direct program. We understand that this is particularly a problem for self help housing.

Please describe for the Committee the differences between the policy for direct loans and guarantee loans, and the spending for the two programs under the fiscal year 2004 continuing resolutions. Also, please explain why RHS has different policies. Finally, please make recommendations to the Committee on ways in which section 502 direct loans could be administered during continuing resolutions so that delays in obligation of funds and construction may be minimized.

Answer. Priority is given to all Rural Development housing programs during periods covered during continuing resolutions (CR). However, there is a difference between our direct and guaranteed programs. In the direct program, since Rural Development controls the application process, we can notify applicants to not be actively signing contracts to purchase a home. In the guarantee program, Rural Development does not work directly with the homebuyer. These homebuyers work with real estate agents, builders, and over 2,000 private sector lending institutions that are unfamiliar with a lender not having available funding. When 502 guaranteed funds are not available, it is not just the consumer who is affected but also private sector lenders and the financial markets that are vital to the economy. Thus, while 502 direct loan customers are a priority, a higher priority during continuing resolutions is given to section 502 guaranteed customers, private sector lenders, and the secondary markets.

Realizing the realities of the annual appropriations process, the Agency does its best to manage its programs within the authorities available. We would be happy to work with the committee to come up with solutions to keep both programs operating through the CR process.

Question. According to the USDA Economic Research Service, 4 million, or 17 percent of the households in non-metro areas, are classified as being in housing poverty. Households are defined as being in housing poverty when their housing has at least one of four important indicators of housing disadvantage:

—Economic need—housing costs over 50 percent of household income;

—Inadequate quality—physical quality defined as moderately or severely inadequate using the HUD measure based on 26 indicators of physical problems;

—Crowding—more household members than rooms; and

—Neighborhood quality—perception of poor quality in at least 2 out of 4 neighborhood conditions (crime, noise, inadequate public services, and litter/deteriorating housing).

How many units of housing will the Rural Housing Service finance with the budget authority requested in the fiscal year 2005 budget? How does this relate to the need?

Answer. USDA expects to finance approximately 11,900 units of Section 502 Single Family Housing through the Direct loan program and approximately 27,000 units through the Guaranteed program in fiscal year 2005.

Question. What is the dollar value of Section 502 direct loan applications on hand?

Answer. As of May 24, 2004, there is a backlog of demand totaling approximately $3.3 billion.

Question. Last year, the Administration made much of the increase in homeownership spending and its priority for home ownership. Now, a year later, RHS proposes to reduce section 502 loans by more than $200 million. Is homeownership less important than last year?

Answer. For fiscal year 2005, an expectation of increasing interest rates causes the subsidy rate for the Direct Section 502 program to increase. Therefore, while we are dedicating slightly higher budget resources to the Direct program, the supportable program level is down. For fiscal year 2004, we were able to support a dramatic increase in the Direct loan program and we proposed a 30 percent increase in the program level. For fiscal year 2005, the proposed program level of $1.1 billion is still higher than the fiscal year 2003 program level. Despite the budget constraints, we were also able to keep the Section 523 Mutual and Self-Help Technical Assistance program at level funding. The Administration is committed to increasing rural homeownership and in particular, meeting our minority homeownership goals. We plan to manage our resources responsibly and to maximize the results in order to meet our program goals.

SUBSIDY RATES

Question. I understand that the subsidy rate for rural housing loans has increased. What is the basis for the increase in subsidy costs? What are the elements of the subsidy cost calculations?

Answer. The subsidy rates for Federal loan programs are affected annually by changes in technical assumptions such as default rates, prepayments, or fees and also by the economic assumption of interest for the term of the loan. The technical assumptions for every program are updated annually to reflect the most recent year's performance. Additionally, new interest rates are set by OMB annually. The change in interest rates affects all Federal credit programs and is not unique to USDA. These changes are routine upward or downward changes that reflect the cost of borrowing by the Federal Government to finance its credit programs. I will provide for the record a more detailed summary of the changes by program.

[The information follows:]

The change in the subsidy rates for the following Rural Housing Service (RHS) programs is due primarily to the change in interest costs. Changes were also due to technical changes, but those changes were minimal.

Increased Subsidy Rate from 2004 to 2005:

—Section 504 Very Low-Income Housing Repair Loans;

—Section 515 Multi-Family Housing Loans; and

—Multi-Family Housing Credit Sales.

Decreased Subsidy Rate from 2004 to 2005:

—Section 502 Guaranteed Refinance Single Family Housing Loans

The change in the subsidy rate for the following RHS programs is due primarily to changes in technical assumptions such as defaults, fees, and prepayments. Changes were also due to the interest rate change, but that change did not account for the primary shift in cost.

