AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2007

THURSDAY, MARCH 9, 2006

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

The subcommittee met at 8:34 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett, Bond, Burns, Craig, Kohl, and Dorgan.

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

STATEMENT OF HON. MIKE JOHANNS, SECRETARY

ACCOMPANIED BY:
CHARLES CONNER, DEPUTY SECRETARY
KEITH COLLINS, CHIEF ECONOMIST
W. SCOTT STEELE, BUDGET OFFICER

OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. The subcommittee will come to order.

I will tell our witnesses and spectators, as well as senators, that the full committee has a meeting scheduled at 9:30 to hear Secretary Rumsfeld and Secretary Rice discuss the appropriations with respect to Katrina. So we will do our best to be finished with this hearing in time to go to the full committee for that hearing.

And we are grateful to Secretary Johanns for his willingness to appear at this hour in the morning. There are some senators who say it isn't even light yet at 8:30, and what are we doing convening this early? But we are grateful, Mr. Secretary, that you would meet our schedule with respect to that, and we welcome you before the subcommittee.

This is the Secretary's second appearance before the subcommittee, and we understand you celebrated your 1-year anniversary as the Secretary in January.

And with you, we welcome Mr. Conner, Dr. Collins, and Mr. Steele.

Before I speak about the specifics of USDA's budget request, I would like, Mr. Secretary, to take the opportunity to thank you and your Department for your efforts in the wake of Hurricane Katrina.

Secretary JOHANNS. Thank you.

Senator BENNETT. We have heard a great deal of criticism about Katrina with respect to a number of other agencies, but the work that was done by USDA employees in feeding and housing thousands of people has gone unnoticed and unremarked upon in the national media. So I want to take this occasion to congratulate them through you for the work that all of your employees did.

The Natural Resources Conservation Service and the Farm Service Agency are working to restore watersheds and farms and ranches throughout the region, which is vitally important.

On a personal note, I would also like to thank you for your department's help in Utah, when we had a natural disaster. January of 2005, just a little over a year ago, Washington County experienced some of the worst flooding in its history. And NRCS rose to the challenge. It has helped restore the damage caused by those floods.

And then, particularly, I want to recognize the efforts of Sylvia Gillen, one of your employees. She is the Utah State Conservationist. And she has been creative and helpful and responsive, and she does a great job for you, and she has done a great job for the people of Utah. And we want to recognize that.

Now the USDA request for the subcommittee is approximately $15.6 billion, and this represents a 7 percent or $1.263 billion decrease from last year. We don't usually deal with decreases around here, and these are the OMB numbers. We are awaiting more information from CBO that might change these numbers a little up or down, but basically, they will stay in the same ballpark.

And quite frankly, Mr. Secretary, this is a fairly significant hole that this subcommittee is going to have to try to climb out of. The President's budget eliminates approximately $378 million of Federal support for agriculture research at the Nation's land grant colleges and universities, as well as USDA's own in-house research agency. That is something that concerns me. I am a strong supporter of research and the value that we get for that long term.

Another $176 million is eliminated for conservation and watershed projects throughout the country. And one of the unfortunately standard budget tricks that every OMB, regardless of who is President or regardless of which party controls it, is in this budget. The budget includes $182 million in new user fees, which are not likely to be enacted by the Congress, which means we have got to find another $182 million in cuts to offset that projected revenue increase.

Finally, funding is eliminated for the Grazing Lands Conservation Initiative, housing for very low-income families, and the Commodity Supplemental Food Program, among others. And I am sure members of the subcommittee will raise these issues with you this morning and give you the opportunity to talk about that.

Now the budget does put an added emphasis on the Food and Agriculture Defense Initiative and activities related to avian flu, the highly pathogenic possible pandemic that we may be facing.

So I will now turn to Senator Kohl, the Ranking Member. Members will be able to submit questions for the record if they are not here. And I will tell members through their staffs who are here; we hope that all questions to the subcommittee can be submitted by the close of business on Friday, March 17. And then we will forward those to you, Mr. Secretary.

Senator Kohl.

Senator KOHL. I thank you, Mr. Chairman.

Secretary Johanns, we welcome you, and it is good to see you again. Mr. Conner, Dr. Collins, and Mr. Steele, we also extend our welcome to you.

Mr. Secretary, at the outset, I think it is important that we recognize some of the very good work that you and the Department have done this last year. By all reports, the USDA response to the terrible storms in the Gulf Coast, especially from your nutrition and rural development programs, was among the very best in the Government.

Your quick action meant lives saved and families placed firmly on the path toward recovery. So we congratulate you on your good work. But we all know that there have been some missteps at the Department over the past several months, which have too often crowded out the good work that you have done.

Chairman Bennett and I face a tremendous challenge to craft a bill under the current budget constraints. The President's budget assumes too many unrealistic or unacceptable deficit reduction measures. It assumes more than $300 million in unauthorized user fees that Congress has rejected time and time again, and it calls for the elimination of a small, but vital feeding program for the elderly.

And although this is in the authorizing arena, the President's proposal to tax dairy farmers in order to offset tax breaks for multi-millionaires is not acceptable.

These are all topics we are likely to visit today, and I look forward to your statement.

Mr. Chairman, I want to thank you and publicly state how grateful I am for the relationship that you and I have developed over the past 2 years on this subcommittee, and I look forward to working with you.

Senator BENNETT. Thank you very much.

I will echo the comments about the working relationship. You and your staff have been a joy to work with, and we don't have any partisan differences here. Wish the rest of the Congress could get along as well as we do.

Normally, we do not have additional opening statements. But since there is only one other member of the subcommittee here, Senator Craig, do you have something you would like to say before we hear from the Secretary?

Senator CRAIG. Well, Mr. Chairman, thank you very much.

I guess I was under some odd illusion that this was the Ag Committee, and at this hour, you were probably going to serve breakfast.

But that doesn't appear to be the case.

Senator BENNETT. That is an illusion, sir.

Senator CRAIG. All right. All right. Well, it is possible that the Secretary could have brought examples of products of a variety of States.

Anyway, let me echo what both our Chairman and our Ranking Member have said about the performance of the Department over the last year and during, Mr. Secretary, some of these most difficult times. I am always amazed that one agency that was not designed to do what the press expected it to do, be a first responder, largely got criticism while so many others did so very well.

The Chairman and the Ranking Member have expressed how USDA performed in Katrina. I chair the authorizing committee of Veterans Affairs, another unbelievable example of true heroism. Thousands of people rescued. No one lost their lives. We evacuated 3 hospitals and the pharmaceuticals and the families of the employees and the pets.

And yet that has made no headlines as, once again, another agency of our Federal Government in a time of tremendous difficulty responded very gallantly, with its staff refusing to leave the hospitals in care of their patients. Concerned about their families, obviously, but not leaving.

So there are great stories out there, and it is important that we recognize them because somehow they don't rise to the level of attention on the part of others.

We are on the eve of a 2007 Farm Bill. It is looming large on the horizon, Mr. Secretary, at a time when the Chairman has already expressed the cuts that are proposed in this budget. And I think he was modest in saying a hole in which one will attempt to dig ourselves out. It is a hole, and we will see how we can handle it.

At the same time, I think you and I were expressing the oddity this morning of a record snow storm in western Oregon and range fires in Kansas, all on the same morning, reported on the same news clip. Record drought in northern Texas and Oklahoma and Arizona and parts of Kansas, and it doesn't appear to be alleviating at this moment. There will probably be some extraordinary needs there that my guess is not in this budget.

So with that, let us get to your testimony and the beginning of a very positive working relationship on this budget to resolve our differences and serve American agriculture.

Thank you. Thank you, Mr. Chairman.

PREPARED STATEMENTS

The subcommittee has received statements from Senators Cochran and Durbin which will be placed in the record.

[The statements follow:]

PREPARED STATEMENT OF SENATOR THAD COCHRAN

Mr. Chairman, thank you for holding this hearing on the fiscal year 2007 United States Department of Agriculture budget. I welcome Secretary Johanns back to the Committee.

I want to thank Secretary Johanns and his staff for their work throughout the Gulf Coast region for their assistance in the effort to recover from the devastating impact of Hurricanes Katrina and Rita. The Department has a large presence in the hurricane affected region which is an important asset to the communities of the Gulf Coast.

The employees of the National Forest Service, Natural Resource Conservation Service, Rural Development, and Farm Service Agency were all ready to assist immediately following the hurricanes. These agencies are to be commended for their swift action and ability to not let "red tape" get in the way of providing immediate help to thousands of Mississippi residents devastated by Hurricanes Katrina and Rita. The efficient manner in which USDA was able to respond after the Hurricane Katrina should be an example for all agencies during times of crisis.

All of Mississippi's agriculture industries were hurt by the hurricanes last summer. Producers and the residents of the rural areas of Mississippi appreciate the continued support USDA has provided for hurricane related losses. But, much more help is needed to get the disaster victims back on their feet. I look forward to continuing to work with USDA to further assist these family farms and ranches.

An important aspect of the Agriculture Appropriations bill is the funding it provides for agriculture research. This research is a critical part of ensuring that U.S. producers remain the leaders in food and fiber production. The funding this bill invests in agriculture research is a small sum compared to the economic benefit it has on a farmer's bottom line. I thank Chairman Bennett and the Ranking Member Senator Kohl for their continued leadership to assist America's farmers and ranchers.

Mr. Chairman, I thank you for holding this hearing and I look forward to the testimony.

PREPARED STATEMENT OF SENATOR RICHARD J. DURBIN

Mr. Chairman, I thank you for holding this hearing on the President's fiscal year 2007 Budget. I thank Secretary Johanns for giving his testimony and agreeing to be here.

I see two main problems with the administration's budget proposal for programs within the jurisdiction of the U.S. Department of Agriculture (USDA). First, the budget does not give farmers the certainty they need from the Federal Government. Farmers and ranchers are engaged in a risky industry, and they do their best to mitigate these risks. Irregular weather systems, crop and livestock diseases that can travel across a continent in a matter of months, and crop and energy prices are among the variables that are out of the hands of individual producers. Farmers understand these risks and build them into their plans by purchasing crop insurance, planting more than one variety of a crop, and keeping up with advances in technology that make them more profitable. However, there's one source of uncertainty that should not tamper with the viability of farming: the Federal Government's spending priorities.

We passed a Farm Bill in 2002 that made a commitment to farmers through 2007 when the bill expires. Now we all understand the need to reduce the deficit. However, farmers and the programs within the jurisdiction of the USDA are bearing the brunt of budget savings plans. Last year, mandatory programs within the mandate of the USDA took a $2.7 billion hit over 5 years. This cut amounted to 7 percent of the budget reconciliation savings, even though spending on USDA programs accounted for far less of a share of the Federal Government's budget. In addition, it's important to note that the Farm Bill has been far less expensive than its original price tag.

On top of these cuts, the administration is now asking for a 5 percent across-the-board cut in direct payments, counter-cyclical payments, and marketing loans. By my estimations, a 5 percent cut will mean that producers in the State of Illinois stand to take a hit of $65 million. This cut would follow a crop year in which Illinois suffered from one of the worst droughts in the 100 years since modern records have been kept. With all the uncertainty surrounding the expiration of the Farm Bill in 2007, I can't understand why the administration is focusing so much of its budget-savings plans on agricultural producers that already have to be thinking constantly of their risks.

Second, I believe that this budget demonstrates the administration's failure to support rural America. One of the most promising developments for rural America in recent years is the momentum behind biofuels and alternative energy sources. With soaring gasoline and diesel prices and an increasing acceptance of the fact that dependence on Middle Eastern oil is not a good thing, it has become clear to us all that we must develop alternative fuel sources. More E–85 pumps and more plants processing biofuels mean more jobs and development for rural areas. However, at this historic time, I'm afraid to say that the administration's budget actually cuts funding for the Clean Cities Program, a program that partners with local governments to encourage the use of clean non-petroleum fuels and alternative fuel vehicles. This type of program provides incentives to local communities to expand biofuel infrastructure, and, in doing so, increases demand for the production and processing of alternative energy sources.

I thank the Chairman again for holding this hearing and hope that this subcommittee will consider giving farmers greater certainty and committing to true rural development in this year's appropriations bill.

Senator BENNETT. Mr. Secretary, we will be pleased to hear your statement.

STATEMENT OF SECRETARY MIKE JOHANNS

Secretary JOHANNS. Well, thank you very much, Mr. Chairman, and I do appreciate the opportunity to be here in front of this subcommittee.

I also appreciate the compliments relative to the Katrina response. I want to assure each of you that those compliments will be passed on to our employees, who were the ones who were truly at the front lines. And we always accept the criticism of missteps and see that as a challenge to get better.

It has been a year since I became Secretary, and it has been quite a year. We have expanded farm exports. We have worked on new trade agreements. We have reopened beef markets, and we have witnessed strength throughout the farm economy.

During 2005, we have also confronted some very serious issues—hurricanes, natural disasters, AI pandemic, and rising energy costs. USDA has played a significant role in responding to these challenges.

President Bush and I are very proud of the efforts of our employees relative to the hurricanes in the Gulf Coast region. They provided food and shelter, protection, emergency assistance rapidly, and did so very professionally. And those are just a few of the ways that we assisted in that region.

There does remain a great deal yet to be done to normalize their lives. People are struggling to get their homes back, their farms and ranches, and their communities. That is why I am pleased to announce that on January 26, 2006, based upon congressional action and the use of existing authorities, USDA made available $2.8 billion to assist those impacted by hurricanes. This additional funding brings our effort at USDA to $4.5 billion.

On February 16, the President submitted a supplemental that includes $55 million for the USDA to recover additional costs of operating the National Finance Center, which is there in New Orleans, restore the ARS research lab in New Orleans, and to fund floodplain easements. A second supplemental submitted the same date includes $350 million for Public Law 480, Title II, international food assistance to meet emergency food needs.

The President's 2007 budget for USDA does meet important priorities while exercising fiscal discipline in order to deal with the Federal deficit. Reducing the deficit is a critical part of the President's economic plan. It strengthens the economy and creates jobs.

Farmers and ranchers know the importance of a healthy economy. It raises income, and it increases demand for the products that they raise. Farmers and ranchers also know that the deficit and resulting burden of debt have a profound impact on their way of life and the ability of future generations to participate in agriculture.

Because of the overriding need to reduce the Federal deficit, USDA is sharing in the governmentwide effort. There are proposals in the budget that will produce real savings in both mandatory and discretionary spending. The President's 2007 budget, which was released about a month ago, indicates that USDA expenditures are expected to decrease about $3 billion.

The decrease in 2007 is due to CCC reductions from program changes, the legislative proposals, and because one-time supplemental funding is not continued. The discretionary appropriation request pending before this subcommittee which does not include Forest Service, as you know—is for $15.6 billion.

Some of the highlights, if I could just quickly run through those. Avian influenza. We have been closely monitoring the alarming spread of highly pathogenic AI around the world. I do want to assure you that USDA is a full partner in dealing with this potential pandemic.

In response to the President's request, Congress provided over $91 million in 2006 emergency supplemental funding for USDA, and we thank you for that. That money will be used for our AI efforts. We are using those funds for international efforts, domestic surveillance of poultry and migratory birds, diagnostics, emergency preparedness and response, and research.

The 2007 budget includes $82 million for avian influenza. Setting aside that one-time emergency supplemental, the $82 million represents an increase of $66 million over 2006 funding levels.

The budget proposes $322 million in USDA funding for the multi-agency Food and Agriculture Defense Initiative, which is funded now at nearly $540 million governmentwide. The USDA portion represents a $127 million increase over 2006. That figure does not include last year's one-time funding for the construction project in Ames, Iowa, for the National Centers for Animal Health because that project has been funded.

But funding increases do exist. There is $23 million in increases to strengthen the Food Emergency Response Network and Regional Diagnostic Network. There's also $42 million in increases for research to ensure food safety, identify pathogens, develop improved animal vaccines, and better understand the genes that provide disease resistance. And then there's $62 million in increases to enhance surveillance and monitoring activities. That helps us detect pest and disease threats to improve response capabilities.

Moving on to another priority, energy. I recently announced a comprehensive energy strategy. As I talked to farmers all across the country, they emphasized the high cost of energy, and so we went to work on that. I am pleased that this budget continues to provide tools that help producers with energy costs. It also funds the development of renewable energy resources and new energy-efficient technology.

In 2007, we will have at least $345 million available for loans, grants, and other support for energy projects. Within this total, USDA's core investment in energy-related projects increases to $85 million from $67 million in 2006. This includes resources available to support renewable energy research and demonstration projects, as well as additional efforts to support energy development.

In addition, we are targeting renewable energy and energy efficiency projects through our rural development loan and grant programs. We anticipate investments in excess of about $250 million each year in fiscal years 2006 and 2007.

Throughout 2007, USDA will continue its many successful partnerships with the Energy Department, Department of the Interior, and the EPA. USDA's efforts will be coordinated by a newly created Energy Policy Council.

In a related matter, I am pleased to be before this subcommittee today to make an announcement. I am pleased to announce the issuance of the final rule designating the first six items under the Federal Biobased Products Preferred Procurement Program. This rule is available for viewing at the Federal Register today. It will be published tomorrow.

Under the biobased program, all Federal agencies will have to give the designated items preference in their procurement. We believe the designation of these six biobased items initiates a new, economic opportunity for farmers and ranchers. Increased Federal procurement will lead to greater acceptance of biobased products, lower prices, and more variety of products in the market.

The final rule is the first of a series of rules that we expect to publish in 2006 that will designate biobased items consisting of hundreds of branded products. If I might just take a little personal privilege and thank Senator Tom Harkin. He worked very hard on this. When I sat down with him a year ago or more to talk about the biobased program, it was at the top of his list.

We thank everybody who has been a part of this effort. If you will remember, this came out of the 2002 Farm Bill. So there has been a lot of effort to finalize the rule. We thank Congress for pushing this forward. I think it is really a good item.

In terms of farm programs, last year, as we released the budget, there was an expectation by some that the Farm Bill expenditures would end up below 2002 projections. That is what we heard last year. This is not the case.

In 2007, even with the proposed reductions, we expect to spend nearly $7 billion more than was projected in the 2002 Farm Bill. And the Reconciliation Act passed weeks ago delays, but it does not reduce farm commodity programs. The one exception is the Step 2 program, which is the cotton program.

We acknowledge that there are real reductions in Reconciliation, but they affect other programs, such as rural development, research, conservation. Thus, the administration is reproposing changes to reduce farm program spending. They include reducing commodity payments by 5 percent; reducing the payment limit, implementing small marketing assessments on sugar and milk; and operating the Dairy Price Support Program at minimum cost.

In order to improve the effectiveness of providing good service to farmers, USDA also continues to work with Congress to modernize the field office structure of FSA. Although improvements have been made in modernizing a portion of the computer system, such as Web-based computing systems and the GIS, further investments are needed to replace the remaining outdated and obsolete legacy systems.

This will also permit the full use of Web-based Common Computing Environment. This subcommittee has supported and funded that initiative, and I want you to know how much we appreciate that.

FSA will also work with farmers and ranchers at the local level and with Congress to identify how to consolidate offices where appropriate and ensure that future investments are prudent and done so in a manner that uses tax dollars wisely.