Increased Subsidy Rate from 2004 to 2005:

—Direct Section 502 Single Family Housing Loans;

—Direct Section 514 Farm Labor Housing Loans; and

—Single Family Credit Sales of Acquired Property Loans.

Decreased Subsidy Rate from 2004 to 2005:

—Section 502 Guaranteed Single-Family Housing Purchase Loans;

—Section 538 Guaranteed Multi-Family Housing Loans;

—Section 524 Housing Site Development Loans; and

—Section 523 Self-Help Land Development Loans.

The Direct Section 502 Single Family Housing Loan program has a higher subsidy rate due to the increase in payment assistance.

The Direct Section 514 Farm Housing Loan program has a higher subsidy rate due to the increase in the net default component.

The Single Family Housing Credit Sales program has a higher subsidy rate due to the change in prepayments and the subsequent change in the unpaid principal balance.

The Section 502 Guaranteed Single Family Housing Purchase Loans program has a lower subsidy due to the increase in the upfront fee percentage from 1.50 percent in 2004 to 1.75 percent in 2005.

The decrease in the subsidy rate for the Guaranteed Section 538 Multi-Family Housing Loan program was the result of an increase in the annual fee percentage to 0.50 percent in 2005 and a slight increase in the percentage of program level receiving interest assistance.

Methodologies used for calculating defaults, recoveries, and scheduled collections changed for both the Section 524 Site Development and Section 523 Self-Help Development programs. Program performance assumptions are based on historical program performance on a loan-by-loan basis. Prior to this, program assumptions were based on the historical trend of the total portfolio.

REPAIR AND REHABILITATION

Question. The budget requests $60 million for rural rental housing. This amount does not include any funding for new construction. This is the third consecutive year that the Administration has not requested funds to finance new rental housing units. Does the Administration plan to seek new construction any time in the future?

Answer. Over 45 percent of the Section 515 portfolio is 20 years old. Many of our apartment complexes are in need of repair and rehabilitation. The average apartment complex has reached the age where major components such as roofs, cabinets, siding, and heating and cooling systems need to be replaced. Ensuring that our residents continue to be housed in decent, safe, and sanitary rental housing continues to be one of the Agency's top priorities and will be our focus in fiscal year 2005. We believe it is appropriate for the Agency to focus its efforts on maintaining the existing stock of housing.

Question. I understand that the Sec. 515 portfolio is aging and that close to 10,000 of the 17,000 developments across the country are more than 20 years old. Does RHS have an estimate of the overall dollar need for restoration of existing Section 515 developments?

Answer. We estimate that approximately 45 percent of the portfolio has been in operation for 20 years or more. We do not have an estimate of the overall dollar need for restoration of existing section 515 developments. However, below is the recent history and projections of requests and funding for rehabilitation loans.

REPAIR AND REHABILITATION LOANS

[In thousands of dollars]

Fiscal year	Requests	Funded	Not Funded
2000	128,900	54,900	74,000
2001	128,900	50,900	78,000
2002	139,500	49,000	90,500
2003	139,000	60,000	79,000
2004 (est.)	167,100	55,800	111,300
2005 (est.)	160,000	60,000	100,000
Total	863,400	330,600	532,800

Question. The Department has recently hired a consulting firm to assess the Section 515 portfolio. What is the status of that report? Can you share with the Committee any preliminary findings?

Answer. The fieldwork has been completed. The report will not be available until late this summer. At that time we would be more than willing to share the report and its recommendations with the Committee.

Question. In recent years, due to budget cuts RHS has offered little in the way of incentives for section 515 owners to maintain long-term use. This lack of funding has prompted both the courts and the Congress to consider the provision of the law that regulates section 515 and provides incentives. All section 515 tenants are low income—with an average annual income of approximately $9,000—and two-thirds are elderly or disabled households. What is RHS doing to resolve this issue so that owners are compensated consistent with the law and tenants are not displaced?

Answer. The Agency is working with Fannie Mae, Freddie Mac, nonprofit organizations and public housing authorities to alleviate some of the demand for preservation incentives. These efforts are slow in providing relief because due diligence must be done to ensure that each participant maintains integrity to its authorizing statute, charter and/or by-laws. The Agency is working very closely with partners such as Fannie Mae and Freddie Mac to realize some preservation and rehabilitation deals yet this year.

PREPAYMENTS IN SECTION 515 PROGRAM

Question. If Congress, or the courts, lifted the restrictions in the 1987 Housing Act, what is your estimate of the number of units that would be lost and the number of households that are likely to be displaced?

Answer. It is difficult to project the number of borrowers who will prepay their mortgage. Considerations such as motivation, real estate market, and economic conditions all play a role in determining the likelihood of prepayment. While approximately 11,000 properties are eligible to prepay (mortgages made prior to 1989), our most recent prepayment history has been averaging about 100 properties a year or less than 1 percent of those eligible.

RENTAL ASSISTANCE PROGRAM

Question. The fiscal year 2004 Appropriations Conference Agreement and the fiscal year 2005 budget request reduce the total for rural rental assistance, by reducing term of contracts from 5 years to 4 years. What are the implications of this change for future budgets? What are the annual estimates of costs for the contracts expiring fiscal year 2004? Is the appropriation adequate to cover more than the 4-year period?

Answer. The objective of RD's estimation of rental assistance needs is to predict as closely as possible the exact amount of rental assistance needed at each property. However, predicting these costs is not an exact science, especially in recent years as property and health insurance, and benefits and utility costs have driven up property expenses and increased the rate of rental assistance usage. In theory, the 4-year contracts written in fiscal year 2004 should last 4 years, until fiscal year 2008. In reality, the rate at which contracts use rental assistance changes every month and their funds'exhaustion date changes as well. However, the impact of fixed terms on these contracts is that all fiscal year 2004 contracts, except those which exhaust funds prior to fiscal year 2008, will be renewed in fiscal year 2008. These fiscal year 2004 renewal contracts will be added to the expected number of renewals needed for contracts written prior to fiscal year 2004 and expected to expire in fiscal year 2008. Our estimate at this time is that all 40,754 fiscal year 2004 contracts will need renewals in fiscal year 2008 and 33,435 contracts written prior to fiscal year 2004 will need renewals in fiscal year 2008 for a total number of contracts requesting renewals in fiscal year 2008 of 74,189.

Question. The recent GAO Study "Standardization of Budget Estimation processes Needed for Rental Assistance Program" and testimony before the House of Representatives last year indicated that there is a large sum of unspent rental assistance funds in existing contracts. What is the status of these funds, how much is unspent? Have you or will you work with owners that have large unobligated rental assistance funds to voluntarily change existing contracts for preservation and other purposes?

Answer. The amount of unliquidated obligations on rental assistance contracts entered into between 1978 and 1999 was $597,000,000 as of December 30, 2003. RHS does not have the authority to amend the current RA Agreements to allow rental assistance funds obligated for a project to be used for other purposes. Such a use of funds would be a violation of the legislation that appropriated the funds. To allow RHS to enter into such amendments, Congress would have to specifically authorize the expenditure of such funds for other purposes as the Congress would like to authorize.

Question. Secretary Gonzalez, in fiscal year 2003, my State of Wisconsin had four applications for funding through the Section 525 Technical Assistance Account to provide homeownership education for our rural residents. Wisconsin has historically received funding for our good work in this area. In the fiscal year 2003 selection process, I understand the Administration selected priority states primarily within one region of the country with the justification that there was not enough funding to reach more applicants for other regions of the nation. I included language in the fiscal year 2004 bill that doubled the account and provided limits any one state could receive under this account.

How will you ensure that states like Wisconsin will receive a fair playing field for consideration for the funds available this fiscal year?

Answer. A Notice of Funding Availability (NOFA) for the fiscal year 2004 funding will be published soon in the Federal Register, outlining the competitive application process. In accordance with our published regulations, priority must be given for funding to targeted states. To meet the requirements of our regulations, we intend to target up to half of the funds to 10 states, based on the 2000 Census, including: Texas, California, North Carolina, Georgia, Mississippi, Louisiana, Kentucky, Alabama, Florida and Pennsylvania. States may receive no more than one grant from target funds.

For remaining funds, a scoring system will favor programs serving rural counties with high rates of poverty and deficient housing, as well as those operating most efficiently. No grant may exceed $100,000 (except multi-state or group programs, to

$200,000). Funding to any state or territory will be limited to 10 percent of available funds.

We believe the proposed award method will meet the objectives of the TSA program by funding projects in the most needy areas and supporting the most effective programs throughout the nation. The language you suggested in the fiscal year 2004 Appropriations Bill will help further ensure that all states, including Wisconsin, have better access to funding.

COOPERATIVE SERVICES

Question. What is the number of full-time permanent positions in the field devoted to providing cooperative technical assistance for fiscal year 2002 through fiscal year 2005?

Answer. While only a couple of States currently have full-time staff providing technical assistance for cooperatives, 12 States have a staffer who works at least 50 percent of their time in Cooperative Services (CS) activities. The remaining States have individuals who perform a range of technical assistance, outreach, and CS administered grant program activities as a collateral duty.

Question. I understand you have a current analysis ongoing to review the cooperative service mission. Can you share your results to date?