In reference to crop insurance, net expenditures for crop insurance are expected to grow since the reform of 2000 by about 50 percent between 2001 to 2007. At the same time, producers have continued to receive disaster payments, as you know, in ad hoc disaster programs. From 2001 to 2007, when crop insurance payouts did start to rise dramatically, we also delivered about $9 billion to producers in ad hoc actions.

The budget again includes proposals to enhance crop insurance and reduce costs to deliver the program in order to reduce dependence on ad hoc disaster programs. The budget also requests such sums as necessary for mandatory costs associated with the program and includes funding for additional staffing that would focus on reducing fraud, waste, and any abuse that may exist in this program.

In reference to trade, expanding access to global markets is important for agriculture. Trade plays a critical role. Our budget proposals for 2007 support our continued commitment to trade expansion. Increased funding is provided for the Foreign Agricultural Service to maintain its overseas office presence and continue its representation on behalf of American agriculture.

The new FAS Trade Capacity Building initiative is funded for technical assistance and training activities to assist developing countries. The goal is to strengthen their agricultural policy-making and regulatory systems so they can become better trading partners in other parts of the world.

For the foreign food assistance programs, the budget places increased emphasis on meeting the highest priority emergency and economic development needs, including maintaining funding for the McGovern-Dole International Food for Education and Child Nutrition Program.

Regarding food safety, in order to continue the protection of the Nation's supply of meat, poultry, and egg products, the budget requests funds needed to maintain Federal support of inspection systems. The budget also requests funding to expand the Food Emergency Response Network to support the Food and Agriculture Defense Initiative. With this funding, FSIS will increase the capability of State and local laboratories to handle large volumes of testing.

The budget proposes over $4 billion in mandatory funding to continue implementation of conservation programs arising out of the 2002 Farm Bill. Within the conservation total, $83 million in additional resources are requested to extend the Conservation Security Program into additional watersheds and to service prior year contracts. I would like to mention that the 2006 CSP sign-ups began on February 13. They will continue through the end of March.

To help meet the President's commitment to create, improve, and protect at least 3 million wetland acres over a 5-year period, beginning in 2004, the budget includes over $400 million for Wetlands Reserve Program. This will allow for an additional 250,000 acres to be enrolled in the program in 2007. That is 100,000 more acres than estimated for 2006 and the largest 1-year enrollment since the program started in 1992.

In the aggregate, funding in the budget will support enrollment of an additional 23 million acres in conservation programs, largely in EQIP. This brings total enrollment to about 197 million acres. That is the highest enrollment in conservation programs in our Nation's history. The budget also includes discretionary funding for ongoing conservation work to meet high-priority natural resources concerns.

For rural development, that part of the budget includes $14.4 billion in direct loans, loan guarantees, and grants to improve economic opportunities in rural areas. This assistance could be used for everything from financing rural businesses, electric and telecommunications facilities, water and waste disposal projects, and other community facilities. It will also provide home ownership opportunities and assist in revitalizing our multi-family housing projects.

The 2007 budget maintains the administration's commitment to revitalize multi-family housing and provides rent protection for tenants of projects that are withdrawn from the program.

Senator, you mentioned research. In the research area, the 2007 budget funds the highest-priority research facing American agriculture. It also increases the use of competition to improve the quality of research.

The budget includes a $66 million increase for the National Research Initiative. The budget also includes $107 million in increases for high-priority research conducted by ARS scientists in areas such as food and agriculture defense, bioenergy, plant and animal genomics and genetics, and human nutrition and obesity prevention.

Speaking of nutrition, we fully fund the expected requirements of the 3 major nutrition assistance programs—WIC, Food Stamps, and Child Nutrition. For WIC, which is the Department's largest discretionary program, the budget proposes $5.4 billion in program level to support the estimated level of WIC participation. Included in the budget is a $125 million contingency fund.

For the Food Stamp Program, the budget includes resources to totally fund estimated participation and also provides a $3 billion contingency fund should costs exceed what we are estimating. We expect an increased level of school lunch participation of about 2 percent, so the budget includes a $700 million increase for that. There is also a new proposal for a $300 million contingency fund for the Child Nutrition Programs.

PREPARED STATEMENTS

I just want to wrap up and say we are deeply committed to working on this deficit. We recognize that that is your challenge also. We look forward to working with this Subcommittee in that endeavor.

Mr. Chairman, thank you.

[The statements follow:]

PREPARED STATEMENT OF MIKE JOHANNS

Mr. Chairman and distinguished members of this Committee, I am pleased to appear before you to discuss the fiscal year 2007 budget for the Department of Agriculture (USDA).

I am joined today by Deputy Secretary Chuck Conner; Scott Steele, our Budget Officer; and Keith Collins, our Chief Economist.

It has been a year since I was given the honor to serve our country as Secretary of Agriculture. It has been an eventful and challenging year. We have expanded farm export opportunities through new trade agreements; re-opened beef export markets that were closed after finding Bovine Spongiform Encephalopathy (BSE); responded immediately to severe natural disasters; and witnessed continued strength in the farm economy.

A major priority has been working to achieve growth in the farm economy through trade. We continue to open foreign markets to U.S. agricultural exports. Since 2001, the administration completed free trade agreements with 15 countries, including the recently completed agreements with Peru, Colombia, and Oman and the Central America-Dominican Republic Free Trade Agreement (CAFTA–DR). The agriculture industry estimates that CAFTA–DR could boost our farm exports by $1.5 billion. Negotiations for free trade agreements with a host of other important markets are continuing, and we look forward to initiating free trade negotiations with Korea, our sixth largest agricultural export market, in the near future.

During the past year, we also have increased our efforts to reform agricultural trading practices. The United States presented an ambitious proposal to advance the World Trade Organization (WTO) agriculture negotiations and unleash the full potential of the Doha Development Agenda. Reforming global agriculture trade will create new jobs and promote economic development. Our goal is to open new markets by reducing or eliminating unfair competition from production and trade distorting agricultural subsidies and import barriers. We are now working very hard to reach agreement on the terms of an agricultural agreement by the end of April, as agreed to by WTO Members at the recent Hong Kong Ministerial.

Another priority has been our efforts to re-open overseas markets for U.S. beef and beef products. We have achieved a great deal of progress. We have regained at least partial access to 28 markets. As you know, recently a shipment to Japan did not comply with the terms of our export agreement. We are working aggressively to secure a resumption of trade in the near future.

During 2005, we also had to confront other serious issues, such as hurricanes and other natural disasters, the threat of an avian influenza pandemic, and rising energy costs. USDA has played a significant role in responding to these challenges and has made a tangible and positive difference in American lives.

President Bush and I are very proud of the efforts USDA employees have made to provide assistance throughout the Gulf Coast Region in the immediate aftermath of recent hurricanes. These employees helped to rescue more than 600 survivors in Louisiana. We made available more than 22 million pounds of food and 2 million pounds of baby formula for use by the Red Cross, Salvation Army, and other organizations. USDA assisted over 10,000 evacuees obtain temporary housing in 45 States. USDA also aided in the transport of over 13,000 evacuees and our employees fanned out across the region to clear debris from farms, ranches and other watersheds. During the initial days and weeks following the storm, USDA worked closely with the Federal Emergency Management Agency to set up and support 80 disaster recovery centers in Louisiana and Mississippi. The Forest Service played a critical role by utilizing its incident management abilities, managing evacuation centers and base camps, providing logistical support, clearing roadways, helping with search and rescue operations, and operating mobilization centers and trailer staging areas.

These are just a few of the ways that USDA was able to provide immediate assistance to that region. But there still remains a great deal to be done to normalize life for those struggling to take back their homes, their farms or ranches, and their communities. That is why I was pleased to announce on January 26, 2006, that based on Congressional action and the use of existing authorities, USDA has made available $2.8 billion to assist those impacted by the hurricanes. Of this amount, $1.2 billion will be made available to agricultural producers through various programs. In addition, $1.6 billion will be used to restore homes and rural communities. This additional funding brings total USDA aid to hurricane disaster victims to more than $4.5 billion since September 2005. Finally, the supplemental request submitted on February 16 includes $55 million in funding to cover additional costs of operating the National Finance Center, repair damages to the Agricultural Research Service (ARS) laboratory in New Orleans and fund floodplain easements.

2007 BUDGET

The President's 2007 budget for USDA meets our most important priorities, while exercising the kind of fiscal discipline that is absolutely necessary to reduce the Federal deficit. Reducing the deficit is a critical part of the President's economic plan. It will strengthen the economy and create more jobs. Farmers, ranchers, and rural citizens know the importance of a healthy economy, which raises household incomes and increases demand for their products.

Farmers, ranchers, and rural citizens also know that the deficit and resulting burden of debt have a profound impact on the economy and, thus, on their way of life and the ability of future generations to participate in agriculture. In the past few months, I had the opportunity to participate in over 20 Farm Bill forums. It provided me the opportunity to meet many producers and hear their ideas on farm policies and the economy. One aspect of the Farm Bill forums focused on the development of farm policy that supports future generations of farmers and ranchers. During these forums, I discussed with producers and community leaders how deficits increase the national debt and debt service costs and displace private consumption and investment, which can be roadblocks to future generations trying to enter agriculture. Producers across the country applauded us for that focus and encouraged us to take down roadblocks that stand in the way of young people. We cannot—on one hand—close our eyes to the deficit—while on the other hand claim to be supporting future generations of producers.

USDA recognizes the overriding need to reduce the Federal deficit, and shares the responsibility of controlling Federal spending. There are proposals in the budget for USDA that will produce real savings in both mandatory and discretionary spending. With that said, the President's 2007 budget request for USDA does meet the Nation's priorities by growing the farm economy through trade; protecting America's food and agriculture; supporting sound land management practices and conservation; providing nutrition assistance to the needy at home and abroad; and creating economic opportunity in rural America. It also makes Government more effective by improving management and accountability and by eliminating, reforming, or phasing out programs that are not cost-effective or do not show measurable results.

The President's 2007 budget, which was released on February 6, indicates that USDA expenditures are estimated to decrease from about $96 billion in 2006 to nearly $93 billion in 2007. For the Department's discretionary budget, the overall budget authority request is $19.7 billion. This compares to $21.9 billion provided in 2006. There are two main reasons for these reductions. One is that we assume we will not need the emergency disaster assistance funding and other emergency supplemental funding that was needed in 2006. The second reason is proposed program reductions, which include some legislative changes. The discretionary appropriation request pending before this Committee, which does not include the Forest Service, is $15.6 billion.

I would now like to focus on some specific program highlights.

PATHOGENIC AVIAN INFLUENZA (AI)

For more than two decades, USDA has worked to prepare for and prevent an outbreak of dangerous strains of AI in our country. The greatest concern is the potential for highly pathogenic AI to develop into a human pandemic. We appreciate the $91.4 million in emergency supplemental funding provided in December 2005. Those funds are being used for specific one-time activities aimed at controlling the disease abroad and keeping it away from U.S. borders; enhancing surveillance of wildlife and domestic poultry; improving diagnostics; and enhancing preparedness.

The 2006 Appropriations Act made $16 million available for on-going programs to deal with low pathogenic AI and other AI research. Low pathogenic AI is of concern for its potential costs to the poultry industry and potential ability to mutate into highly pathogenic AI. The 2007 budget requests a total of $82 million for AI, an increase of $66 million over the amount appropriated in 2006. Of this amount, $57 million is related to highly pathogenic activities, including: surveillance and diagnostics work; preparedness and response efforts; and international veterinary capacity building. An additional increase of more than $6 million is requested for the development of methods to detect AI in the environment and further AI research, including development of poultry vaccines. An increase of $3 million is requested to expand activities related to the program for on-going low pathogenic AI.

FOOD AND AGRICULTURE DEFENSE INITIATIVE

In order to protect American agriculture and the food supply from intentional terrorist threats and unintentional introductions, the budget proposes $322 million for

USDA's part of the President's Food and Agriculture Defense Initiative, which is 60 percent of total governmentwide funding for the initiative. Funding for ongoing programs includes a $127 million increase, or 65 percent above 2006. This does not include funding for construction of the Ames, Iowa facility for animal research and diagnostics, which was fully funded in 2006. Of the total amount, an increase of about $30 million for Food Defense would enhance the Food Safety and Inspection Service's (FSIS) ability to detect and respond to food emergencies and for USDA research agencies to conduct related research. For Agriculture Defense, the budget includes an increase of about $97 million to improve the Animal and Plant Health Inspection Service's (APHIS) ability to safeguard the agricultural sector through enhanced monitoring and surveillance of plant and animal health, including wildlife; improve response capabilities, including provisions for the National Veterinary Stockpile; and further research on emerging and exotic diseases.

ENERGY

I have heard from farmers and ranchers as I traveled around the Nation about the burden of the high cost of energy. We are taking action to help farmers, ranchers, and rural businesses reduce their energy consumption and make alternative fuels more available. USDA is providing technical assistance and incentives for conservation practices that can result in substantial energy savings. The Natural Resources Conservation Service has recently provided an online tool that clearly demonstrates how costs can be reduced by using alternative tillage practices. In addition, I have directed the Farm Service Agency (FSA) to maximize the use of our guaranteed and direct farm loan programs to help eligible producers who face credit challenges due to increased energy-related operating costs. Because it is likely that energy prices will continue to remain high and fluctuate in the future, the Risk Management Agency will also examine risk management tools that can help farmers limit the negative impact of energy cost increases. To make sure that USDA is effectively using its resources to address energy issues confronting U.S. agriculture, I have recently announced a comprehensive energy strategy to help producers with high energy costs and to coordinate USDA's energy initiatives.

These investments include: research and development, farmer and rancher education programs and using public lands to facilitate the generation and transmission of energy. We are seeking increases in research and development (R&D) and farmer and rancher education programs. We are also targeting renewable energy investments in Rural Development programs where we anticipate making loans and grants of $250 million or more depending on specific proposals received. USDA is continuing its successful biomass research and development partnership with the Department of Energy in 2007. Past projects funded through this collaborative effort have focused on improving the conversion of switchgrass and other cellulosic materials to ethanol as a replacement for gasoline. These R&D investments will pay off as the efficiency and cost effectiveness of using switchgrass increases.

FARM COMMODITY PROGRAM SPENDING

As part of the President's program to exercise fiscal discipline and reduce the deficit, the budget proposes, once again, that the farm commodity programs funded through the Commodity Credit Corporation (CCC) contribute to the governmentwide deficit reduction effort. Despite record levels of net cash farm income and record agricultural exports, commodity subsidies are significant and near record highs. Payments are at the highest since the enactment of the 2002 Farm Bill. Compared to the original 2002 Farm Bill estimate, lower than expected expenditures from 2003 to 2004 are estimated to be offset by much higher net outlays during 2005 through 2007. Government farm support from 2005 to 2007 is at historically high levels. This recent trend reflects higher than expected program costs that are raising the deficit.

Since the recent Reconciliation Act achieved only very limited savings in CCC programs, the 2007 budget proposes legislative changes similar to the ones included in the 2006 budget. The proposals, which are spread across commodity sectors, include: reducing farm program payments across the board by 5 percent; reducing the payment limitation to $250,000; operating the dairy price support program at the least cost; and applying small marketing assessments to sugar and dairy.

Similar to last year, these proposals are designed to work within the existing structure of the 2002 Farm Bill to achieve savings of about $1 billion in 2007 and about $7.7 billion over 10 years. Even with the proposed reductions, CCC expenditures in 2007 are projected to remain $7 billion above the estimates made when the Farm Bill was enacted.

FARM PROGRAM DELIVERY

Recognizing the importance of our farm programs to the livelihood and ongoing operations of farmers and ranchers throughout the Nation, we are continuing to review the farm program delivery system to ensure we are providing the highest level of customer service. In addition to the funding needed to support an adequate level of staffing to deliver program benefits in a timely manner, our budget proposes resources to make the IT investments that are critical to modernizing the delivery of these programs. I appreciate the Committee's support for efforts that have been made in recent years to design and implement a common computing environment (CCE) that allows the service center agencies to communicate via the internet and take advantage of shared services. However, critical needs remain in updating the so-called legacy farm program delivery systems that are currently operated with decades-old software and hardware that is no longer produced. It is imperative that these systems be updated so they can also take advantage of the CCE, a modern web-based system, and make the fullest use of investments being made to improve geographic information systems and data. The budget proposes $14 million to continue an effort to enhance the efficiency of program delivery by redesigning business processes and developing the IT systems to carry out those processes. I would appreciate the Committee's favorable consideration of this proposal.

CROP INSURANCE

Crop insurance is designed to be the primary Federal risk management tool for farmers and ranchers. Crop insurance expenditures are expected to grow by more than 50 percent between 2001 and 2007 with the implementation of crop insurance reforms in 2000, the expansion of the program to new crops, and the development of new types of coverage. Despite this growth, since 2000, four ad hoc disaster programs have been authorized, covering 6 crop years. These ad hoc payments add up to over $9 billion. The continued reliance on disaster assistance stems, in part, from the low coverage level of catastrophic crop insurance (CAT), which provides a maximum of 27.5 percent of the crop value for a total crop loss. When natural disasters occur, that low level of protection creates the demand for additional disaster assistance.

In continuing the administration's efforts to more effectively budget and administer crop disaster programs, the 2007 budget reproposes changes included in the 2006 budget to encourage producers to purchase more adequate crop insurance coverage by tying the receipt of direct payments or any other Federal payment for crops to the purchase of higher levels of crop insurance. This change would ensure that the farmer's revenue loss would not be greater than 50 percent. Other changes include making catastrophic coverage more equitable in its treatment of both large and small farms, restructuring premium rates to better reflect historical losses, and reducing delivery costs. The combination of changes is expected to significantly improve the program and save the Government approximately $140 million per year, beginning in 2008. In total, this change should ensure that the majority of producers have crop insurance and that the minimum coverage level is sufficient to sustain the producer in times of loss.

The 2007 budget includes about $81 million in discretionary funding to administer the Federal Crop Insurance Program, compared to about $76 million for 2006. In support of our efforts to strengthen oversight and improve management efficiency, the budget includes funding for the replacement of a decade old IT system that has reached the end of its useful life. Funding is also included for additional staffing needed to reduce fraud, waste and abuse in the crop insurance program. Additionally, a legislative proposal will be submitted to collect a participation fee from insurance companies to help share in the cost of modernizing the existing IT system beginning in fiscal year 2008.

TRADE

As I mentioned, a top priority has been to restore access to the Japanese and other markets for American beef overseas. Having achieved positive results, we are disappointed that the Japanese market has temporarily closed again. The failure to meet all of the requirements of our export agreement with Japan is unacceptable. We are taking this matter seriously, recognizing the importance of our beef export market, and we have taken swift and firm action to address the situation.

Last January after this incident occurred, I announced a series of follow-up actions we are taking to address this situation and outlined those actions in discussions with Japanese officials, including the Minister of Agriculture, Forestry, and Fisheries. Since then, the Department has conducted two detailed investigations of the incident, and we have provided the results to the Japanese Government for their review.