Answer. We are in the early stages of a review of our Cooperative Services Program. We have assembled a review team, representing a diverse range of cooperative and rural perspectives, to take a comprehensive look at the role of CS, review of present activities and priority areas, resource history and allocation, and recommendations for pursuing cooperative strategies within the Rural Development portfolio. Scheduling for review activities is underway and we expect the review process and completion of the final report to take approximately 3 months. We will be happy to share results as they are completed by the review team.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

CONSERVATION SECURITY PROGRAM

Question. Mr. Rey, the press has recently reported that USDA plans to spend $13.4 billion on the Conservation Security Program (CSP) over the next ten years. I have also been told that other numbers attributed to USDA are out there. Most recently, you testified that USDA will spend $13.4 billion on CSP for the life of the program, from fiscal 2004-fiscal 2007. I have looked at the cost information NRCS is distributing on CSP. According to the NRCS charts, USDA plans to spend only $1.372 billion during the farm bill, not $13.4 billion.

While I recognize the difference between obligations and actual spending, this question is strictly about how much USDA plans to spend.

Can you please confirm that the total spending for CSP during the farm bill time period are actually estimated by USDA to be $1.372 billion, or approximately that amount?

Answer. The Administration's proposed funding approach for the Conservation Security Program is to fund only the annual payment for an active CSP contract plus the technical assistance out of each respective year's budget authority. This approach is similar to the funding approach for the Conservation Reserve Program, unlike all other USDA conservation programs where the total financial assistance for the life of a contract is obligated to the Federal budget in the first year. This approach will allow greater participation by farmers and ranchers in CSP at the proposed budget levels and represents a significant commitment and investment over the life of the contracts by USDA. The $1.374 billion in budget authority through fiscal year 2007 will result in $6.92 billion in estimated payments to farmers and ranchers over the life of their individual CSP contracts. The $4.411 billion in baseline projections through 2010 will result in $13.32 billion in estimated payments to farmers and ranchers over the life of their contracts. Keep in mind that this represents a theoretical estimate at this point in time based on certain program design assumptions that could change in the final rule. The current USDA baseline budget projections for CSP is submitted for the record.

[The information follows:]

[Dollars in millions]

Fiscal year	Budget Authority	Estimated Commitment for the CSP Contract Life to Farmers & Ranchers (Financial Assistance Only)
2004	41.4	430.6
2005	209.4	1,742.2
2006	457.4	2,579.2
2007	665.4	2,163.2
2008	873.4	2,163.2
2009	1,045.6	2,070.8
2010	1,118.5	2,173.7
Total fiscal year 2004–2007	1,373.6	6,915.2
Total fiscal year 2004–2010	4,411.1	13,322.9

FOREST SERVICE MANAGEMENT PLANS

Question. The Administration's proposed rule for National Forest System Land and Resource Management Planning would make substantial changes to the extent in which the public is involved in Forest Service management plans. Most importantly, the proposed rule would allow forest supervisors to categorically exclude new forest plans as well as plan amendments and changes from environmental analysis under NEPA.

The proposed rule would also make a significant change to existing rules by explicitly stating that agency-wide management policy and procedure relevant to planning and resource management should be issued through the Forest Service Directive system. This means that major management policy would be issued in Forest Service manuals, handbooks, or white papers which are subject to only very limited public review or comment and would not be subject to NEPA. I am aware that the Forest Service is currently looking at comments to the proposed rule and is in the process of drafting a new final rule.

Given that the overall goal of managing the National Forest System as stated in the proposed rule is "to sustain in perpetuity the productivity of the land and the multiple use of its renewable resources," and that multiple uses may involve many different types of public users, why has the Administration chose to limit public input for long term forest management plans?

Answer. The Forest Service has completed review of public comments on the December 6, 2002 proposed planning rule. The Agency is in the process of drafting the final rule. The proposed rule included National Forest Management Act (NFMA) requirements for public involvement, which were the same as for previous rules. The Department strongly supports active public participation and collaboration in planning.

Question. Since sustainable management is by definition a long-term goal, how do you expect members of the public to have input into the Forest Service's plans for sustainable management if entire forest plans can be categorically excluded from NEPA?

Answer. The Forest Service has completed review of public comments on the December 6, 2002 proposed planning rule. The Agency is in the process of drafting the final rule. The proposed rule included National Forest Management Act (NFMA) requirements for public involvement, which were the same as for previous rules. The Department strongly supports active public participation and collaboration in planning.

Question. Furthermore, by limiting public input into the establishment and revision of long-term management goals and objectives, won't this simply encourage members of the public to object to every project that appears to go against their particular interests, thus decreasing the efficiency of the Forest Service planning and increasing costs?

Answer. The Department strongly supports public involvement in planning. For the proposed 2002 rule, the Department used the input provided by the Committee of Scientists for the 2000 rule. The current rulemaking process has retained this Committee's recommendation for emphasis on public involvement, adaptive management, monitoring and evaluation, use of science, and sustainability. There are requirements for use of science in the proposed rule, and the final rule will also include science requirements.

Question. In addition, your proposed regulations were developed without the formal input of an independent Committee of Scientists, in contrast to the development of all previous versions of these regulations. You also proposed eliminating most requirements for independent scientific input into forest plans themselves, making the involvement of independent scientists optional on the part of the local forest manager.

Won't this approach lead to less scientifically based forest management and less credibility with the scientific community and the public in general? And won't it therefore lead to more controversy and difficulty in implementing forest plans? Most importantly, won't limiting scientific input increase the chance that poor management decisions will harm the forest resources we seek to maintain?

Answer. The Department strongly supports public involvement in planning. For the proposed 2002 rule, the Department used the input provided by the Committee of Scientists for the 2000 rule. The current rulemaking process has retained this Committee's recommendation for emphasis on public involvement, adaptive management, monitoring and evaluation, use of science, and sustainability. There are requirements for use of science in the proposed rule, and the final rule will also include science requirements. The planning rule will result in management based on science.

HIGH FRUCTOSE CORN SYRUP

Question. Last month, the Office of the Trade Representative announced that they would pursue a WTO case against the government of Mexico for its blatantly unfair imposition of a 20 percent tax on beverages using high fructose corn syrup (HFCS) that has kept U.S. HFCS exports out of its previously largest market for more than 2 years. Under WTO rules, parties to the dispute are supposed to undertake bilateral discussions to see if a formal dispute panel can be avoided.

I understand that representatives of the sweeteners sectors in both countries have also been engaged in negotiations to try to reach a resolution of this issue and also the issue of Mexican sugar exports to the United States. Do you think either of these sets of discussions will be successful in the next few months, and if they are not, will the U.S. government go ahead and request the formation of a WTO dispute resolution panel later this spring?

Answer. We are not optimistic about the bilateral discussions, since prior efforts to resolve the disagreements between Mexico and the United States involving trade in sugar, high fructose corn syrup, and corn have not been fruitful. We will only be able to evaluate the results of the private sector discussions once they are concluded. The U.S. government will request the formation of a WTO dispute resolution panel if that appears to be the best course of action once consultations have been exhausted.

PAYMENT LIMITATION

Question. The Commission on the Application of Payment Limitations for Agriculture recommended that more resources should be allocated for payment limit administration in USDA's Farm Service Agency (FSA) and Office of the Inspector General (OIG). The commission recognized the integrity and determination of FSA county office staff, but noted that more resources could augment current efforts to train staff on payment limits and monitor compliance. What efforts, if any, have you taken to implement this recommendation?

Answer. As part of FSA's initiative to improve the delivery of programs with the available county office staffing, the agency is re-engineering its business processes dealing with program eligibility and payment limitations. An important component of the re-engineering is the development of software to improve the efficiency and implementation of payment limitations and other related payment eligibility provisions. The first phase of the re-engineering, payment eligibility, will be piloted in the next few months and is anticipated to be deployed nationally in late fall 2004. This deployment will be followed next year with the rollout of the re-engineered payment limitation system, which includes many automated validations and decision points that will assist the County Committees in their person determinations. Training on the software and payment limitations will be held for the pilot counties in August. If piloting goes well, the national training will be held shortly thereafter.

Question. The Commission also recommended that FSA track all benefits through entities to individuals as required in section 1614 of the 2002 farm bill. Often program benefits are delivered indirectly through complex business arrangements or through marketing associations. To enable Congress to better understand the complexity of payment limitations, the 2002 farm bill included a requirement to track benefits—both direct and indirect—to individuals and entities:

"SEC. 1614. TRACKING OF BENEFITS.

"As soon as practicable after the date of enactment of this Act, the Secretary shall establish procedures to track the benefits provided, directly or indirectly, to individuals and entities under titles I and II and the amendments made by those titles."

What steps have you taken to begin tracking commodity and conservation benefits as required by law?

Answer. The payment database is currently being revised to enable the tracking. The reporting capability will be completed no later than September 30, 2004.

SOYBEAN RUST

Question. Although Asian soybean rust has not yet arrived in the United States, its recent arrival in major soybean producing countries in South America has caught the attention of American soybean framers. Given the ability of the soybean rust spores to move on air currents, we know it is only a matter of time until the disease arrives on U.S. fields. One of the research activities that will be key to combating soybean rust over the long run will be the identification or development of soybean varieties that are resistant or tolerant to soybean rust, and incorporation of such traits into commercially available varieties.