We look forward to an expedited review of the situation by the Japanese Government and the resumption of beef trade in the near future. It is also worth noting that, despite the problems we have encountered with Japan, we are making progress in reopening other markets. Hong Kong, Taiwan, and Singapore have reopened their markets while Korea formally announced its plans to resume imports by March.

Expanding access to global markets is important for all U.S. food and agricultural products, and plays a critical role in our efforts to ensure a prosperous future for America's farmers and ranchers. Our budget proposals for 2007 support our continued commitment to trade expansion activities. Increased funding is provided for the Foreign Agricultural Service (FAS) to maintain its overseas office presence and continue its representation and advocacy activities on behalf of American agriculture.

A new FAS Trade Capacity Building initiative is funded for technical assistance and training activities that will assist developing countries to strengthen their agricultural policy-making and regulatory systems and become better trading partners. By assisting these countries to adopt policies that meet World Trade Organization standards and adopt regulatory systems that are transparent and science-based, we will improve access for U.S. products to their markets. Also, by enhancing their ability to benefit from trade, we encourage them to become more forthcoming and supportive in market access negotiations. These activities would complement the steps APHIS will take to open offices in strategic foreign locations to address technical sanitary and phytosanitary issues that can impede trade between the United States and other countries.

For the foreign food assistance programs, the budget places increased emphasis on meeting the highest priority emergency and economic development needs. Funding for the McGovern-Dole International Food for Education and Child Nutrition Program is maintained at this year's level, with a modest increase in participation expected. The program is helping children in countries with severe needs in education and nutrition, such as Afghanistan. Over a 5-year period, USDA is providing over $50 million of assistance through the McGovern-Dole Program to Afghanistan where it is helping to build schools, improve attendance, and feed about 60,000 students each year.

Food for Progress programming carried out with CCC funding is projected to increase slightly in 2007. The program provides assistance to developing countries and emerging democracies that have made commitments and are taking steps to introduce and expand free enterprise in their agricultural economies.

To address emergency needs this year, the supplemental appropriations request submitted by the President on February 16 includes an additional $350 million for Public Law 480 title II food aid donations, which is needed to bolster our response to urgent food needs in several regions of Africa. With this funding, the United States will be able to meet our target of providing 50 percent of the identified food needs in Darfur and other regions of Sudan. It will also help us to respond to what appears to be a burgeoning food crisis in East and Central Africa, which has been brought on by disappointing rains and other problems.

The budget further enhances our ability to respond to emergency situations overseas in which food aid is critical to preventing famine and saving lives. In light of a heightened demand for emergency food aid in recent years, all funding for Public Law 480 food assistance in 2007 is requested for the Title II donations program which is increased by $80 million. To help improve the timeliness, efficiency, and effectiveness of the U.S. Government's response to emergency situations, increased flexibility is requested in the purchasing of Title II commodities. The budget proposes that the Administrator of the Agency for International Development (AID) have the authority to use up to 25 percent of Title II funding to purchase commodities in locations closer to where they are needed, such as neighboring countries.

FOOD SAFETY

The Nation's current food safety inspection system has demonstrated that our food supply is among the safest in the world. Recent data released by the Centers for Disease Control and Prevention continues to show improvements based on historical reductions in the incidence of foodborne illness. The continued reduction in illnesses from pathogens like E. coli O157:H7 is a tremendous success story and USDA is committed to continuing this positive trend in the future. These results demonstrate that we are moving in the right direction. We have increased the focus of our policies on the goal to reduce human foodborne illness by measuring the prevalence and types of food safety failures and using this knowledge to focus resources and attention where the risks are the greatest. Through these actions, we are protecting the public's health through a safer food supply.

The 2007 budget provides for continued protection of the Nation's supply of meat, poultry and egg products and includes a program level of $987 million for FSIS. This is an increase of $35 million over 2006. Approximately half of the increase in funds is for pay, including monies required to maintain Federal support of State inspection programs to meet the demand for inspection services. The remaining amount is for program changes, including funding to allow FSIS to move towards a more robust risk-based inspection system.

In order to take further steps towards a more enhanced risk-based inspection system, funds are requested to develop risk-based verification and enforcement strategies that take into account the hazards posed by products and how well establishments are controlling those hazards. This would include additional microbiological sampling, inspector training, and the creation of an establishment database. Information from these initiatives will enable FSIS to wisely allocate resources to priority areas and provide increased understanding of which food safety systems prevent foodborne illness and promote the public's health. In addition, funding is requested to increase the speed at which the agency collects, analyzes, and reports Salmonella testing data, which will improve the agency's response to outbreaks of foodborne illness.

The budget also requests funding to expand the Food Emergency Response Network (FERN) in support of the Food and Agriculture Defense Initiative. With this funding FSIS will continue to develop the network of food laboratories and the result will be an increase in the capability of a network of coordinated Federal, State and local laboratories to handle large volumes of testing that would be needed for biosurveillance or in the event of a widespread food emergency.

For FSIS, the budget requests an appropriation of $863 million and $124 million in existing fees. In addition, the budget includes $105 million that would be derived from new user fees to recover the cost of providing inspection services beyond an approved 8-hour-primary shift.

CONSERVATION

The 2002 Farm Bill represented an unprecedented commitment to conservation. The 2007 budget continues to support this commitment with a record level $4 billion request in mandatory funding to expand enrollment in these programs by an additional 23 million acres. Under the proposal, USDA would provide conservation assistance on 197 million acres, the greatest amount of conservation assistance in history.

Within the total amount, the budget proposes over $400 million for the Wetlands Reserve Program (WRP), an increase of $153 million, or 61 percent over 2006. The projected WRP enrollment for 2007 would be the largest ever, involving 250,000 acres, and will bring the total acreage enrolled in the program to over 2.2 million acres. The WRP is the principal supporter of the President's goal to restore, protect, and enhance 3 million acres of wetlands over 5 years beginning in 2004.

Funding for the Conservation Security Program would be increased by $83 million, or 32 percent, to continue to extend the program to additional watersheds in 2007. Finally, the 2007 budget supports a net increase in enrollment of 2.7 million acres in the Conservation Reserve Program (CRP), which would bring total program enrollment to 38.9 million acres by the end of 2007, a 7 percent increase in coverage. CRP funding represents more than one-half of the total for all Farm Bill conservation programs.

The 2007 budget also includes $788 million in discretionary funding for on-going conservation work. This is a decrease of $207 million below the 2006 enacted level and reflects the realignment of the administration's priorities to direct limited conservation funding to the highest priority natural resource concerns. USDA will be able to deliver high quality and timely technical assistance to farmers and ranchers to address natural resource concerns on their operations. The budget does not request funding for watershed operations and planning, Grazing Lands Conservation Initiative, and earmarked projects. The budget also proposes to reduce the number of Federal coordinator positions funded under the Resource Conservation and Development (RC&D) program, for a savings of $25 million. Under this proposal, the number of authorized RC&D areas would be maintained at the current level of 375 but coordinators will be responsible for providing assistance to multiple areas.

RURAL DEVELOPMENT

The 2007 budget includes $14.4 billion in direct loans, loan guarantees and grants to improve the economic opportunities and quality of life in rural America. This assistance will be used to finance rural businesses, electric and telecommunications facilities, water and waste disposal projects and other community facilities; provide homeownership opportunities; and revitalize USDA's portfolio of multi-family housing projects. Most of the on-going rural development programs are maintained at current levels. There is a $3.6 billion reduction in 2007, which is due primarily to the exclusion of $1.6 billion in 2006 supplemental emergency funding for the Gulf Coast hurricanes and $1.5 billion for a 2002 Farm Bill program to guarantee notes of private sector electric and telephone borrowers.

The on-going electric and telecommunications programs are funded at the anticipated level of demand, over $4.9 billion in direct loans. About $200 million of this amount is expected to be used for new power supply projects for renewable energy that will support the President's energy policy.

The community facilities program provides direct loans, guarantees, and grants to finance essential community facilities, with priority given to health and safety facilities. The 2007 budget provides $297 million in direct loans, $208 million in guarantees, and $17 million in grants for this program—the same as was available for 2006. This level of funding will support over 560 new or improved health care facilities, child care, fire and emergency services and other facilities lacking in rural America.

The proposed budget for the water and waste disposal programs would support almost $1.1 billion in direct loans. The program would be supported through loan subsidies and grants at about the same level in 2006—$514 million for 2007 compared to $525 million for 2006. However, a greater portion of the subsidy would be applied to reducing interest rates charged to borrowers rather than providing grants. For most communities, which normally receive a combination of loan and grant assistance, the reduction in interest rates would be of greater benefit in terms of lowering the overall debt servicing costs of their projects, than they would otherwise receive from an equivalent amount of grant.

The 2007 budget would support $4.8 billion in direct and guaranteed loans for single-family housing, about the same level as available for 2006. This level of assistance will provide homeownership opportunities for nearly 41,000 rural families.

The business and industry program is maintained at a level of about $1 billion in loan guarantees. The value-added program is also maintained at its current level of $19 million in grants. Overall, the rural development business programs are expected to create or save over 56,000 rural jobs.

The 2007 budget reproposes the administration's initiative to revitalize its portfolio of multi-family housing projects, which are home to close to half a million low-income families. A recent Supreme Court decision allows project sponsors to prepay their loans and convert their projects to uses other than low-income housing, putting tenants at risk of higher rents and potential loss of housing. A priority under the administration's initiative will be on providing housing vouchers to protect the rents of tenants of projects that are withdrawn from the portfolio. The administration will also pursue enactment of legislation it has already submitted to Congress to authorize debt restructuring and other incentives for project sponsors to remain in the program and make necessary repairs.

RESEARCH

The 2007 budget funds the highest priority research issues facing American agriculture and increases the use of competition to improve the quality of research. The budget includes a $66 million increase for the National Research Initiative, the Nation's premier competitive, peer-reviewed research program for fundamental and applied sciences in agriculture. The increase includes funding for high priority initiatives in food and agricultural security, gene mapping, the ecology and economics of biological invasions, plant biotechnology and water security. The budget also includes $107 million in increases for high priority research conducted by ARS scientists in areas such as food and agricultural defense, bioenergy, plant and animal genomics and genetics, and human nutrition and obesity prevention. These lines of investigation have great potential to benefit producers and consumers; assure an abundant, safe, and inexpensive supply of food; and ensure the preservation of our natural resource base.

While the 2007 budget continues overall funding for both the Hatch and McIntire-Stennis programs at the 2006 appropriated level, the budget proposes an increase in the use of competition to improve the quality of USDA supported research. The 2007 budget includes a proposal to modify the Hatch and McIntire-Stennis formula programs so that over half of the funds would be competitively awarded by 2011. Under the proposal, the Hatch formula program would be modified by expanding the multi-State research component from the current base of 25 percent to about

55 percent of total Hatch funding. In 2007, 35 percent of Hatch funds will be awarded competitively to multi-State/multi-institutional projects. Over the course of the next 4 years, the remaining multi-State formula funds would be phased into competitive funding through an additional 5 percent increase each year as existing projects are completed. Therefore, by 2011, about 55 percent of funding under the Hatch program will be for competitively awarded multi-State projects and about 45 percent would be allocated as formula funds.

The 2007 budget also modifies the McIntire-Stennis formula program by creating a multi-State research program that will comprise 59 percent of program funding. The proposal calls for all McIntire-Stennis multi-State funds to be distributed through competitively awarded grants in 2007. These proposals take into account the expressed concerns of USDA partners in the land grant community, including smaller institutions, regarding the proposal in the 2006 budget. As a result, this new approach would sustain the use of Federal funds to leverage non-Federal resources, maintain program continuity, facilitate responsiveness to State and local issues, and leverage and sustain partnerships across institutions and States. Our intention is to craft the details of the programs in consultations with our land grant and forestry college partners.

NUTRITION ASSISTANCE

The budget contains sufficient resources to fully fund expected participation, food cost inflation and contingency funds for the Department's three major nutrition assistance programs: Food Stamps; Women, Infants and Children (WIC); and Child Nutrition. Participation levels fluctuate with economic conditions and the budget keeps pace. WIC participation is expected to grow slowly in 2007 to a total of 8.2 million participants. Food Stamp participation is expected to decrease about 4 percent from the 2006 projection to about 25.9 million in 2007 as people affected by the hurricanes in the Gulf States get back on their feet. School Lunch participation is estimated to grow about 2 percent to keep pace with the growing student population, as it has in recent years, to a new record level of 30.9 million children per day.

For Food Stamps, legislation will be proposed that would exclude all qualified retirement savings accounts from eligibility determinations regardless of how other programs treat them. By 2009, this would allow about 100,000 additional people to participate who otherwise would have been ineligible unless they spent down their retirement savings. This would add an estimated $48 million in costs for 2007 and about $146 million in 2009 when fully implemented. The 2007 budget also reproposes legislation to restrict participation among certain households with incomes or resources above normal eligibility thresholds. Affected households are those that do not receive cash Temporary Assistance for Needy Families (TANF) benefits, but become categorically eligible for food stamps because they receive a TANF-funded service, including one-time information and referral. This change would reduce costs by an estimated $71 million in 2007, with additional savings in subsequent years.

The WIC request provides full funding for all those estimated to be eligible and seeking services. At the same time, the Department will work with stakeholders to contain costs and continue to improve the program's performance. WIC legislative proposals include limiting administrative funding to 25 percent of total program costs, and limiting categorical eligibility to those with incomes under 250 percent of poverty. Also, the budget proposes legislation to require 20 percent State matching for WIC administrative costs. The proposal would take effect in 2008, after State legislatures have had time to appropriate the matching funds. WIC is one of the few Federal programs that does not require States to provide matching funds for administrative costs.

The 2007 budget does not request funding for the Commodity Supplemental Food Program (CSFP), which is not available nationwide and duplicates two of the Nation's largest Federal nutrition assistance programs—Food Stamps and WIC. Eligible women, infants and children participating in CSFP will be encouraged to migrate to the WIC Program. Eligible elderly CSFP recipients will be encouraged to migrate to the Food Stamp Program, where most are believed to be eligible. The budget includes temporary transitional benefits for CSFP participants 60 years of age or older equaling $20 per month for the lesser of 6 months or until the recipient starts participating in the Food Stamp Program.

DEPARTMENT MANAGEMENT

The 2007 budget builds upon our progress in improving overall management of the Department. Increased funding is being sought for selected key priorities:

—Beginning the acquisition of a modern core financial system to replace USDA's outdated system, which is no longer supported by a vendor. The current system relies on software that no longer meets financial management standards. The adoption of technology that meets these standards will increase the efficiency of the system, allow for less costly updates and strengthen internal controls.
—Completing the expansion of the successful Equal Employment Opportunity complaints processing system to include complaints of discrimination levied by participants in the Department's programs.
—Continuing renovations of USDA facilities in order to ensure that employees and customers have a safe and modern working environment.

Over the course of the past year, USDA has continued to achieve success in implementing the President's Management Agenda (PMA). The PMA focuses our efforts on those things that are most critical to good management, including sound financial systems, innovative uses of IT, and ensuring the effective use of human resources. A major part of this effort has been the use of Program Assessment Rating Tool (PART) to inform funding and management decisions. Under PART, USDA has evaluated 70 programs and developed plans to improve their performance. These improvement plans are available to the public on the recently released ExpectMore.gov website. The website provides the public with easily accessible information about Federal programs, their performance, and actions the administration is taking to improve performance in the coming year. The website is a new tool to help increase transparency and accountability in Federal programs.

In summary, I want to emphasize that the President is serious about reducing the deficit to help maintain strong economic growth. This budget sets clear priorities for U.S. agriculture, conservation, and nutrition while responsibly restraining spending. This budget puts us in the right direction for reducing the deficit and protecting future generations of American producers by establishing the foundation for a strong economy.

That concludes my statement. I look forward to working with members and staff of the Committee and will be glad to answer questions you may have on our budget proposals.

Prepared Statement of Annabelle Romero, Deputy Assistant Secretary for Civil Rights, Office of Assistant Secretary for Civil Rights

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to submit this statement supporting the President's fiscal year 2007 budget proposal for the United States Department of Agriculture's (USDA) Office of the Assistant Secretary for Civil Rights (ASCR).

The Office of the ASCR provides policy guidance, leadership, outreach, coordination, training, and complaint prevention and processing for USDA. Our mission is to provide equal opportunity, equal access and fair treatment for all USDA customers and employees.

The Office of Civil Rights has made significant progress in addressing major civil rights challenges at USDA since the establishment of the ASCR position. The Office of Civil Rights began fiscal year 2005 with 1,331 pending EEO complaints and ended fiscal year 2005 with 1,402 EEO complaints. During fiscal year 2005, 662 new EEO complaints were received, and a total of 591 EEO complaints were closed. The Office started the fiscal year 2005 year with 363 pending program complaints and ended fiscal year 2005 with 404 program complaints.

FISCAL YEAR 2007 OBJECTIVES

The Office of Civil Rights has the following four overarching strategic objectives for fiscal year 2007 that contributes to the Department's success. They are to:
—Ensure equal opportunities for employees and applicants and equal access for USDA customers.
—Ensure that equal employment opportunity and civil rights complaints are processed timely, efficiently, and in a cost effective manner.
—Increase USDA-wide awareness and use of Alternative Disputes Resolution (ADR) for early resolution of civil rights complaints and non-civil rights disputes.
—Establish effective outreach programs in USDA.

FISCAL YEAR 2007 KEY OUTCOMES

The Office of Civil Rights plans to achieve the following key outcomes in fiscal year 2007: (1.) A reduced number of equal employment opportunity and civil rights program complaints. Increasing the education and awareness of civil rights is likely to decrease the number of EEO and civil rights program complaints filed. (2.) Efficient and cost effective processing of equal employment opportunity and civil rights program complaints within the regulatory timeframes. (3.) Timely and effective resolution of a larger number of civil rights and non-civil rights complaints through increased awareness and use of Alternative Dispute Resolution. (4.) Effective outreach programs in every agency. Strengthening the agencies' outreach efforts, developing outreach policies, and providing training on best outreach practices to ensure timely access to all customers, thereby improving minority and underserved population participation in USDA programs.

FISCAL YEAR 2007 BUDGET REQUEST

The fiscal year 2007 Appropriation request for the Office of Civil Rights is $22.7 million. This is an increase of $2.7 million over fiscal year 2006. The funding request includes increases for the following:

—*Civil Rights Enterprise System Improvement—$1.987 million.*—Funds for the Civil Rights Enterprise System are requested to continue the expansion of the complaints processing system. USDA agencies will be able to interface on a web-based system that will provide customers and employees real-time data regarding their discrimination complaints.

—*Compliance Monitoring Activities $0.354 million.*—The Office of Civil Rights is mandated to conduct compliance reviews in the employment and program division. However, funding is needed to meet new requirements designed to meet the affirmative employment goals of the Equal Employment Opportunity Commission's Management Directive 715. Compliance reviews will result in civil rights complaint prevention and reduction.

—*Pay cost $0.401 million.*—The request for pay cost is for the anticipated fiscal year pay raise.