Since there are restrictions from the Bioterrorism Act limiting work on viable rust spores to the Fort Detrick facility, will those hinder USDA's research effort, and what steps are you taking to relieve that constraint?

Answer. Soybean rust has been reported in numerous countries throughout the world including Australia, China, India, Taiwan, Philippines, and Thailand in the Eastern Hemisphere; Brazil, Argentina, Paraguay, Uruguay, Costa Rica, Columbia, and Puerto Rico in the Western Hemisphere; and in Zimbabwe and South Africa on the African continent.

ARS researchers at Fort Detrick are screening approximately 18,000 accessions of soybean varieties for soybean rust resistance. This material represents a worldwide collection of ancestral soybean that is maintained in the USDA Soybean Germplasm collection in Urbana, Illinois. In addition to these soybean lines, ARS scientists at Fort Detrick are screening 1,000 commercial soybean lines for broad spectrum soybean rust resistance using a mixture of four soybean rust strains with varying levels of virulence.

To relieve the constraints at Fort Detrick, international agreements are in place with cooperators in Brazil, China, Thailand, South Africa and Paraguay to evaluate soybean varieties currently grown in the United States for tolerance to soybean rust and to screen exotic soybean germplasm for resistance to soybean rust under field conditions. The international cooperations, now in their second year, will identify varieties that exhibit broad spectrum resistance.

ARS is also working with cooperators in South America to monitor and map the incidence of soybean rust outbreaks in South America. This information will be used to develop models to predict possible routes of entry into the United States.

NATIONAL RESEARCH INITIATIVE

Question. I am pleased to hear that the CSREES National Research Initiative, in response to language in the fiscal year 2004 appropriations bill, will soon be issuing a supplemental Request for Applications to solicit integrated research, education, and extension proposals that respond to the goals of the Initiative for Future Agriculture and Food Systems to enhance farm profitability, small and medium-size farm viability, and rural economic development. I commend you for this effort and would like to have two questions answered. It is my understanding that this will be more than a token effort, and will be at least in the range of $5 million or more. First, I would like to know the projected funding level for this supplemental RFA?

Answer. The projected funding level for the supplemental RFA is $5 million. These funds will primarily come from the fiscal year 2004 budget; however, part of the RFA may be funded by fiscal year 2005 funds, if necessary. All funds will be made available within calendar year 2004.

Question. Second, as we are already now half way through the fiscal year, I am wondering what the timeline is for the issuance of the RFA, the proposal deadline, the review process, and the ultimate grant awards?

Answer. Since passage of the Agriculture appropriation in February, we have been actively engaged in consulting with stakeholders and expert groups through a series of workshops to help shape the ideas in the RFA. The RFA is planned to be released in June 2004 with a September 2004 deadline. Following peer review of the applications in the Fall of 2004, it is anticipated that awards will be made no later than December 2004.

Question. Is the RFA imminent and what can you tell me about the timeline for the full grantmaking process?

Answer. The RFA is currently being prepared, having benefited from stakeholder input and internal discussions concerning this complex area of research. The RFA is planned for release in June 2004 with a September 2004 deadline for applications. Peer review of all applications will occur in the Fall of 2004, with awards being made by the end of calendar year 2004.

ORGANIC AGRICULTURE RESEARCH AND EXTENSION INITIATIVE

Question. As you know, the 2002 farm bill contains modest mandatory funding for a new Organic Agriculture Research and Extension Initiative. I am anxious to see this program get started, and I know many of my colleagues are also quite interested in this initiative. Can you tell me when the Request for Applications will be issued?

Answer. The Cooperative State Research, Education, and Extension Service-CSREES—published the Request for Applications for the Integrated Organic Program on our website on April 15, 2004, at http://www.csrees.usda.gov/fo/fundview.cfm?fonum=1141. The Request for Applications offers two program areas: the Organic Transitions Program and the Organic Agriculture Research and Extension Initiative. Together, the two programs will fund integrated research, education, and extension projects that address critical organic agriculture issues, priorities or problems. The deadline for applications for both program areas is June 10, 2004.

Question. Also, more broadly, can you tell me what plans ARS or CSREES has for expanding its research effort on organic production and marketing?

Answer. Since 2001, the Organic Transition Program has provided approximately $3.9 million for competitive grants to fund the development and implementation of organic production practices and improve the competitiveness of organic producers.

In 2004, approximately $1.9 million of funding for the Organic Transition Program will be combined with an additional $3 million of mandatory funding provided by the 2002 Farm Bill for the Organic Agriculture Research and Extension Initiative (OAREI). The 2004 funding level for organic research, education and extension programs is $4.9 million. As authorized by the 2002 Farm Bill, OAREI will provide a total of $15 million through fiscal year 2008, $3 million per year for 4 years, to fund studies that will help producers and processors grow and market certified organic food, feed, and fiber products.