I would like to emphasize the importance of the Committee's approval of the President's $22.7 million budget for USDA's Office of Civil Rights. The proposed budget will help ensure that USDA continues progress in providing fair and equitable delivery of its services and programs to our customers and also protects the civil rights of USDA employees.

PREPARED STATEMENT OF PETER J. THOMAS, DEPUTY ASSISTANT SECRETARY, DEPARTMENT OF ADMINISTRATION

Mr. Chairman and members of the Subcommittee, I want to thank you for the opportunity to submit this statement supporting the President's budget proposal for fiscal year 2007 for the Department of Agriculture's (USDA) Departmental Administration.

Departmental Administration (DA) is responsible for a wide range of activities. Our mission is to promulgate Department-wide policies in areas such as Human Resources, Procurement, Property Management, Ethics, Security, and similar key administrative areas. DA also provides comprehensive facilities support services for the owned and leased offices that USDA has throughout the National Capital Area. Furthermore, DA directly provides the Secretary, his Subcabinet, and the principal staff offices with a full suite of administrative support. Because of DA's direct responsibilities over USDA's headquarters operations, and its policy oversight of USDA's vast property and human assets, it is also responsible for providing security both for worksites and, more importantly, for the employees housed in those worksites. Since September 11, 2001, DA has, largely using funds provided in the 2002 homeland security supplemental appropriations, greatly enhanced its protection of USDA's staff and its critical infrastructure.

My statement covers three appropriations: The Departmental Administration Direct Appropriation, which funds most of our offices; the Agriculture Buildings and Facilities and Rental Payments Appropriation for the National Capital Area facilities and rental payments to the General Services Administration (GSA) for space occupied nationwide by USDA agencies except the Forest Service; and the Hazardous Materials Management Appropriation which funds clean-up activities under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). I would like to address the Agriculture Buildings portion first since our South Building renovation project, a key priority, is funded from this source.

AGRICULTURE BUILDINGS AND FACILITIES

The fiscal year 2007 budget request for Agriculture Buildings and Facilities and Rental Payments of $209.8 million includes $155.9 million for rental payments to GSA and, $53.9 million for operations, maintenance, repair, and security of our existing four-building headquarters' facilities, including $14.1 million towards repairing and renovating the aging South Building.

Consistent with our goal to ensure a safe and functional USDA workplace, the $14.1 million funding to continue the repair and renovation of the South Building is critical. Funding for this project was not available in fiscal years 2004—2006 and it is important to resume funding for these renovations. This is a massive, multi-year project, and every year that we lose lengthens the period during which 6,500 employees and thousands of visitors per year are exposed to health and safety hazards. The project began in 1998 and was designed to be accomplished in eight phases. Three phases have been completed and are occupied. Design of Phase 4A and construction of the new mail center facility began in September 2004. Among other things, critical work is being done on fire protection systems, abatement of hazardous materials and replacement of aged, unreliable and inefficient utility systems. The requested fiscal year 2007 funding will allow USDA to conclude construction of Phase 4 and to design Phase 5.

DEPARTMENTAL ADMINISTRATION DIRECT APPROPRIATION

The fiscal year 2007 request for the Departmental Administration (DA) Direct Appropriation is $28.3 million. We have made significant progress in a number of areas funded by the Departmental Administration Direct Appropriation, and I would like to outline some of them here and explain our proposals for continued improvement in fiscal year 2007.

PHYSICAL SECURITY

As previously discussed, physical security in the National Capital Region is addressed within the Agriculture Building and Facilities Appropriation. DA also has responsibility for physical security policy for USDA owned and leased facilities worldwide. USDA conducts its programs in approximately 25,000 structures at more than 7,000 sites around the world. The Office of Procurement and Property Management within DA provides overall leadership and direction to USDA agencies in the management and coordination of security for these facilities. Major activities include policy development, education and training, and security assessments of facilities.

After September 11, USDA understood there was a need to rethink the way it had historically approached physical security enhancements at its facilities. Given the number of buildings and sites at which USDA conducts its business and the finite resources available, we needed to find a process that would link available resources to our most critical needs and priorities. Partnering with each of our agencies, we developed an inventory of mission critical facilities where we should first focus our security efforts. Among the sites reviewed were labs conducting research involving biohazardous materials; labs responsible for protecting the Nation's food supply; facilities housing valuable germplasm collections; labs in foreign countries; USDA computer centers processing payroll, vendor, and program payments; and facilities housing aircraft. We hired a small staff of physical security specialists and retained contractors to perform security assessments at our critical facilities using a risk-management approach advocated by the Government Accountability Office. We also retained contractors to install security enhancements and develop a database, the Geographic Security Information System, to help us manage and track the progress in enhancing security to our mission critical facilities at the various locations. Following the guidance within Homeland Security Presidential Directive (HSPD) 7, this database was integrated into a Geographical Information System. To date we have completed security assessments at approximately 90 percent of "mission critical" facilities. We have also developed a comprehensive manual that provides our agencies with standards and guidelines as we continue to assess and improve our security posture with regard to: chemical, biological and radiological agents; information technology; food safety; animal and plant research; water resources; and aviation assets.

In accordance with HSPD 7 (facility security assessment required) and HSPD 9 (facility security assessment conducted every 2 years), USDA is developing a self-assessment tool to be used by facility managers at any USDA location. This tool will serve as standard guidance for managers of smaller offices and facilities across the country. The site directors at these smaller facilities will have the capability to remotely provide critical site-specific security information to a security analyst in one central office and then be provided security guidance for their site. This guidance will enhance the protection of their facility and mission critical assets.

In late 2005, DA began implementing HSPD–12 (Smart Card), following OMB and USDA guidance, for Personal Identification Verification (PIV). Under PIV, all new employees and new contractors must have a successful fingerprint processed by the FBI and a successful "National Agency Check with Inquiries" (NACI) by Office of Personnel Management (OPM), in order to receive a permanent badge with access rights to Federal facilities. In fiscal year 2006, the Office of Operations within DA provided guidance to all USDA agencies in the National Capital Region on issuing identification badges for new employees and contractors. DA will be determining which current USDA employees need to have a NACI processed in order to receive their permanent badge. This will be completed following a set schedule over the next 2 years. DA procedures are in full compliance with HSPD–12 PIV Stage I.

CONTINUITY OF OPERATIONS PLANNING

DA continues to be an active participant in the Continuity of Government (COG) and Continuity of Operations (COOP) programs in the Department. One of our primary functions is to review the Department's and USDA agencies' COOP Plans on a regular basis to ensure responsiveness to current threat situations. To ensure plan viability, formal revision of all USDA COOP Plans will continue as a biennial requirement. In order to maintain readiness, USDA continues to conduct functional exercises and planning workshops. In fiscal year 2005, revisions to the USDA Headquarters COOP Plan were based on the updated Federal Preparedness Circular 65 requirements to develop devolution, reconstitution, and human capital plans. A functional exercise was conducted in June 2005 to disseminate lessons learned from the previous planning cycle. USDA had a robust participation in an interdepartmental exercise conducted in late June 2005. In fiscal year 2006, the USDA Headquarters plan will be revised to include pandemic influenza planning, refinement of devolution, reconstitution and human capital plans will continue, functional exercises will consist of a major interagency COOP exercise, evaluation of agency-sponsored exercises and COOP activities, Department-wide COOP awareness training, and the beginning of a formal revision of the HQ COOP Plan and agencies' supplements. In addition, support to the National Emergency Management Team will continue. In fiscal year 2007, agency supplement COOP plans will be formally reviewed; functional exercises will consist of testing pandemic influenza planning and participation in a major interagency COOP exercise, evaluation of agency-sponsored exercises and COOP activities, and the continuation of Department-wide COOP awareness training. Our fiscal year 2007 request includes $760,000 to ensure USDA is compliant with Executive Orders and Presidential Directives dealing with Emergency Preparedness and the requirements for Federal Executive Branch Continuity of Operations. With this increase, DA will have the funding needed to maintain the COOP for the Office of the Secretary, provide guidance and training to mission areas, and provide support and training to USDA's National Emergency Preparedness Team.

PERSONNEL AND INFORMATION SECURITY

USDA will continue to improve the personnel security program in fiscal year 2007 through re-engineering and modernization efforts. The fiscal year 2005 in-house adjudication and processing time averaged 22 workdays after receipt of the final background investigation report. These efforts are closely aligned with the President's Management Agenda eGovernment Initiative "e-QIP" (electronic processing of security questionnaires). Key Departmental personnel are now fully trained and capable of using the e-QIP system to electronically submit investigative requests. This system has resulted in further improvements in staff efficiency and additional reductions in processing and handling time for personnel security cases. Restoring our personnel security program has increased the reliability of public trust positions and ensures that staff members are cleared for national security classified information in positions needing such access. Annually, the Department requires approximately 2,400 investigations and reinvestigations each year to maintain the currency of its employees.

USDA revitalized an information security assurance program intended to safeguard national security information. The post-September 11 environment has made it clear that all Federal agencies have to make sure that national security information is properly safeguarded. Adding further importance, the USDA has been granted original classification authority to classify national security information to the secret level. To implement an effective program to safeguard this information, USDA has added information security specialists to the staff, launched an information security web site, drafted a security classification guide, briefed senior leadership on national security classification, and provided supplemental training to managers and front line staff. Finally, USDA established an inter-agency work group that includes nine additional Departments/agencies to address common issues, including development of an automated on-line security awareness refresher briefing for government-wide use

The fiscal year 2007 request includes an increase of $1,840,000 to provide funds to ensure the Personnel and Document Security Program is operational and compliant with the Executive Orders and Presidential mandates. USDA plans include: development of training programs for employees who have security clearances; meeting the requirement that adjudicative results are furnished to the Office of Personnel Management within 90 days of receipt of a closed background investigations; and operating and maintaining an enterprise data base on national security clearances issued by the Department.

HUMAN CAPITAL MANAGEMENT

The Office of Human Capital Management (OHCM) in DA provides policy guidance to USDA agencies on human capital management, one of the five initiatives of the President's Management Agenda. USDA faces a number of human resources challenges. Over the next few years, it is anticipated that an unprecedented number of executives and managers will retire, as will many of our cadre of researchers, veterinarians, and other critical professionals. Our workforce must be competent, reliable and dedicated to new business and scientific challenges in research, food safety, trade, and agricultural production and conservation. During fiscal year 2005, this office published the Strategic Human Capital Plan that set direction and frameworks for measuring accomplishments achieved in workforce planning, employee and leadership development, recruitment and retention, and performance management. USDA agency plans provide workforce assessments and strategies to narrow skill gaps in agency mission critical occupations, and link them to recruitment, hiring, and retention strategies to help meet succession plans. OHCM and other USDA agencies are developing an annual Recruiting Plan, including an evaluation process for cost-effectiveness to improve hiring and recruitment strategies. OHCM is leading USDA to strengthen its performance appraisal programs by aligning individual employee performance expectations with agency goals. As of the fourth quarter of fiscal year 2005, over 60 percent of USDA's employee performance plans are aligned with agency goals, as reflected in the PMA scorecard for human capital.

Departmental Administration is requesting an increase of $2,348,000 for providing support to policies and technical guidance for enhancements to HR performance programs. DA plans to review the current performance systems in USDA and evaluate possible alternatives that are available to Federal employees. More emphasis will be placed on contemporary performance-based solutions rather than historic processes.

ENTERPRISE HUMAN RESOURCES SYSTEM

In order to secure the benefits of improved human resources management programs and to capture the data needed for workforce planning and organizational restructuring, DA has committed to building a Department-wide Human Resources Enterprise System (HRES). The system holds great promise to unify the manner in which agencies process personnel transactions, provide more timely and consistent workforce information, and enable improved management of USDA's Human Capital. In our commitment to building a Department-wide HRES, DA is actively engaged in the Department-wide implementation and deployment of Automated Recruitment Web-based Systems to streamline the hiring process to meet the 45 day hiring model set forth by OPM in order to meet the requirements of the Recruitment One-Stop initiative under the Presidential Management Agenda for eGovernment. DA is actively participating in other OPM Presidential Management Agenda initiatives including the Human Resources Line of Business to fulfill the vision of an HR shared service center complete with common solutions to standardized HR business processes, and the implementation of the Enterprise Human Resources Integration suite of products. DA is also collaborating with mission areas and staff agencies on the feasibility of a Department-wide web-based Worker's Compensation system with a direct link to the Department of Labor in an effort to meet the requirements of the President's "Safety, Health and Return to Work" initiative.

GOVERNMENT ETHICS PROGRAM

The Office of Ethics succeeded in reviewing virtually all of the nearly 1,000 financial disclosure reports submitted by USDA officials in a timely manner. We have implemented a web-based ethics training program that is used throughout the Department and in several Executive Branch organizations outside USDA. The majority of these training modules were migrated to AgLearn in fiscal year 2005. The Office of Ethics has developed an Ethics Orientation module for new USDA employees. The module is in a final testing phase and will be available in 2006. Also in final stages of testing is a self-service "walk through" guide to post-employment. More than 98 percent of the USDA employees required to submit financial disclosure reports completed ethics training in 2005.

PROCUREMENT POLICY

DA continues to lead the implementation of the Integrated Acquisition System (IAS). IAS is a web-based commercial off-the-shelf procurement and contract management generation and administration tool. It provides USDA with an enterprise solution for requisitioning, automated workflow, commitment accounting, funds control, and contract closeout functions used by the procurement and financial communities. Additionally, it provides real-time interface to the Department's financial system in accordance with the Joint Financial Management Improvement Program. IAS supports e-Government legislation, Presidential Initiatives to improve the operation of government, and complements the Federal Integrated Acquisition Environment. Several USDA agencies have been implemented and we are working toward full deployment across the Department by the end of fiscal year 2006.

USE OF BIOFUELS

The Department's continuing commitment to biofuels resulted in an estimated 207,600 gasoline gallon equivalents of biofuels (ethanol and biodiesel) used in USDA fleet vehicles, equipment, and facilities in fiscal year 2005 an increase of 72 percent over fiscal year 2004. Use of E85 ethanol fuel reached a new high in fiscal year 2005, to 179,625 gallons. This continued increase is a successful result of the E85 promotion program USDA initiated in fiscal year 2003, which included awareness training for Departmental headquarters and field fleet managers, providing them with E85 bumper stickers and other materials for use with USDA's ethanol-gasoline flexible fuel vehicles. USDA's flex-fuel E85 fleet inventory grew from 3,079 vehicles in fiscal year 2004 TO 3,267 vehicles in fiscal year 2005. In fiscal year 2006, USDA is focusing on further increasing the use of B20 biodiesel and E85 ethanol as a prime strategy to meet the new alternative fuel use requirements of the Energy Policy Act of 2005 and the Executive Order 13149 of 20 percent petroleum reduction target for fleet vehicles.

FEDERAL BIOBASED PRODUCTS PROCUREMENT PREFERENCE PROGRAM

Section 9002 of the 2002 Farm Security and Rural Investment Act of 2002 (Public Law 107–171) directed the USDA to develop and implement a procurement preference program for biobased products. DA is leading the design, development, testing, and USDA implementation of what is now known as the Federal Biobased Product Preferred Procurement Program (FB4P). The FB4P will consist of:

—a biobased product preference program; and
—a biobased product procurement promotion program. Section 9002 of the 2002 Farm Security and Rural Investment Act of 2002 (Farm Bill) (Public Law 107–171) mandates Federal agencies to have a biobased product procurement preference program in place within 1 year after guidelines pertaining to procurement preferences for these products are published. These guidelines were published as a final rule in the Federal Register on January 11, 2005.

On January 10, 2006, USDA completed its Affirmative Procurement Program (APP) and posted it on its biobased website at http://www.usda.gov/biobased. The APP formally establishes USDA's Biobased Procurement Program for USDA-designated biobased items and provides agency-wide guidance for implementing an effective program. USDA's Biobased APP ensures items composed of biobased material will be purchased to the maximum extent practicable and meets the requirements of the final rule. The APP will also serve as the government-wide model to achieve the Section 9002 goals of the 2002 Farm Bill. Early in fiscal year 2006, USDA conducted a 3-month Biobased Pilot Project designed to test biobased/biodegradable food-service products such as cups, plates, cutlery, etc. During the pilot, over 33,000 patrons were served and cafeteria operations and services were not adversely impacted by the change to biobased products. The full-cycle approach of the pilot project: (1) replaced 100 percent of current Styrofoam and plastic food service items with biobased products wherever possible; (2) provided training to patrons on how to dispose of waste to prevent contamination with non-compostables and to compost the cafeteria residuals; (3) diverted cafeteria-derived organic recyclables from landfill disposal to a beneficial horticultural use; and (4) resulted in the production of over 44 cubic yards of compost to be used in the Whitten Building gardens. Overall USDA considers the pilot a success and will continue to promote biobased products in the future.

REAL PROPERTY ASSET MANAGEMENT

USDA is proactively implementing Executive Order 13327, Federal Real Property Asset Management, which establishes a Presidential Management Initiative promoting the efficient and economical use of America's real property assets to assure management accountability for implementing Federal real property management reforms. USDA will focus on six major areas as the foundation for future efforts and compliance: real property management organization; real property planning and budgeting activities; utilization of inventory data in decision-making; performance measures and continuous monitoring asset inspection and condition index; and divesting ourselves of un-needed real property.

In fiscal year 2004, USDA designated a Senior Real Property Officer (SRPO) to oversee implementation of this Executive Order. The SRPO established a Real Property Council within USDA to assist with this effort. By the end of fiscal year 2006, USDA will have an Asset Management Plan, incorporating final guidance provided by the Federal Real Property Council, in place and will have established a strategy for implementation of the performance measurements to achieve the goals and objectives outlined in the Asset Management Plan. USDA's goal is to achieve a yellow rating on the President's Management Agenda Asset Management scorecard in fiscal year 2006.

USDA initiated a major corporate project to implement the first department-wide real property automated information system to improve management controls and accountability. This new department-wide system, Corporate Property Automated Information System (CPAIS), which was implemented in May 2004, provides an integrated solution, which standardizes USDA real property accounting (subsidiary ledger to the Foundation Financial Information System (FFIS)), real property business processes and provides management of the entire real property portfolio including owned real property, commercial leases, and General Services Administration assignments. In fiscal year 2006 and 2007, USDA will integrate personal property into CPAIS, thereby eliminating old legacy systems, and managing its assets to make maximum use of resources provided.

EXCESS PERSONAL PROPERTY PROGRAM

Section 923 of the Federal Agriculture Improvement and Reform Act of 1996, authorized the Secretary of Agriculture to transfer excess Federal personal property to any of the 1994 Tribal Institutions, Hispanic-Serving Institutions, and the 1890 colleges and universities, including Tuskegee University. In fiscal year 2005, USDA transferred $2.3 million worth of excess personal property under the program, bringing the total to greater than $20.9 million since the program began in fiscal year 1998. This program provides much needed property and equipment to institutions that otherwise would not be able to acquire property due to limited funds and will improve the institutions' capability in the areas of research, education, and technical and scientific activities.

SMALL & DISADVANTAGED BUSINESS UTILIZATION

USDA is a leader in the Federal Government in achieving small business program contracting goals. The Office of Small and Disadvantaged Business Utilization (OSDBU) utilizes an active outreach program to identify available small, small and disadvantaged, Historically Underutilized Business Zone (HUB Zone), service disabled veteran-owned, and women-owned businesses; to expand the number of small businesses securing contracts with USDA; to identify and provide assistance to underserved areas; and to identify and eliminate contracting barriers that prevent or restrict small business access to USDA procurements. During fiscal year 2005, OSDBU was the winner of two prestigious awards from the Small Business Administration: the Federal Gold Star Award and the Agency Goaling Award of Excellence. These awards recognize the exemplary performance of USDA agencies for attaining or exceeding the federally mandated small business goals that grow small business capacity and create jobs.

OSDBU is aggressively taking steps to significantly increase contracting and subcontracting opportunities for Service Disabled Veteran-Owned Small Businesses and to carry out the requirements of Executive Order 13360 and Public Law 108–183—The Veterans Benefits Act of 2003. OSDBU is tracking the Service Disabled Veteran-Owned Small Business goal achievement for all USDA agencies. OSDBU continues to work with USDA agencies to secure contracts for Service Disabled Veteran-Owned Small Businesses.

In addition, OSDBU continues its rural small business outreach efforts to increase small business opportunities and create jobs in rural areas. Small firms are paired in mentor-protégé relationships with experienced Federal contractors to engage in USDA and other Federal Departments' contracting opportunities. OSDBU reviews contract opportunities to locate those suitable for directing to Tribal 8(a)s and other categories of small firms in rural America.

Another important aspect of OSDBU's work is our support for people with severe disabilities working through the Javits-Wagner-O'Day (JWOD) program. The JWOD Program helps to meet Federal procurement needs while generating employment and providing training opportunities for Americans who are blind or have other severe disabilities. USDA's demand for JWOD products has grown over the past several years to include packaged food products that support USDA food programs inc

HAZARDOUS MATERIALS MANAGEMENT

The purpose of the Hazardous Materials Management Program is to clean up and restore USDA-managed lands, and sites contaminated from past USDA activities; to enhance USDA's environmental performance in current operations; and to participate in Federal, State, and local efforts to plan for and respond to hazardous materials incidents. Since the Hazardous Materials Management Appropriation was established in 1988, USDA has cleaned up over 2,250 sites. Many of these were underground storage tanks that did not meet current standards. On average, the program is completing about 30 site cleanups a year through a combination of Hazardous Materials Management Appropriation and agency funding.

We currently estimate that uncontrolled releases of hazardous substances have occurred or may have occurred at more than 2,000 additional sites. Many of these contaminated sites threaten human health or the environment, and make valuable resources unavailable for public use. Addressing these sites will, in general, be more complex and costly than those we have cleaned up so far.

Program activities are aligned with USDA's Strategic Goal 6: to protect and enhance the Nation's natural resource base and environment. In addition, the program directly supports three USDA Objectives: (1) homeland security, through efforts to improve hazardous materials management and by representing USDA on the National Response Team for oil spills and hazardous material releases, and participating in the National Response Plan's Emergency Support Function 10 and 11, (2) management of natural resources, and (3) the quality of life in rural America by coordinating USDA efforts for the President's Brownfields program. This year our performance focus will shift from the number of cleanups we complete to the significance of the public benefits the cleanups create and the impact they have in relation to USDA and agency missions, goals, and program initiatives. The fiscal year 2007 budget seeks $12.0 million to continue this program.

CONCLUSION

Although administrative programs such as those conducted within DA are frequently not thought of by themselves usually considered, high visibility or high priority, Mission-area programs, cannot effectively meet the expectations of the Congress, the Administration or the public without a stable base of good administrative systems, policies and support functions. DA is committed to achieving and maintaining a high quality of mission program support and asks your assistance in this effort. Mr. Chairman and members of the Subcommittee, this concludes my statement on the Departmental Administration Budget for fiscal year 2007.

PREPARED STATEMENT OF NANCY C. PELLETT, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, FARM CREDIT ADMINISTRATION

Mr. Chairman, Members of the Subcommittee, I am Nancy C. Pellett, Chairman and Chief Executive Officer of the Farm Credit Administration (FCA or Agency). On behalf of my colleagues on the FCA Board, Doug Flory of Virginia and Dallas Tonsager of South Dakota, and all the dedicated men and women of the Farm Credit Administration, I am pleased and honored to provide this testimony to the Subcommittee.

At the FCA we are focused on ensuring a dependable source of credit and related services for agriculture and rural America as we maintain a flexible regulatory environment that allows the cooperative Farm Credit System to meet the credit needs of all eligible borrowers while ensuring safety and soundness.

I would like to thank the subcommittee staff for its ongoing assistance during the budget process, and before I discuss the role and responsibility of the Farm Credit Administration and our budget request, I would respectfully bring to the Subcommittee's attention that the FCA's administrative expenses are paid for by the institutions that we regulate and examine. Said differently, the FCA does not receive a Federal appropriation, but is funded through annual assessments on Farm Credit System (System) institutions and the Federal Agricultural Mortgage Corporation (Farmer Mac). We fully support the proposed 2007 Budget Submission of the President.

Mr. Chairman and Members of the Subcommittee, I will highlight the FCA's accomplishments during the past year; report to you briefly on the System, as well as Farmer Mac—the other Government-Sponsored Enterprise (GSE) that we regulate which serves agricultural lenders in the secondary market; and, in conclusion, I will present our fiscal year 2007 budget request.

MISSION OF THE FARM CREDIT ADMINISTRATION

As directed by Congress, the FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America.

The Agency accomplishes its mission in two important ways. First, FCA ensures that the System and Farmer Mac remain safe and sound and that they comply with the applicable law and regulations. Specifically, our risk-based examinations and supervisory strategies focus on an institution's financial condition and any material existing or potential risk, as well as its board's and management's abilities to direct its operations. Supervisory strategies also evaluate each institution's efforts to serve all eligible borrowers, including young, beginning, and small farmers and ranchers.

Secondly, the FCA approves corporate charter changes, and researches, develops, and adopts regulations, policies, and other guidelines that govern how System institutions conduct their business and interact with their customers. If a System institution violates a law or regulation, or operates in an unsafe or unsound manner, we can use our enforcement authorities to ensure appropriate corrective action.

We constantly strive to maintain a regulatory environment that enables System institutions and Farmer Mac to remain financially strong so they can meet the changing demands of agriculture and rural America for credit and related services. In doing so, our primary focus is to ensure the long-term safety and soundness of the two GSEs that serve rural America and to develop rules and policies that reflect changing market forces.

Finally, the FCA Board is committed to maintaining the public's trust and confidence in the Agency, the System, and Farmer Mac. The public is invited to attend the FCA Board Meetings, and we are committed to following the requirements of the Government in the Sunshine Act.

The public can read on our Web site the comments received on current proposed rules and notices published in the Federal Register. Comments on regulations can also be submitted to the Agency electronically or through regular mail.

FISCAL YEAR 2005 ACCOMPLISHMENTS

In 2005 we continued our efforts to achieve our Agency strategic goals through: (1) responsible regulation and public policy, and (2) effective risk identification and corrective action. The FCA has worked hard to maintain the System's safety and soundness and is continually exploring options to reduce regulatory burden on the FCS and ensure that System institutions provide agriculture and rural America continuous access to credit and related services.

To ensure that the FCA is appropriately focused on economic and agricultural issues that are relevant to rural America, as well as to ensure that the Agency is operating in an effective and efficient manner, the FCA contracted with an independent consulting firm to conduct an extensive strategic study of the Agency. Of particular interest was the need to identify potential challenges that may arise in agriculture, the Farm Credit System, or the marketplace over the next 5 to 7 years and to realign the Agency where appropriate to enable it to proactively address these issues. The major outcomes of the study have been a realignment of the examination structure, a new team-oriented approach in the regulatory development office, and a merging of the major support functions of the Agency including technology, financial, and human resource functions.

EXAMINATION PROGRAMS FOR FCS BANKS AND ASSOCIATIONS

One of the Agency's highest priorities is the development and implementation of efficient and effective risk-based examination and oversight programs that meet the high standards and expectations of the Congress, investors in System debt obligations, the farmers, ranchers, and cooperatives that own System banks and associations, and the public at large. Our examination programs and practices have worked well over the years and have contributed to the present safe and sound overall condition of the System, but the results of our strategic study are clear—we must evolve and prepare for the increasingly complex nature of agricultural and rural America lending and financing. The FCA Board adopted a new policy statement reaffirming its commitment to risk-based supervision. This policy statement directs the maintenance of a "risk-based" approach to oversight and examination for System institutions, which will maximize our effectiveness and allow us to strategically address the System's safety and soundness and compliance with laws and regulations.

We have taken initial steps to implement the new policy statement through realignment of our organizational structure. We believe the changes in the System coupled with pending retirements and normal attrition of staff necessitates a flexible organizational structure but also provides a unique opportunity to prepare for the future. Toward this goal, the Agency's Office of Examination (OE) is shifting its regionally based field office structure to division examination teams that are organized on a national basis. In the new structure, existing office locations will be retained, but the examination programs will be managed nationally to better match examiner skills to risks presented by institutions.

On a national level, we actively monitor risks that may affect groups of System institutions or even the entire System, including risks that may arise from the agricultural, financial, and economic environment in which the System institutions operate. Our job is not to forecast specific events, but to understand the environment so that we can take steps in advance to help System institutions take pre-emptive actions before adverse trends develop.

The FCA uses a risk-based examination and supervision program to differentiate the risks and special oversight needs of FCS institutions. We set the scope and frequency of each examination based on the level of risk in the institution. We continuously identify, evaluate, and proactively address these risks. The Farm Credit Act requires the Agency to examine each FCS institution at least once every 18 months. However, we monitor the performance of all FCS institutions on an ongoing basis and conduct interim examination activities as risk and circumstances warrant in each institution.

As part of our ongoing efforts, we monitor each institution's risk profile. The Financial Institution Rating System (FIRS) is the primary risk delegation used by the Agency to indicate the safety and soundness threats in an institution. The rating system is similar to other Federal financial regulators' CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) rating scale. FIRS ratings range from 1 (for a sound institution) to 5 (for an institution that is likely to fail). Beginning in 2006, in addition to FIRS, examiners will use a new set of assessment criteria that focus on risk areas including credit, interest rate, liquidity, operational, compliance, strategic, and reputation.

Throughout fiscal year 2005, FIRS ratings as a whole continued to reflect the stable financial condition of the FCS. The overall trend in FIRS ratings continued to be positive, with nearly 4 times as many 1-rated institutions (79 percent) as 2-rated institutions (21 percent). Significantly, there were no 3-, 4-, or 5-rated institutions. In addition, no FCS institutions were under enforcement action at the end of fiscal year 2005 or during the previous 3 years and no FCS institutions are in receivership. The overall financial strength maintained by the System reduces the risk to investors in FCS debt, the Farm Credit System Insurance Corporation (FCSIC), and FCS institution stockholders.

Risks are inherent in lending, and managing risks associated with a single sector of the economy, such as agriculture, is particularly challenging for lenders. If the FCA discovers unwarranted risks, it works with an institution's board and management to establish a plan of action to mitigate or eliminate those risks. Appropriate actions may include reducing risk exposures, diversifying its portfolio of risks, increasing capital, or strengthening risk management. In those cases where the board and management are unable or unwilling to take appropriate action, the Agency has the authority to take a variety of actions including supervisory letters, written agreements, and cease and desist orders. In extreme cases, we also can remove management, issue civil money penalties, and/or liquidate the institution.

During fiscal year 2005, FCA also performed various examination, training, and other services for the Small Business Administration (SBA), the United States Department of Agriculture (USDA), FCSIC, and the National Cooperative Bank (NCB). Each of these entities reimburses the FCA for its services. The safety and soundness of the System and Farmer Mac remain our primary objectives. However, we believe the continuing use of FCA examination resources by other agencies is a positive reflection on the expertise of FCA examiners and serves to broaden their examination skills while increasing job satisfaction and employee retention. It also helps us defray some of the costs of our operations while providing a valuable service.

REGULATORY ACTIVITY

Congress has given the FCA Board statutory authority to establish policy and prescribe regulations necessary to ensure that FCS institutions comply with the law and operate in a safe and sound manner. The Agency's regulatory philosophy articulates our commitment to establishing a flexible regulatory environment that enables the System to offer high quality, reasonably priced credit to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend. This translates into developing balanced, well-reasoned, flexible, and legally sound regulations. We strive to ensure that the benefits of regulations outweigh the costs; to maintain the System's relevance in the marketplace and rural America; and ensure that FCA's policy actions encourage member-borrowers to participate in the management, control, and ownership of their GSE institutions.

For 2005 and early 2006, the Agency's regulatory and policy projects included the following:

—A rule to allow a qualified lender to obtain a waiver of borrower rights when a loan is part of a loan syndication with non-System lenders that are otherwise not required by the Farm Credit Act to provide borrower rights.

—A capital adequacy preferred stock rule to amend the Agency's preferred stock regulations, which are designed to ensure the stability and quality of capital at System institutions, to ensure the fair and equitable treatment of all shareholders of FCS preferred stock, and to minimize the potential for insider abuse.

—A capital adequacy risk weighting final rule to more closely match the Agency's risk-based capital requirements with FCS institutions' credit exposures. The changes make the FCA's regulatory capital treatment more consistent with that of the other financial regulatory agencies and address financial structures and transactions developed by the market.

—A liquidity rule to amend the Agency's previous liquidity reserve requirements for System banks. The purpose of the rule is to ensure that System banks have adequate liquidity in the case of market disruptions or other extraordinary situations, as well as to improve the flexibility of Farm Credit banks to meet liquidity reserve requirements and provide credit in all economic conditions.

—A receivership repudiation final rule, specifying the conditions under which the FCSIC will not attempt to pull back specific assets into the conservatorship or receivership estate if a transaction meets certain conditions.

—A bookletter issued by the Agency to all System institutions providing guidance on how they can utilize the Tobacco Buyout Program to meet their borrowers' financial needs by offering them the option to immediately receive Tobacco Buyout contract payments.

—A bookletter on bank director compensation limits that makes a one-time adjustment to the bank director compensation limit to allow System banks to pay fair and reasonable director compensation for 2006.

—A final rule on governance of FCS institutions providing for enhanced oversight of management and operations by strengthening the independence of System institution boards and incorporating best governance practices. The rule also supports borrowers' participation in the management, control, and ownership of their respective FCS institutions.

In addition, relative to Farmer Mac, the Agency finalized a rule governing its investments and setting a liquidity standard and has undertaken a proposed regulatory project to update the Farmer Mac Risk-Based Capital Stress Test. The regulatory project is intended to incorporate a more accurate reflection of risk in the model in order to improve the model's output—Farmer Mac's regulatory minimum capital level.

The Agency has also adopted an ambitious regulatory and policy agenda for 2006 and anticipates pursuing a number of issues, including:

—Evaluating regulatory options for assessment and apportionment of FCA administrative expenses.

—Continuing a pilot program that allows System institutions to make investments that further support their mission of providing credit to agriculture and rural America.

—Continuing to review current regulatory requirements governing eligibility and scope of lending to determine if these requirements are reasonable in light of agriculture's changing landscape. Agency staff will identify issues and explore options for the Board's consideration.

—Evaluating comments on a proposed termination rule that would amend and update the existing regulations that govern the termination of System status. Issues such as costs, timing, communication, voter quorums, tax implications, directors' rights, equitable treatment of dissenting stockholders, and overall effect on the System are considered in the proposal.
—Considering regulatory changes for disclosure and reporting requirements for System institutions. We approved a proposed rule that is designed to improve the transparency of public disclosures, strengthen board and management accountability and auditor independence, and increase shareholder and investor confidence in the System. The proposed changes reflect the cooperative nature and unique structure of the System, while incorporating the best industry practices of public companies and recent changes in the reporting requirements of other Federal financial regulators, provisions in the Sarbanes-Oxley Act of 2002, and the Securities and Exchange Commission regulations.
—Continuing the Agency's effort to streamline its regulations so the System can more efficiently fulfill its mission to provide a dependable source of credit to America's farmers, ranchers, aquatic producers, cooperatives, and rural residents. We approved a proposed rule to be published in March 2006 to reduce regulatory burden on System institutions by repealing, clarifying or updating current regulations.
—Continuing a study on loan syndications and assignment markets that will help determine whether the Agency's approach to these issues should be modified.

CORPORATE ACTIVITIES

The pace of System restructuring remained slow in fiscal year 2005. The number of corporate applications submitted for FCA Board review and approval during fiscal year 2005 declined to four applications, compared with seven applications the prior year. As of January 1, 2006, there were 109 Farm Credit System institutions, including 96 associations, five banks, and eight service corporations and special purpose entities. Through mergers, the number of FCS associations has declined by 28 percent over the previous 5 years (37 associations) and the number of FCS banks has dropped by 29 percent (2 banks). Generally, these mergers have brought larger, more cost efficient, and better capitalized institutions with a broader, more diversified asset base, both by geography and commodity. The Agency estimates that within the next 5 years, the process of expansions and mergers will result in an increase in the size and complexity of System entities, with the average association exceeding $1 billion in assets.

STRATEGIC PLANNING AND PERFORMANCE PLANS

The FCA Strategic Plan for fiscal years 2004 through 2009 guides the Agency's long range efforts. The FCA Board adopted the strategic plan unanimously and believes that it is vital to achieving the Agency's mission and goals by providing all staff with a clear focus and direction as well as prioritizing the issues, functions, and programs that require an investment of resources.

During fiscal year 2005, our work focused on implementing initiatives to accomplish FCA's three strategic goals and on measuring the Agency's performance. Goal 1 is our public mission of ensuring that the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas. Goal 2 is evaluating risk and providing timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac. Goal 3 is implementing the President's Management Agenda. In order to meet the goals of the strategic plan, the Agency continues to comply with the Government Performance and Results Act of 1993 by integrating the budgeting process into the planning and performance management process. We link performance goals with resource needs, so that we are in a better position to use the strategic plan to align the organization and budget structures with our mission, goals, and objectives. Other Activities and Accomplishments

I would also like to note a few other Agency activities and accomplishments for 2005. First, an audit of the FCA's fiscal year 2005 financial statements has been completed and I am pleased to report that—for the 12 year in a row—we have received an unqualified audit opinion.

Second, for the fifth consecutive year, FCA's annual Federal Information System Management Act review reported no significant weaknesses in our information security program. We have, in the past year, taken several measures to strengthen our information security program. These measures include ensuring secure transmission of sensitive information over the Internet by providing our staff with an option to encrypt sensitive e-mail sent over the Internet. We also provided our computer users the capability to encrypt a portion of their portable storage devices for protection of sensitive stored information.

Third, we continue to improve our ability to ensure continuity of our operations through refining our business continuity plan and through testing our disaster recovery plan. We also focused on business continuity and disaster recovery planning with the Farm Credit System through a series of visits to FCS banks and data centers. During these visits we encouraged membership in the Financial Services Information Sharing and Analysis Center (FS/ISAC) and sponsored FCS institutions' membership in the Government Emergency Telecommunications System (GETS). The FS/ISAC is an organization that provides information security and threat assessment information across the financial sector. The GETS provides priority access to landline telecommunications to support response in the event of an emergency.