ARS has been actively increasing its efforts to better serve organic producers over the last several years. Much of this research has been in cooperation with organic producers and organizations, particularly the Organic Farming Research Foundation (OFRF). In many instances research is conducted jointly with scientists at land grant universities including 1890 institutions. In addition, National Program Leaders from ARS and CSREES regularly discuss research on organic farming and sustainable agriculture at joint meetings such as those held by the USDA Sustainable Development Council, the Sustainable Agriculture Research and Education (SARE) Program and the informal USDA organic agriculture interest group. ARS and CSREES scientists and National Program Leaders also continue to participate with OFRF and organic producers in the Scientific Congress for Organic Agricultural Research (SCOAR) meetings and related activities to identify research priorities for organic agricultural.

ARS has assembled a database of its researchers that are doing or are interested in doing research on organic agriculture. More than 140 ARS scientists are doing research that could benefit organic producers. In addition ARS is doing research on many topics such as biological control, integrated pest management (IPM), weed control, and soil management that may fit well with organic farming practices. Organic growers, therefore, could reap benefits even though the research may not have originally been specifically directed towards organic systems. ARS is planning on holding a workshop later this year to improve its focus, interactions and coordination of its research on organic farming. Representatives from CSREES and OFRF will be invited.

A few examples of ARS research on organic production include the following. All of these examples are on systems that are certifiably organic under the new USDA organic standards.

—In Salinas, California ARS has a scientist dedicated solely to organic agriculture. Some of his research is studying how to best incorporate cover crops in organic systems for fertility and weed management. University of California researchers, extension agents and producers are all cooperating in this research.

—ARS scientists in Weslaco, Texas in cooperation with producers, organic organizations and university colleagues are researching a broad number of organic systems including olive, melon, citrus and grain crop production systems. One unique aspect of this research is to determine if organically produced crops have higher levels of beneficial compounds.

—ARS researchers from Beltsville, Maryland and Wyndmoor, Pennsylvania are cooperating with the Rodale Institute in Pennsylvania to develop improved weed management and fertility using for example, mycorrhizae inoculation. Three of the five systems of the Beltsville Farming System Project are certifiably organic. This research receives input from a group of farmers, extension agents and university cooperators.

—Other Beltsville scientists are cooperating with farmers and others across the United States on organic practices. The system they have developed based on cover crops has been shown to be successful for a variety of crops from Maryland to Florida to California. Furthermore, it can eliminate the need for methyl bromide and plastic for those producers interested in transitioning into organic agriculture.

—ARS led research in Georgia in cooperation with university scientists and organic farmers is investigating insect and fertility management. Other significant research on organic systems is occurring in Iowa, Minnesota, Washington and Florida.

All these are examples of an expanded ARS effort to address the needs of organic producers and almost all have CSREES partners.

A proposed new effort involves ARS in cooperation with sustainable and organic organizations (e.g., Michael Fields Agriculture Institute, Practical Farmers of Iowa, Land Stewardship of Minnesota). We are organizing a cooperative project on how to better integrate forage and animal production in grain crop systems in the cornbelt. This planned project involves ARS units and sustainable and organic NGOs in Iowa, Wisconsin, Minnesota, North Dakota, South Dakota and Illinois and will include university researchers as well. The extent of this effort is dependent on obtaining increased funding.

RURAL BUSINESS INVESTMENT PROGRAM

Question. The 2002 Farm Bill established the Rural Business Investment Program in order to attract venture capital financing to businesses located in rural areas. It is the only Federal program of its kind to target rural areas for venture capital investments.

For decades, venture capital has helped develop industries of the new economy and is responsible for creating or maintaining as many as 12.5 million jobs and generating business revenues of as much as $1.1 trillion. Most of these jobs, however, have been established in cities and states along the two coasts and not in the rural communities of America's heartland.

Congress authorized $280 million of investment capital debentures for the Rural Business Investment Program however the Administration's proposal would sharply cut this program to $60 million for fiscal year 2005.

I understand that USDA may release a program design in May so comments can be received. I think a stakeholder meeting would be highly advantageous if it can occur soon thereafter.

I believe the RBIP program should clearly use the New Markets Venture Capital Program debenture model. That is the type of debenture that Congress used in developing the program. That is how the cost was estimated. There are some rumors that the Department may act otherwise. Is the New Markets model type of debentures your plan for the program?

Answer. USDA is working with the Small Business Administration in developing regulations for this program, consistent with the statutory requirements. It is anticipated that a proposed rule will be published for public comment before the end of fiscal year 2004.

Sec. 384E of the statute authorizes the Secretary to guarantee debentures issued by a rural business investment company, including a provision for the use of discounted debentures.