Fourth, we continue to develop our e-government capabilities. Our accomplishments in the area of e-government include:

—A redesign of our Web site to be more user-friendly and more easily navigable.
—Implementation of the use of electronic signature to facilitate the approval process among geographically—dispersed staff.
—Enhancement of the ability of Farm Credit System institutions to easily and securely transfer examination-related information to FCA examination staff.

During fiscal year 2005 we:

—Implemented a machine-readable privacy policy on our Web site.
—Enhanced the FCA Exam Manual on our Web site by adding a section on Information Technology.
—Established a process for collecting survey data from FCS institutions on our Web site.
—Established a process to begin sending bookletters and informational memorandums via electronic means to System institutions.

CONDITION OF THE FARM CREDIT SYSTEM

I will now turn to the condition of the Farm Credit System. I am pleased to report that the System's overall condition and performance was solid and steady during 2005. Capital levels continued to increase, mostly through retained earnings and stock sales. Asset quality remained high, loan volume growth was strong, and favorable credit quality enabled the System to achieve $2.096 billion in earnings for the 12 months ended December 31, 2005. By and large, the System has knowledgeable and experienced managers at all levels.

The FCS is fundamentally sound in all material respects, and it continues to be a financially strong, reliable source of affordable credit to agriculture and rural America. The quality of loan assets, risk-bearing capacity, stable earnings, and capital levels collectively reflect a healthy Farm Credit System.

Loan volume continued to grow during 2005 while loan quality remained high. Gross loans increased by 10.3 percent to $106.3 billion. The level of nonperforming loans, including nonaccrual loans, decreased to 0.56 percent of gross loans. Delinquencies also remained minimal.

Since 1993, the System has steadily earned more than $1 billion each year. This has resulted in a capital position that is at an all-time high. We believe this level of capital should enable the System to remain a viable and dependable lender to agriculture and rural America during any near term downturns in the agricultural economy.

Despite an increase in total capital, the amount of total capital as a percentage of total assets declined from 17.1 percent to 16.3 percent as of December 31, 2005. This was due to the substantial increase in loan volume. However, despite the increased loan volume, all institutions continued to exceed their minimum regulatory capital requirements, remaining well-capitalized. Permanent capital ratios at System banks and associations ranged from a low of 11.1 percent to a high of 28.9 percent—all well above the 7.0 percent minimum regulatory capital requirement.

While the overall condition of the System continued to improve during 2005 and remains strong, I also must offer a cautionary note regarding several risks that could adversely affect borrower repayment capacity in the future:

—Two major cost risks—high and volatile energy costs and rising interest rates—reduce borrower incomes and increase lender credit risks.
—Government payments to agricultural producers have accounted for between 16 percent and 40 percent of net cash farm income in recent years. Reductions in farm subsidy payments could have a significant impact on farm incomes and on farmland values, especially in areas dependent on farm program crops.

—Outbreaks of animal and plant diseases, especially Avian Influenza, and concerns over possible terrorist attacks on the food supply could increase costs and reduce access to export markets.
—The structure of agriculture and rural America is changing in many ways and thus so is the nature of the System's market place. While the System's financial health is not threatened, it will be challenged as it adjusts to serving the changing needs of customers whose livelihood is increasingly dependent on the off-farm economy.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

The FCA also has oversight, examination, and regulatory responsibility for the Federal Agricultural Mortgage Corporation, which is commonly known as Farmer Mac. Congress established Farmer Mac in 1988 to provide secondary market arrangements for agricultural mortgage and rural home loans. In this capacity, Farmer Mac creates and guarantees securities and other secondary market products that are backed by mortgages on farms and rural homes. Through a separate office required by statute (Office of Secondary Market Oversight), the Agency examines, regulates and monitors Farmer Mac's disclosures, financial condition, and operations on an ongoing basis and provides periodic reports to Congress.

Like the Farm Credit System, Farmer Mac is a Government-Sponsored Enterprise devoted to agriculture and rural America. The FCA and the financial markets recognize Farmer Mac as a separate GSE from the System's banks and associations. Farmer Mac is not subject to any intra-System agreements or to the joint and several liability of the FCS banks, nor does the Farm Credit System Insurance Fund back Farmer Mac's securities. However, by statute, in extreme circumstances Farmer Mac may issue obligations to the U.S. Treasury Department to fulfill the guarantee obligations of Farmer Mac Guaranteed Securities.

The majority of Farmer Mac's common stock is publicly traded on the New York Stock Exchange. (In contrast, the cooperative Farm Credit System institutions are owned by their member-borrowers and their common stock is not publicly traded.) Accordingly, Farmer Mac is subject to certain Securities and Exchange Commission regulatory requirements and must file comprehensive disclosures that are available to its shareholders and the general public.

Generally, secondary market GSEs, including Farmer Mac, operate at lower capital ratios than primary market lenders in recognition of differences in their risk profiles, as their business is targeted to specific types and quality of loans. Accordingly, regulating and monitoring Farmer Mac's capital and risk management are central components of FCA's oversight activities.

In conclusion, FCA is proud of its efforts and accomplishments in promoting a constructive and dependable source of credit to farmers, ranchers, and their cooperatives. We will remain vigilant in our efforts to ensure that the Farm Credit System and Farmer Mac remain financially strong and focused on serving agriculture and rural America.

FISCAL YEAR 2007 BUDGET REQUEST

Earlier this fiscal year, the Agency submitted a proposed total budget request of $45,500,000 for fiscal year 2007, which is the same as our fiscal year 2006 total budget request. The Agency's proposed budget includes an assessment on System institutions for fiscal year 2007 of $40,500,000, the same as the fiscal year 2006 assessment. The total amount of assessments collected from the FCS and Farmer Mac with carryover funds equals $44,250,000. Since approximately 83 percent of the Agency's budget goes for salaries, wages, and related costs, almost all of the total budget amount will be used for these purposes.

While the budget presented to you today is our best estimate of our future needs, it is just that—an estimate. Agriculture and rural America are undergoing rapid change, as is the Farm Credit System. It is such changes, along with administrative challenges, such as recruiting and maintaining a well-trained and motivated workforce, that the Farm Credit Administration is striving to keep up with. We appreciate the committee's past assistance and we ask for your continued help in the future.

It is our intent to stay within the constraints of our fiscal year 2007 budget as presented and we continue our efforts to be good stewards of the resources entrusted to us in order to meet our responsibilities. The Agency has worked hard to hold down the assessment to the System for our operations, and I believe we have achieved that objective over the past several years. Incidentally, the cost of FCA's operations to System borrowers is approximately 2.6 basis points, or about 2.6 cents for every $100 of assets, the lowest relative cost to the FCS in decades. The FCS is financially healthy and is poised to serve agriculture and rural America for years to come.

While we are proud of our record and accomplishments, I assure you that the Agency will continue its commitment to excellence, effectiveness, and cost efficiency and remain focused on our mission of ensuring a safe, sound and dependable source of credit for agriculture and rural America.

On behalf of my colleagues on the FCA Board and the Agency, this concludes my statement and I thank you for the opportunity to share this information.

PREPARED STATEMENT OF ROGER J. KLURFELD, NATIONAL APPEALS DIVISION

INTRODUCTION

The National Appeals Division (NAD) was established by the Secretary of Agriculture pursuant to the Reorganization Act of 1994. The act consolidated the appellate functions and staffs of several USDA agencies under a single administrative appeals organization. NAD appeals involve program decisions of the Commodity Credit Corporation, the Farm Service Agency, the Risk Management Agency, the Natural Resources Conservation Service, and Rural Development agencies. In States within the jurisdiction of the United States Court of Appeals for the Eighth Circuit, NAD Hearing Officers adjudicate and the Director makes final determinations on applications for fees under the Equal Access to Justice Act (EAJA). NAD is headquartered in Alexandria, Virginia, and has regional offices located in Indianapolis, Indiana; Memphis, Tennessee; and Lakewood, Colorado. NAD's staff of 108 includes 64 Hearing and Appeals Officers.

MISSION

NAD's mission is to conduct evidentiary administrative appeals hearings and reviews arising out of program decisions of certain USDA agencies. Our strategic goal is to conduct independent evidentiary hearings and issue timely and well-reasoned determinations that correctly apply USDA laws and regulations. NAD's mission is statutorily specific, but its operation is dynamic and challenging, given the complexities of changing laws, regulations and policies affecting USDA program decisions.

NAD's budget request for fiscal year 2007 is $14.8 million, which is $416 thousand above the fiscal year 2006 appropriation. The increase is for increases in pay costs.

That concludes my statement, and I look forward to working with the Committee on the 2007 National Appeals Division budget.

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 2007 budget request for the National Agricultural Statistics Service (NASS). This agency administers the U.S. agricultural statistics program, which began in USDA in 1863. Since 1997, NASS has conducted the U.S. Census of Agriculture, first collected by the Department of Commerce in 1840. Both programs are aligned with the basic mission of NASS to provide timely, accurate, and useful statistics in service to U.S. agriculture.

FISCAL YEAR 2007 BUDGET

The agency's fiscal year 2007 budget request is $152.6 million. This is a net increase of $13.3 million from the fiscal year 2006 adjusted appropriations. The fiscal year 2007 request includes programmatic increases to continue the restoration and modernization of the NASS core survey and estimation program ($3.9 million), and to fund cyclical activities associated with preparing and conducting the Census of Agriculture ($7.3 million).

AGRICULTURAL ESTIMATES

NASS statistical reports are critically important to assess the current supply and demand in agricultural commodities. They are also extremely valuable to producers, agribusinesses, farm organizations, commodity groups, economists, public officials, and others who use the data for decision-making. The statistics disseminated by NASS support fairness in markets where buyers and sellers 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. The efficiency of commodity markets is enhanced by the free flow of information, which minimizes price fluctuations for U.S. producers. Statistical measures relating to the competitiveness of our Nation's agricultural industry have become increasingly important as producers rely more on world markets for their sales.

In fiscal year 2007, NASS is requesting an increase of $3.9 million and 6 staff years to fund the continuation of the restoration and modernization of the NASS core survey and estimation program. This increase is directed to continuing the modernization of the core survey and estimation program for NASS to meet the needs of data users at professionally acceptable levels of precision for State, regional, and National estimates. Decisions affecting billions of dollars in the U.S. food and agricultural sectors are facilitated in both public and private venues through access to reliable statistical information. The USDA–NASS statistical program serves most agricultural commodity data needs in the United States, as well as supplies important economic, environmental, and demographic data that are used for policy that will impact the livelihood and quality of life of rural residents. Funding received in the fiscal year 2004 through fiscal year 2006 appropriations have been used to successfully improve the precision level from commodity surveys conducted by NASS for State, regional, and National estimates through sample size increases and better survey response. Funding requested in fiscal year 2007 promotes data quality by encouraging voluntary response through increased respondent awareness of market and policy reliance upon USDA-NASS statistical measures and by improving the data collection capabilities by local interviewers throughout the Nation.

CENSUS OF AGRICULTURE

NASS is currently preparing for the 2007 Census of Agriculture scheduled to be mailed to the Nation's farmers and ranchers in December 2007. The Census of Agriculture is taken every 5 years and provides comprehensive data at the national, State, and county level on the agricultural sector. 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. Demographic information supplied by the Census of Agriculture also provides a very valuable database for developing public policy for rural areas. The 2007 Census of Agriculture is the first time respondents have the option of reporting electronically through the Internet. It also includes improved coverage of American Indians and expanded data on organic agriculture. Many additional improvements are being implemented to enhance the data from this comprehensive data source. Census of Agriculture programs are also conducted in Puerto Rico, Guam, and the Commonwealth of the Northern Mariana Islands as part of the census cycle. Results from all of the censuses are made available on the NASS website.

NASS is requesting a cyclical increase of $7.3 million and 10 staff-years for the Census of Agriculture. The total Census of Agriculture budget request is $36.6 million. The available funding includes monies to continue preparations for the 2007 Census of Agriculture. The increase will be used to collect data to measure coverage of the census mail list, prepare census mail packages, and prepare for data collection activities in fiscal year 2008. This increase is comparable to a $10.0 million increase required during the same period in the 2002 Census cycle.

MAJOR ACTIVITIES OF THE NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

The ongoing expansion of global markets for U.S. goods and services continues to increase the need for modern and reliable statistical information. The periodic surveys and censuses conducted by NASS contribute significantly to economic decisions made by policymakers, agricultural producers, lenders, transporters, processors, wholesalers, retailers and, ultimately, consumers. Lack of relevant, timely, and accurate data contributes to wasteful inefficiencies throughout the entire production and marketing system.

The need for timely, accurate, and useful statistics on U.S. agriculture has been highlighted in recent years due to several natural disasters. The catastrophic hurricanes which moved through Florida during the end of 2004 heavily impacted the citrus industry. The degree of this impact was measured by NASS through a special November forecast of citrus production. Normal processes do not include a November forecast. The special forecast allowed for a timely unbiased assessment of the damage resulting from the hurricanes. Likewise, the discovery of Asian Soybean rust in the United States resulted in heightened speculation of how growers would react to the fast-spreading, yield-reducing disease. Data collected by NASS allowed for an early assessment of farmer awareness of soybean rust and how its discovery would affect planting decisions for the 2005 crop. Results were published in the 2005 Prospective Plantings report.

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 recognized as an excellent model of successful State-Federal cooperation. Working together helps meet both State and national data needs while minimizing overall costs by consolidating staff and resources, eliminating duplication of effort, and reducing the reporting burden on the Nation's farm and ranch operators. The forty-six field offices in NASS, covering all fifty States and Puerto Rico, provide statistical information that serves national, State, and local data needs.

NASS has been a leader among Federal agencies in providing electronic access to information. All reports issued by NASS's Agricultural Statistics Board are made available to the public at a previously announced release time to ensure that everyone is given equal access to the information. All national statistical reports and data products, including graphics, are available on the Internet, as well as in printed form, at the time they are released. 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 forty-six NASS field offices have home pages on the Internet, which provide access to special statistical reports and information on current local commodity conditions and production.

NASS's Statistical research program is conducted to improve methods and techniques used for collecting, processing, and disseminating agricultural data. This research is directed toward achieving higher quality census and survey data with less burden on respondents, producing more accurate and timely statistics for data users, and increasing the efficiency of the entire process. For example, NASS has developed and released a new interactive mapping tool on the Internet. Data users can now customize maps using various data items from the Census of Agriculture. 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 electronic data reporting, and exploiting computer intensive processing technology enables NASS to keep pace with an increasingly complex agricultural industry.

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 more than 400 separate reports.

Approximately 60 percent of the NASS staff are located in the 46 field offices; 21 of these offices are collocated with State Departments of Agriculture or land-grant universities. NASS field offices issue approximately 9,000 different reports each year and maintain Internet 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 the 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 to help fill the void of reliable pesticide usage data. Surveys conducted in cooperation with the Economic Research Service (ERS) 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.

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 151 special surveys in fiscal year 2005 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 made publicly available.

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. The NASS international program focuses on the developing and emerging market countries in Asia, Africa, Central and South America, and Eastern Europe. Accurate foreign country information is essential for the orderly marketing of U.S. farm products throughout the world. 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 Armenia, Belize, Brazil, China, El Salvador, Georgia, Guatemala, Honduras, Mexico, Nicaragua, Panama, Russia, Sudan, and the Ukraine. In addition, NASS conducted training programs in the United States for 220 visitors representing 30 countries. These assistance and training activities promote better United States access to quality 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, interaction with producers 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.

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

PREPARED STATEMENT OF CHARLES CHRISTOPHERSON, CHIEF FINANCIAL OFFICER, OFFICE OF THE FINANCIAL OFFICER

Mr. Chairman and members of the Subcommittee, I am pleased to present the fiscal year 2007 budget request for the United States Department of Agriculture (USDA), Office of the Chief Financial Officer (OCFO) and the Department's Working Capital Fund (WCF).

My remarks today address:

—Results we have achieved recently;

—Results on which we are currently focused;—Our fiscal year 2007 budget request; and

—The Department of Agriculture's Working Capital Fund.

The Office of the Chief Financial Officer is responsible for the financial leadership of an enterprise, which if it were in the private sector would be one of the largest companies in the United States with almost $95 billion in annual spending, almost 110,000 full time equivalents (Staff Years) and over $132 billion in assets.

These responsibilities are fulfilled by a headquarters staff in Washington, DC, with accounting operations support provided by USDA's Controller Operations Division in New Orleans, Louisiana.

The National Finance Center (NFC), also located in New Orleans, provides payroll processing and related services for approximately 31 percent of the Federal civilian workforce in more than 130 government entities. In fiscal year 2005, the NFC processed $32 billion in payroll for more than 565,000 Federal employees. NFC also services the Office of Personnel Management performing health benefit reconciliations and health care premium processing on a Government-wide level.

RESULTS ACHIEVED RECENTLY

In fiscal year 2005, OCFO continued to make substantial progress in improving financial management, financial information, and financial/corporate systems throughout USDA. OCFO also actively worked on government-wide financial management issues affecting USDA to ensure we could achieve substantive and sustainable results. Some of the significant results USDA achieved in financial management, financial systems and related areas in fiscal year 2005 include:

—Attained another clean financial audit opinion. Our ability to sustain this critical performance benchmark is powerful evidence of the Department's improved accountability, internal control and data integrity.

—This year Hurricane Katrina had a major impact on the NFC and OCFO functions located in the New Orleans area. Thanks to the well-practiced continuity of operations plan (COOP), NFC and the other OCFO operations in New Orleans were able to recover operations quickly and to meet commitments to their customers without interruption. Critical information technology services were recovered within 24 hours; other essential operations were recovered as planned over the next 10 days. We are most proud that NFC was able to pay 565,000 employees accurately and on time from their alternate locations. More noteworthy, NFC converted two new customers, Transportation Safety Administration and U.S. Coast Guard to its payroll system during the 2 weeks following the storm and paid these new payroll employees on time. The swiftness and accomplishment of the recovery is a tribute to the employees of the NFC and OCFO who deployed to remote locations, some leaving their families behind, worked extended hours and assumed non-traditional jobs to get the job done.

—The NFC and OCFO are now reconstituting operations back to the New Orleans location. Due to the personal impact on the employees' homes and the New Orleans infrastructure, the reconstituting is proving to be as difficult as the deployment. More than 96 percent of the 1,250 employees of the NFC and OCFO have returned to New Orleans with some 400 of the employees located in trailers in a trailer park or at their homes. The overall productivity of the New Orleans-based operations have been impacted by the loss of a large number of experienced employees due to separations and retirements (13-percent of the workforce has retired or separated after Katrina to work on their homes or relocate from the area). OCFO operations have also been impacted by (1) the Postal Service releasing mail from three different Katrina storage facilities which contain potentially thousands of undelivered invoices each; (the first warehouse was released in February 2006) and (2) the loss of knowledgeable employees from earlier reductions in force. The payroll and human resources serviced by the NFC has been impacted by a doubling in the volume of retirements and separation transactions of its customer base and the loss of knowledge through staff adjustments in repeated reduction-in-force actions in 2005. Although they have difficult personal lives, the New Orleans staff is determined to eliminate the workload backlog through extensive overtime. OCFO in Washington D.C. continues to assist the operation and believes that the backlog will be cured in the coming months.

—Met OMB interim and year-end accelerated deadlines for preparing the financial statements. Year-end statements were provided 45 days after the close of the fiscal year, that is, by November 15. USDA met these ambitious dates while sustaining data quality and provided USDA executives and program managers with financial results information more timely than ever before;

—Reduced existing material internal control weaknesses from 32, 4 years ago, to 2 existing deficiencies at the end of fiscal year 2004. Although one new material weakness was reported in the fiscal year 2005 Performance and Accountability Report, for a total of three remaining for fiscal year 2006, we continue to aggressively work to resolve the underlying internal control and system issues. We will continue to work diligently to eliminating material weaknesses;

—Improved quality assurance of financial data by continuing to focus on fixing "root causes" of data flow and accuracy problems. Regularly monitored a set of metrics to ensure data is timely and accurate and useful to USDA managers;

—Closed 102 of 164 audits in fiscal year 2005 as compared to 96 in fiscal year 2004, a 6 percent increase in audit closures;—Successfully consolidated and standardized departmental travel procedures and policies;

—Continued to monitor for travel card misuse, these efforts resulted in lowering the Department-wide individually billed accounts delinquency average of 4.68 percent in fiscal year 2004, to 4.06 percent in fiscal year 2005, representing a 13 percent improvement;

—During fiscal year 2005, the Forest Service submitted a competitive sourcing plan to OMB for approval. In addition, USDA completed 2 competitive sourcing studies with results estimated to avoid costs of $8.1 million over a 5-year period with annualized amounts of over $1.62 million.
—Implemented the real-time interface between the financial system and procurement system, integrating the financial and procurement systems for the first time and enhancing internal funds control and streamlining operations; and
—Enhanced through a technology modernization the data warehouse reporting to provide more timely and useable financial and performance information to USDA executives and managers to manage daily operations.

In addition to the above, during fiscal year 2005, USDA collected $1.1 billion of delinquent debt, $862 million through agencies using our internal tools and $238 million through the Department of Treasury Administrative Offset Program and other Debt Collection Improvement Act (DCIA) techniques. Since 1996, annual collections of delinquent USDA debt using DCIA tools have increased more than 276.6 percent from $63.2 million in fiscal year 1996 to $238 million in fiscal year 2005. As of September 30, 2005, USDA had referred to the Treasury Offset Program 96 percent of the $1.2 billion of eligible receivables and 97 percent of loans eligible for cross servicing compared to only 14 percent in 2001.

Results on which we are Currently Focused

We continue to be focused on delivering valuable results in fiscal year 2006 as a context for consideration of our fiscal year 2007 budget request. Three areas of focus are: internal control and management information; support and develop shared services to the Departments of the Federal Government; and the President's Management Agenda.

In the area of internal control and management information, we are committed to:

—Continuing to enhance USDA's system of internal controls and data integrity as reflected in sustaining in fiscal year 2006 USDA's unqualified "clean" opinions on the consolidated financial statements and component agency financial statements;
—Meeting OMB's interim and year-end deadlines for financial statement and the Performance and Accountability Report;
—Eliminating material weaknesses in internal controls and systems non-conformances with the requirements of the Federal Financial Management Improvement Act (FFMIA);
—Implementing an online USDA corporate financial and performance reporting, system that the Secretary of Agriculture and his senior executives will use to drive program results;
—Continuing to develop financial management and accounting operations leadership talent in-depth throughout all our agencies so as to enhance further USDA's culture of sound financial management and to sustain management results already achieved; and
—Expanding the use of data warehousing technology to improve data integrity and timely availability of financial and performance information to USDA's executives and managers for the management of their daily operations.

To support and develop shared services to the Departments of the Federal Government, we are focused on:

—Completing the reconstitution and rebuilding the OCFO operations and the NFC operations in New Orleans to support the functions of the Federal Government and the USDA;
—Structuring a Human Resources Line of Business (HR LoB) venture for the NFC while continuing to implement new customers into ePayroll. The HR LoB will provide a new business growth opportunity for NFC in providing human resources systems and services to all civilian Federal agencies;
—Completing the transfer of the accounting and paralegal functions of the Thrift Savings Plan to the Federal Retirement Thrift Investment Plan;
—Securing a location for the alternate worksite and computing center, which reduces the operational risk through continuous improvement of and practice in recovery operations for NFC and accounting operations;
—Working with Office of Personnel Management (OPM) on retaining employees in critical positions with long-term learning curves and cycles at the NFC; and
—Reviewing additional USDA sponsored financial services that can create savings in the Federal Government through a consolidated service center. These services include a Financial Management Line of Business.

For President's Management Agenda (PMA) initiatives, we are:

—Implementing the eTravel initiative throughout USDA to consolidate travel processes at the Department level and centrally manage them through a customer-centric, self-service, web-based environment providing end-to-end travel services;
—Adding the personal property components to the Corporate Property Automated Information System (CPAIS). CPAIS was implemented in fiscal year 2004 and currently tracks all USDA real property whether owned or leased. Incorporating personal property into CPAIS will allow USDA, in one place, to have a full view and accounting of our property assets;
—Taking aggressive action to implement the Improper Payments Information Act (IPIA), Public Law 107–300 by establishing measurements for programs that meet the required payment criteria. We strengthened guidance to agencies requiring detailed plans with key milestones and quality deliverables. We are monitoring accomplishments through monthly workgroup meetings, assessment of deliverables, evaluation of risk assessments, and agency scorecards for executives and managers;
—Conducting Independent Verification and Validation (IV&V) review activities for the following: Feasibility studies conducted and submitted by USDA Agencies and Offices in support of the USDA Competitive Sourcing Green Plan; post-competition assessments for completed performance reviews along with the cost comparison; and independent validation verification of prior year achieved savings;
—Collaborating with Departmental Administration to use competitive sourcing, where appropriate, to address core competency and skills gaps;
—Sponsoring training sessions for USDA Agencies and Offices on various A–76 related topics including: FAIR Act Inventory; Feasibility Studies; Performance Work Statements; and Most Efficient Organizations; and
—Facilitating departmental-wide collaboration efforts and working group sessions to develop standards for FAIR Act Inventory coding process: FAIR Act Inventory function code definitions are being standardized and Reason Code Justifications and Analyses are being evaluated to ensure compliance with OMB regulations.

Fiscal Year 2007 Budget Request

I would like to thank the Committee for your confidence in entrusting us with the basic resources required to provide stewardship over USDA financial processes. USDA's excellent results in sustaining and enhancing financial accountability in fiscal year 2005 were only possible because of your support. I would now like to focus on our fiscal year 2007 operating budget request, which is for $19,931,000, an increase of $14,116,000 or 242.8 percent more than the fiscal year 2006 budget of $5,815,000. Approximately 90 percent of the Office of the Chief Financial Officer's current obligations are for the salaries and benefits of the OCFO employees. As part of this increase request, of $176,000 is to fund pay costs. The pay-related increases requested are necessary for us to accomplish key outcomes and to successfully meet our goals for fiscal year 2007. The remaining $13,940,000 of the request is for procurement of hardware and software to improve the financial management performance through implementation of a new core financial management system. OCFO is pursuing significant modernization of its technically outdated corporate financial, administrative payments and program general ledger systems. These outdated systems are no longer supported by the vendor and pose an unacceptable risk for USDA. Due to the current transaction services offered to other Federal Government entities, USDA has discussed with OMB the opportunity to offer a full financial solution to smaller agencies in the Federal Government.

USDA Working Capital Fund

The Working Capital Fund (WCF) serves as the Department's principal investment engine to achieve progress in developing and implementing new corporate systems. Last year, we again made use of authority granted to us by the Committee in the appropriations language to use unobligated balances as part of this developmental effort. In 2005, our plan for use of these resources was reviewed by Congress—as required under appropriations language—and executed to continue our progress in implementing an enterprise human resources information system, an integrated acquisition system, and a management information tracking tool. For 2006, we have prepared a plan to Congress to obligate funds in pursuit of further efforts in development of an integrated procurement system and an enterprise human resources system. That plan will be delivered to the Committees on Appropriations shortly. We are grateful for the support and look forward to working with the Committee as our efforts to improve corporate systems proceed.

In addition to the investments in corporate systems, the WCF supports services in the areas of financial management, information technology, communications, administration, as well as record keeping and item processing. It is our objective to use this financing mechanism to provide to agencies of the Department, the most effective cost-efficient centrally managed services available.

The President's fiscal year 2007 budget estimates that total operating costs for the WCF in fiscal year 2007 will be $515.1 million—net of intrafund transfers between WCF activities—a $13.0 million increase, or 2.6 percent over the fiscal year 2006 estimate. Costs to USDA agencies will increase more slowly, about 2.4 percent from fiscal year 2006 to fiscal year 2007.

The increases in cost estimates reflect the fact that the WCF recovers costs on the basis of user demand for services with the objective of lowering total costs through centrally-managed services. Historically, the largest of the USDA-wide services has been the National Finance Center. However, its menu of services has been changing to reflect the changing needs of customers both inside and outside USDA. Information Technology Services will be the largest WCF activity in terms of cost in fiscal year 2006. Examples of other services supported by the WCF include mainframe computing and information technology services at the National Information Technology Center in the Office of the Chief Information Officer, and video and teleconferencing production services provided by the Broadcast and Media Technology Center in the Office of Communications. Departmental Administration provides a wide variety of personal property, mail, and duplicating services to USDA and non-USDA customers. Among the corporate systems activities supported by the WCF include: Corporate Financial Management Systems and Integrated Procurement Systems. The source of funds for these investments in systems includes direct billings, purchase card rebates, and the use of unobligated balances.

I would like to point out that the WCF financing mechanism, as a reimbursement for goods and services provided, gives us an opportunity to refine our estimates as newer and better information becomes available regarding customer demand and costs. Our office is currently engaged in reviewing fiscal year 2007 estimates with the goal of reducing estimates wherever possible in costs for core services to USDA agencies. It was with this objective in mind that we were able to submit an operating estimate for fiscal year 2007 that is consistent with expected inflation. I think it is important to note that costs for core services—those corporate services in which all agencies share—will see cost increases of only 1.2 percent from fiscal year 2006 to fiscal year 2007. As we begin development of the fiscal year 2008 budget this spring, we will be reexamining fiscal year 2007 estimates for more economies and savings. As we did last year, we will establish spending targets for WCF activities that take into account the Department's spending priorities among its agencies reflected in the President's budget.

I would also like to express my appreciation to the Committee for all of the assistance and support provided to the Department in the wake of Hurricane Katrina. Specifically, the resources provided to us to address disaster recovery and resumption of business operations were essential to our success in bringing the National Finance Center and other activities in New Orleans back on line. The story of our recovery in New Orleans is primarily a story of people—dedicated workers who through their long hours of effort ensured that operations were resumed as quickly as possible. That we have been able to resume payrolling and financial operations activity to the extent we have is a reflection on their efforts and the support we have received from the Congress.

Thank you, Mr. Chairman, for the opportunity to share the results we have achieved and our fiscal year 2007 budget request with the Committee. We especially look forward to working together with you and the Committee in fulfilling the vision for financial management we all have for the United States Department of Agriculture.

PREPARED STATEMENT OF TERRI TEUBER MOORE, DIRECTOR OF COMMUNICATIONS, OFFICE OF COMMUNICATIONS

Mr. Chairman and members of the Subcommittee, I am pleased to discuss the fiscal year 2007 budget request for the Department of Agriculture's Office of Communications (OC).

When Congress wrote the law establishing the U.S. Department of Agriculture in 1862, it said the department's " . . . general designs and duties shall be to acquire and to diffuse among the people of the United States useful information on subjects connected with agriculture in the most general and comprehensive sense of the word." OC coordinates the implementation of that original mandate.

OC coordinates communications with the public about USDA's programs, functions, and initiatives, providing vital information to the customers and constituency groups who depend on the Department's services for their well-being. For example, OC is coordinating the Department's communications efforts relating to the threat of avian influenza and is prepared to activate a Joint Information Center (JIC), which would support the Department in meeting its obligations in the event of an avian influenza outbreak. In addition, OC also coordinates the communications activities of USDA's seven major mission areas and provides leadership for communications within the Department to USDA's employees.

OC is adopting new technologies to meet the increased demands for the dissemination of accurate information in a timely manner. Using the internet, radio, television and teleconference facilities, we are able to ensure that the millions of Americans whose lives are affected by USDA's programs receive the latest and most complete information. As the continuing concern over avian influenza demonstrates, these technologies are a critical resource used by the Secretary and the agencies to provide timely information, which helps to maintain consumer confidence and stabilize agricultural markets.

OC's 5-year strategic goal is to support the Department in creating full awareness among the American public about USDA's major initiatives and services. This is essential to providing effective customer services and efficient program delivery. As a result, we expect more citizens, especially those in underserved communities and geographic areas, to access helpful USDA services and information.

A central element of this support is OC's active participation in the Department's eGovernment initiative. OC plays a key role in ensuring that the Department's eGovernment implementation results in the public's improved access to more current, accurate, relevant, and organized USDA products, services, and information. The USDA.gov portal, managed by OC, is customer- or citizen-centric, allowing OC to target information by audience preference, subject and personalization. On average, the USDA.gov portal reaches 1.5 million citizens weekly. The demand by citizens and other constituencies for information, via the USDA.gov portal, web casting, electronic mail distribution, teleconferences, and publications, is expected to continue to increase.

OC will continue to take an active part in policy and program management discussions by coordinating the public communication of USDA initiatives. We will continue to provide centralized operations for the production, review, and distribution of USDA information to its customers and the general public. Also, we will monitor and evaluate the results of these communications. Our staff is instructed to use the most effective and efficient communications technology, methods, and standards in carrying out communications plans.

Also, we are focusing on improved communications with USDA employees, especially those away from headquarters. This will enhance their understanding of USDA's general goals and policy priorities, programs and services, and cross-cutting initiatives.

Our office will continue to work hard to meet our performance goals and objectives. We will work to communicate updated USDA regulations and guidelines, conduct regular training sessions for USDA communications staff about using communication technologies and processes to enhance public service, foster accountability for communications management performance throughout USDA, and continue to work to create a more efficient, effective and centralized OC. Increasing availability of USDA information and products to underserved communities and geographic areas through USDA's outreach efforts is integral to our performance efforts. OC will also provide equal opportunity for employment and promote an atmosphere that values individuals.

FISCAL YEAR 2007 BUDGET REQUEST

OC is requesting a budget of $9.7 million. This is a net increase of $0.28 million for the annualization of the fiscal year 2006 pay increase and the anticipated fiscal year 2007 pay increase.

As more than 88 percent of OC's obligations are for salaries and benefits, the requested increase is vital to support and maintain staffing levels for current and projected demands for our products and services. While OC has realized some cost savings by replacing high grade employees who have retired with lower grade employees, our current budget leaves little flexibility for absorbing increased costs. In fact, OC would not be able to absorb the increased salary costs in fiscal year 2007 without placing considerable constraints on daily operations or impacting staff size and therefore the timely delivery of information to the public.

Our central task is to ensure the development of communications strategies, which are vital to the overall formation, awareness and acceptance of USDA programs and policies. The World Wide Web is firmly established as an effective means by which the Department can provide information and receive comments on the whole range of agricultural programs, functions and issues of interest to the public here or around the world.

OC will continue to strive to make the most effective use of this medium. OC has led the adoption of content management software which speeds the addition of new material, improves our quality control measures to ensure the accuracy of the information available through the USDA.gov portal, and reduces the staff time required for overall maintenance of the site.

This improved control greatly reduces the time necessary to post important information to the media and the public while providing a greater ability to ensure the accuracy of the information. This allows OC to use a large document and web repository, sharing resources and information with mission areas and agencies as well as the public.

OC looks forward to continuing our commitment to the American public by providing timely, accurate information about our programs and services.

This concludes my statement, Mr. Chairman. I will be pleased to respond to any questions.

Prepared Statement of David M. Combs, Chief Information Officer, Office of the Chief Information Center

INTRODUCTION

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to share with you our progress on using information technology (IT) to improve service delivery to the customers of the Department of Agriculture (USDA), while at the same time implementing Enterprise Architecture (EA) principles and eGovernment with IT.

The Office of the Chief Information Officer (OCIO) is changing how USDA invests in and uses IT. Instead of single agency-centric systems, we are investing in common government-wide and Department-wide IT solutions. OCIO is leading USDA participation in 21 of the 25 government-wide Presidential Electronic Government (eGovernment) initiatives. At the same time, under the framework of the Department's Enterprise Architecture, we are managing USDA IT investments to promote collaboration across common lines-of-business, reduce duplication with our internal "Smart Choices," and finding savings by leveraging the USDA's size/economies-of-scale in Department-wide IT acquisitions.

The President's fiscal year 2007 budget request for OCIO totals about $16.9 million. We are requesting an increase of approximately $639,000 to cover pay costs.

USDA'S FISCAL YEAR 2007 INFORMATION TECHNOLOGY BUDGET SUMMARY

During the fiscal year 2007 USDA budget preparation process, OCIO staff scrutinized agency IT investment plans to ensure alignment with USDA program delivery plans as well as the USDA Enterprise Architecture. In fiscal year 2007, the Department is requesting about $2.1 billion for IT. Components of the IT budget include:

—37 percent of fiscal year 2007 IT spending—estimated at $783 million, is transferred to the States for the development and maintenance of automated systems to support Food Stamps, WIC, and related programs

—The following is a breakdown of the remaining $1.4 billion in IT discretionary funding:

—35 percent—estimated at $483 million—will be used for advisory services (e.g. consultants)

—27 percent—estimated at $372 million—will be used for Federal IT personnel costs

—18 percent—estimated at $242 million—will be used for equipment

—12 percent—estimated at $167 million—will be used for advisory services (e.g. telecommunications)

—8 percent—estimated at $95 million—will be used for software.

Overall, the IT related proposals in the USDA request represent about 3 percent of the total $64 billion proposed for IT investments for the Federal Government in fiscal year 2007.

SERVICE CENTER MODERNIZATION INITIATIVE—(SCMI)

Mr. Chairman, the modernization of our Service Center Agencies' (SCA) technology infrastructure continues to be one of USDA's highest IT priorities. The Common Computing Environment (CCE) initiative is managed by OCIO working in collaboration with the SCA. CCE supports over 45,000 SCA employees, volunteers and partners in the delivery of over $55 billion in programs through our field office delivery system. The new infrastructure is flexible and built around maximizing information sharing both within USDA and with other Federal, State and Local agencies, the private sector, and USDA customers.

I would like to take a few minutes to update you on the status of the CCE technology, as well as our progress in merging the three SCA IT support staffs into a single organization under OCIO.

The OCIO selected Information Technology Services (ITS) as the name of the converged organization, which came into being on November 28, 2004. There were 785 full time equivalents transferred to the new ITS organization—264 were transferred from the Farm Service Agency, 351 from the Natural Resources Conservation Service, 164 from the Rural Development mission area, and 6 from other OCIO organizational elements. A total of 684 personnel were transferred out from the SCA.