As stated in the related Conference Report, Congress modeled RBIP after the Small Business Administration's Small Business Investment Company program, where considerable expertise in operating the program that provides capital for equity investments has been developed. The Managers noted that the RBIP grant provisions are similar to the New Markets Venture Capital program.

For the RBIP, the Small Business Administration has recommended the guarantee of either standard debentures or discounted debentures, pursuant to Sec. 384E.

Question. The President's budget limits the program to $60 million in debentures for fiscal year 2005, equivalent to $12 million in Budget Authority. And, the President's budget Appendix calls for an elimination of $65 million in BA in fiscal year 2005. Is this elimination a proposal to end the program after 2005 or is it simply an accounting item? Does the Department believe that the RBIP program should continue for the long term?

Answer. The President's fiscal year 2005 budget proposal for this program does not discuss subsequent program years. However, Rural Development, in association with our program partner, the Small Business Administration, intends to design and implement a program that will produce measurable results, on behalf of America's rural entrepreneurs, for the long-term.

BROADBAND

Question. I appreciate your letter to mine concerning Broadband. As your statement indicated, this is a very important need, crucial for rural America.

I wanted to briefly raise a few points: (1) I think the next time the Department sends out a NOFA that it would be very useful to adopt a two-step process: preliminary applications that could be reviewed by RUS staff and for those applications that appeared to have viability, a second stage application that would be complete. I think a lot of small entities are putting a lot of funds into a complete application and that is limiting applications. (2) That the Department adjust its 20 percent cash rule to count ongoing receipts within this sum. I understand that the Department wants equity in place by applicants. But I think ongoing recurring revenue streams should be counted. I am not talking about speculative possible receipts, but mainly the monthly billings from existing customers. (3) We need to be careful to manage risk in this program. But, we should not become excessively risk adverse.

If these things are done, I believe we could see a considerable improvement and increase in applications. And, I would like to work with you on this important need. What will you do to address the points that I have outlined above?

Answer. The required components of a completed application, taken as a whole, form the basis for determining the viability of a project. Each is dependent upon the other to evaluate the technical and financial feasibility of a project. Before a project is undertaken, it is critical to determine if a market exists for the product and, if so, to what extent and what are potential customers willing to pay for that product. This market study provides the basis for a determination of potential revenue streams and the size and capability requirements of the system. To properly estimate the cost of the system, and, ultimately, the amount of the loan request, the system must be designed and quotes gotten from venders. Operational expenses must be estimated to determine whether the project is sustainable from a financial perspective. Each of these aspects of a business plan is critical in the determination of viability. Therefore, it would be difficult to provide a potential applicant with a meaningful determination without each of these components.

It is important to note that RUS' field and headquarters staffs are available to assist potential applicants in developing a loan package. RUS has general field representatives (GFR) located throughout the country who will visit potential applicants, review their business plans, and assist them in developing a completed application. During this process, if a business plan does not appear viable, the GFR will be able to inform the applicant.

RUS' 20 percent credit support requirement is intended to improve the sustainability of a project by ensuring that it is not 100 percent debt financed. The credit support requirement may be satisfied with cash, cash equivalents, undepreciated assets that would otherwise be eligible for financing, licenses, and an unconditional letter of credit. An applicant must have, as part of the 20 percent requirement, cash equal to the first full year's operating expenses. RUS will waive this requirement for entities with 2 years of positive cash flow. RUS is a facilities-based lender and does not, therefore, lend for operating costs. As such, the applicant must have the ability to fund its operating expenses without RUS assistance. If an applicant is a start-up entity or is experiencing negative cash flow, the 1-year cash requirement ensures the entity's ability to sustain operations and to make principle and interest payments.

We agree that risk must be properly managed which entails assuming the appropriate amount of risk. RUS works very diligently to appropriately manage risk and its fiduciary responsibility to the American taxpayers with its mission of extending broadband service into the most remote, highest cost rural areas of our country. RUS recognizes that an appropriate amount of risk must be taken if we are to succeed in our mission. However, the meaningful deployment of broadband services can only be met by making quality loans that produce exponential benefits through reduced subsidy rates and greater lending levels. A failed business plan translates not only into the loss of taxpayer investments, but deprives millions of citizens living in rural communities of the technology needed to attract new businesses, create jobs, and deliver quality education and health care services.

CONCLUSIONS OF HEARINGS

Senator BENNETT. I know a politician who used that phrase and maybe regretted it, but I will be appropriately admonished.

Thank you all for your testimony and your attendance here today. And, again, than you for your service to the country in the various positions that you hold.

The hearing is recessed.

[Whereupon, at 5:03 p.m., Tuesday, April 7, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]