ITS was established under the Department's Working Capital Fund to process revenue and obligations for ITS. The CCE appropriated dollars are to be utilized for capital expenditures, while the WCF will be used to pay ITS operating expenses for the CCE. Notifications to OMB and Congress were made to address the expansion of existing activities in our Working Capital Fund.

The purpose of creating ITS was to have one unified organization dedicated to supporting both the shared and the diverse IT requirements of the SCA and their partner organizations. On the one hand, the agencies were already sharing and investing in a common computing environment (and its infrastructure, network systems, and associated hardware, software, and training); on the other hand, each agency had to manage its own distinct computing systems, software, and IT support teams.

By converging both technology resources and skilled IT staff into one organization, ITS can efficiently focus a broad range of technology investment and diverse support, planning, and management services, spread equitably back to the agencies and replacing what might be considered triplicate efforts.

The fiscal year 2007 CCE budget request is for $108,900,000. A net decrease of $1,172,000, comprising:

An increase of $5,212,000 for the CCE Basic Infrastructure, the increase will restore CCE basic infrastructure funding to a level needed to provide a stable level of service, while increasing Web Farm capacity.

A net decrease of $4,504,500 in the Farm Service Agency (FSA) Specific Funds. FSA is in the middle of a multi-year modernization project to reengineer its legacy application systems. The goals of modernization are twofold: (1) to eliminate FSA's dependency on a proprietary and restrictive operating environment by developing applications that are platform independent; and (2) to achieve a customer-centric focus, providing ease of access and convenience to FSA customers. As these applications are developed, they will be hosted on the CCE infrastructure. In fiscal year 2007, FSA is requesting a decrease of $4,504,500 in IT support to the $73,260,000 CCE fiscal year 2006 base for agency specific needs. This decrease has occurred due to contract efficiencies realized with several of our support services contracts for infrastructure support. In addition, this decrease has occurred due to the completion of business modernization efforts in the Farm Loan Program area.

An increase of $1,845,000 for the Natural Resources Conservation Service (NRCS). This increase will pay for increased telecommunications and related costs.

A decrease of $2,277,000 in the Rural Development mission area. Now that ITS is operational, all the Web Farms are part of the ITS organization. The RD agency specific funds supports activities including the telecommunications support associated with Service Center modernization activities and the continued development and operation of the ITS Web Farms. RD has moved all of its major applications to the Web. A common infrastructure integrates Web services for RD customers, employees, and trading partners, making the Web a main stream for doing RD business. The public will be able to access more information and services online. The funds for this initiative will provide the continued support, enhancement of the common infrastructure hosting all applications for RD, regular software and hardware maintenance and the daily costs for operations and security.

A net decrease of $347,000 in the OCIO Interagency e-Gov Funds. More of the interagency e-Gov costs are becoming operational in nature and less infrastructure related. Therefore, the amount of interagency e-Gov costs borne by the SCMI is decreasing. The e-Gov operational costs will be part of the service level agreements between the ITS and the Service Center Agencies.

An offsetting decrease of $1,101,000 to reflect the permanent reduction of the fiscal year 2006 rescission from budget authority in fiscal year 2007.

Congressional support for the CCE initiative has been key to its success. As we move forward with ITS, Congressional support will remain critical.

INFORMATION SECURITY

Mr. Chairman, for many years USDA has been remiss in its responsibility to meet all Federal information security requirements. To address this situation, we have significantly improved the posture of our security program. FISMA and OMB Circular A–130 require all Federal agencies, including USDA, to certify and accredit (C&A) their systems. This effort has improved our security plans, updated and corrected our security documentation, tested our networks and applications for security weaknesses, and successfully engaged our business organizations in the discipline of security management.

USDA IT security staffs are now in the process of addressing security issues that arose through our C&A activities. Action plans have been establish to mitigate specific security weaknesses and implement improved controls, and to meet the FISMA performance measures designed by OMB. Within the OCIO, we have established a rigorous process to track these corrective actions and ensure they are completed in a timely and efficient manner.

As USDA's information security program matures, automated tools are necessary to quickly and efficiently address cyber risks. We continue to provide our agency security staffs with monitoring devices and automated patching processes that assist in preventing disruption by intrusion or the introduction of malicious programs. During fiscal year 2006, we will deploy an improved incident tracking systems help us better manage and report detected breaches and we will continue to maintain a rigorous security training and awareness program which requires annual participation by all USDA and contract personnel.

Through good preventative planning, such as system C&A combined with improving the Department's overall operational response to security Challenges, we are reducing the risk associated with the electronic use and delivery of USDA information and services.

ELECTRONIC GOVERNMENT

Mr. Chairman, we continue to move aggressively to implement interagency and interdepartmental services to support common needs. The primary goals of our approach are to reduce costs and improve the quality of interactions with our customers.

USDA, along with our partners in the other Federal agencies, has worked hard over the past 5 years to simplify citizens' access and interaction with their government. The results of these efforts are remarkable. Our efforts reduced the burden on citizens, partners, and employees by simplifying access to the Department's information and services and streamlining internal processes. For example:

USDA helped citizens determine their eligibility for USDA benefits by incorporating pre-eligibility surveys onto a government-wide Web site, www.govbenefits.gov. Citizens are able to save time at a government office by completing the online survey in advance. They can learn ahead of time if they do not have go to the office, thereby saving unnecessary travel time. USDA provides access to 34 benefits programs on GovBenefits.gov. For the 12-month period ending August 2005, the site generated over 140,000 referrals to USDA State and Federal programs' Web sites for more information.

USDA simplified citizens' access to government recreational facilities through its leadership in developing www.recreation.gov. The government's online service provides a single point of access to accurate information about Federal recreation destinations. Citizens using www.recreation.gov can access information from the Forest Service, such as cabin/campsite materials, maps, facts and figures, and permit forms. Soon, advance reservations for Forest Service facilities can be made online through the National Recreation Reservation Service.

USDA gives businesses easy, online access to resources that help them understand how to meet the compliance requirements for regulations affecting them. Currently, 13 USDA agencies are using www.business.gov to provide businesses with access to over 500 guidance resources and forms, plus compliance and regulatory information and relevant links.

We worked with our Federal partners at www.regulations.gov to make it easier for the public to comment online about Federal regulations. The www.regulations.gov currently allows citizens to search and provide comments online on all regulations open for comment. USDA employees benefit from streamlined and consistent internal processes to review and process public comments. Currently, four USDA agencies have successfully moved from paper-based processes to the Federal Docket Management System (FDMS). USDA's other rule-making agencies are preparing to move to the online service in the near future.

USDA is a major geospatial data producer and contributor to the Federal Government's www.geodata.gov. The Geospatial One-Stop site provides online access to geospatial data collected by the FSA, the Natural Resources Conservation Service, and the Forest Service. This online access enables the public and other Federal agencies to both avoid costs and realize cost savings. Recently, USDA added a link to the National Agricultural Imagery Program's vast library so that researchers, businesses, and the general public can now directly order data sets thus greatly improving the availability of this in-demand data.

We streamlined the process of locating grant opportunities and applying for grants by working with our Federal partners to deploy a single, online access point for over 900 grant programs across the Federal Government on www.grants.gov. Citizens and business benefit through a simplified application process and reduced paperwork as the result of using the online service. As of December 2005, USDA had posted 404 funding opportunities and 57 application packages on www.grants.gov. USDA has received 340 electronic applications from the grants community via www.grants.gov.

We have adopted the tools and services provided by the Federal Government's Integrated Acquisition Environment (IAE). This improves our ability to make informed and efficient purchasing decisions across USDA and helped us eliminate paper-based and labor-intensive processes. IAE allows us to avoid the cost of building and maintaining separate systems to post procurement opportunities and to record vendor and contract information. Our purchasing officials have access to databases from other Federal agencies on vendor performance.

USDA consolidated its disaster relief information by posting it on www.disasterhelp.gov with similar information from agencies across the Federal Government. First responders can search for assistance from across the government in one place. USDA's disaster designations are prominently available on the site. This makes it easy for citizens and businesses to locate this critical information.

The USDA eAuthentication Service currently protects more than 160 of our applications. USDA employees and customers use a secure, single sign-on to access these applications, thereby reducing our customer support needs through improved security and usability. Every USDA employee that needs access to any of these integrated systems has a credential. USDA's eAuthentication Service was recently certified to be compliant with the government-wide standard for interoperability and was approved as a government-wide service provider. We integrated our eAuthentication Service with Exports.gov in December 2005.

Our National Finance Center (NFC) is one of four Payroll Partner Providers selected by the Office of Personnel Management. NFC has a 30-year track record providing payroll services to more than 130 Federal organizations, representing all three branches of the government. Through the ePayroll Initiative, NFC is partnered with the Department of Interior's National Business Center to provide payroll services to approximately 50 percent of Federal employees.

NFC was selected as a Federal Government human resources service provider for the Human Resources Management Line of Business. We provide services to the Department of Homeland Security, Library of Congress, and Government Accountability Office.

USDA proudly implemented a newly designed USDA Web site that presents the Department's information and services by topic rather than on an organizational basis (www.usda.gov). As part of our support of the President's Management Agenda's promise of easy access to the government, customers may now easily locate USDA's online information and services. No longer do they have to traverse multiple agency Web sites to track down what they need. In addition, "MyUSDA" permits visitors to customize USDA's site to provide immediate access to the information they regularly want to see. Our visitors are pleased that our agencies are rapidly adopting the USDA "look and feel." Currently, 24 Web sites have moved to the Department's Web standards, and another 36 agency sites are in the process of doing so.

USDA provided its employees with expanded educational opportunities by deploying AgLearn, www.aglearn.usda.gov, in partnership with the Office of Personnel Management's, USALearning—part of the E-Training Presidential Initiative. AgLearn provides employees around the world with access to a robust, competency-based library of courses. Geographically disparate offices are now able to easily collaborate in developing learning services to meet common needs and reduce costs. Employees and managers have constant access to their training curriculum and training records. In an average month, 20,348 employees completed 4,599 courses. AgLearn currently offers more than 2,300 agency-specific courses.

Our enterprise approach prevented USDA agencies from making independent investments in multiple systems for each of these services and numerous others. In addition, it greatly simplified the delivery of services to the public, unifying information from services from across the government.

ENTERPRISE ARCHITECTURE

Mr. Chairman, USDA is managing its enterprise architecture as an enterprise-wide roadmap to achieve our mission within an efficient information technology environment. USDA's Enterprise Architecture Program identifies similar processes and opportunities to unify IT solutions across our agencies. A Budget and Performance integration conceptual data model has been created to improve consistency across Departmental systems. Information on Federal and USDA e-Gov architectures is being collected for easy dissemination throughout the Department. We are also assembling the data needed, at both the Departmental level and within individual agencies, to better organize and analyze all our business processes, information needs, and supporting technologies. Through the Enterprise Architecture Repository, a shared view of the Department's current and future business and IT environment are available for USDA decision-makers to leverage IT services, avoid redundant IT investments, improve information security, and align technology and business processes more closely to the Federal Enterprise Architecture.

The USDA Enterprise Architecture Program complements the Department's IT Capital Planning and Investment Control (CPIC) process. USDA's central CPIC body reviews, monitors and approves all major IT investments to ensure alignment with the Department's strategic goals and objectives. The enterprise architecture provides a formal basis for evaluating a single investment against other investments in terms of its contribution to enhanced delivery of customer services and opportunities for collaboration and reuse. In addition to strengthening the CPIC process, the EA will enable USDA to improve key Department-wide enterprise hardware, software, and service agreements. In addition, USDA's E-Board reviews and makes final approval decisions regarding the Department's IT investment decisions. This board is comprised of the Under-Secretaries of the various Mission Areas. It is chaired by the Deputy Secretary.

IT MANAGEMENT

Mr. Chairman, we at USDA understand our responsibility to manage our IT assets and to ensure that major IT investments are completed on time, and within scope and budget. To support these responsibilities, USDA established an IT Investment and Project Management training program. This program provides project managers and project staff with the skills and competencies needed to ensure that all projects have a strong business case, meet organizational goals and are completed within their established cost and schedule goals. This training covers Federal best practices such as capital planning and investment control, information assurance, project management (PM), enterprise architecture, acquisition, eGovernment, and telecommunications issues as well as the nine knowledge areas specified by the Project Management Institute (PMI) in the Project Management Body of Knowledge, the industry standard for project management training. At the end of the training, participants are eligible to take the examination administered by PMI for certification as a Project Management Professional (PMP). This training has provided us with a growing number of PMI-certified project managers. Currently, USDA has 200 PMPs.

To supplement the 5-week PM training, we have identified and delivered shorter classes to address more specific needs including: Earned Value Management, the Project Management Lifecycle (a high-level PM introduction) and Performance-Based Acquisition. These classes expand the level of understanding of PM concepts and ensure that the skills of our trained PMs are kept up to date.

We believe that all agencies can benefit from this training and that USDA staff benefit from understanding other agencies' experiences. In addition to USDA employees, we have trained staff from the Environmental Protection Agency, the Department of Treasury, the Department of Homeland Security and the Department of Education.

CONCLUSION

Mr. Chairman, as I mentioned earlier, we are working hard to use technology to transform service delivery to USDA customers while reducing costs. With the continued support of the Congress, I am confident that we will continue to be successful in achieving these objectives.

PREPARED STATEMENT OF JAMES MICHAEL KELLY, DEPUTY GENERAL COUNSEL, OFFICE OF THE GENERAL COUNSEL

INTRODUCTION

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to present our fiscal year 2007 budget request, provide you with an overview of our agency, and address some of the current activities and issues facing the Department.

The Office of the General Counsel (OGC) is the law office for the Department. As an independent, central agency within the Department, OGC determines legal policy and provides legal advice and services to the Secretary of Agriculture and other officials of the Department of Agriculture with respect to all USDA programs and activities.

OGC(s services are provided through 14 Divisions in Washington, D.C. and 17 field locations. The headquarters for OGC is located in Washington, D.C. The Office is directed by a General Counsel, a Deputy General Counsel, a Director for Administration and Resource Management, and six Associate General Counsels. The attorneys located in headquarters are generally grouped in relation to the agency or agencies served. Our field structure consists of four regional offices, each headed by a Regional Attorney, and 13 branch offices. The field offices typically provide legal services to USDA officials in regional, State, or local offices.

CURRENT ACTIVITIES AND ISSUES

INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS DIVISION

During this past year, OGC has provided a significant amount of assistance in connection with USDA's international activities. With respect to World Trade Organization (WTO) matters, OGC worked extensively with the Office of the United States Trade Representative (USTR) to prepare the United States' brief in support of its claims challenging the European Communities' (EC) suspension of approvals of all applications for biotech products. This action is being brought under the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). The United States also challenged nine safeguard measures that have been enacted by six EC member States banning several biotech products that were already approved for sale in the European Union (EU) prior to 1998. The United States contended that the EU has imposed "undue delay" in connection with product approvals in violation of Article 8 of the SPS Agreement; has not made decisions based on risk assessments as required under Article 5.1; and has violated Article 5.5 which prohibits Members from adopting arbitrary or unjustifiable distinctions in their level of protection in "different" but comparable situations. A confidential interim report was issued by the WTO in this case on February 7, 2006. OGC attorneys have also continued to provide support to the USTR in connection with the challenge brought in the WTO by the Government of Brazil against virtually all aspects of the Department's domestic and export-related cotton programs. This case has major implications for the manner in which these programs are administered regarding cotton, and the legal principles at stake may also affect other commodity programs.

In other WTO matters, OGC attorneys have provided advice to Departmental officials, primarily those in the Foreign Agricultural Service (FAS), with respect to various sanitary and phytosanitary issues, including reviewing responses to WTO notifications of proposed regulatory changes. These attorneys also advised FAS personnel in the review of various proposed changes to existing WTO agricultural provisions that would be the framework for future WTO negotiations.

During the past year, OGC has also been involved in the implementation of a large number of foreign assistance agreements under which agricultural commodities acquired by the Commodity Credit Corporation (CCC) are donated overseas. This includes involvement in relief efforts addressing the humanitarian needs in Iraq and the Darfur region of Sudan. This work has involved extensive review of draft agreements, commodity procurement agreements, ocean transportation issues, and cargo loss and damage claims. OGC has also provided legal advice to FAS in relation to the operation of the Bill Emerson Humanitarian Trust through which reserves of commodities may be made available to meet unanticipated emergency needs and has assisted CCC's Kansas City Commodity Office in reviewing the commodity procurement processes under which agricultural commodities are acquired for their donation overseas. In the area of international food assistance, OGC reviewed and helped draft numerous agreements with private voluntary relief organizations, the World Food Program of the United Nations, and various foreign governments. This assistance included a combination of donations and concessional credit sales of grains, oilseeds, and other U.S. agricultural commodities.

The Trade Adjustment Assistance Program for Farmers has also continued to require a significant amount of assistance from OGC attorneys. In general, this program assists agricultural producers who have incurred reductions in commodity prices due to increased imports of agricultural products into the United States as the result of trade agreements. At this point, a substantial number of appeals have been filed with the U.S. Court of International Trade challenging FAS's decisions on applications for payment. OGC attorneys are providing assistance to the Department of Justice (DOJ) in responding to these appeals.

OGC also provides advice to FAS concerning cost-reimbursable agreements entered into by FAS and other USDA agencies with foreign governments or other U.S. government agencies that are engaged in international agricultural activities.

During the past year, OGC attorneys provided extensive assistance with respect to the numerous commodity and conservation programs implemented by the Department under various statutes, including the Agricultural Adjustment Act of 1938, the CCC Charter Act, the Food Security Act of 1985, and the Farm Security and Rural Investment Act of 2002. Most notably, with respect to 2004 hurricanes, OGC provided major support to the efforts of the President to provide assistance to agricultural producers affected by the unprecedented damage in Florida caused by the occurrence of 3 successive hurricanes. Working with senior Departmental officials and representatives of the Executive Office of the President, OGC attorneys were able to provide the legal framework under Section 32 of the Act of August 24, 1935 (Section 32) so that payments could be made to producers within weeks of the hurricane damage. Similarly, OGC has provided legal advice to the Farm Service Agency (FSA) in the development of regulations and program documents needed to deliver several billion dollars of disaster assistance payments to producers under the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, and under Section 32 with respect to Hurricanes Ophelia, Dennis, Katrina, Rita, and Wilma. OGC also continues to expend considerable time in providing assistance on legal issues involving the sugar, peanut, and dairy programs.

Title VI of the America Jobs Creation Act sets forth amendments to existing statutes to terminate the Tobacco Price Support and Marketing Quota Programs. In addition, this act establishes a 10-year, $10 billion program to provide payments to tobacco quota holders and tobacco producers with the funds coming from assessments on tobacco product manufacturers and importers. Implementation of this very complex and important program is requiring the substantial devotion of assistance by OGC.

FOOD AND NUTRITION DIVISION

With respect to USDA's nutrition assistance programs, OGC has been heavily involved in: (1) the development, drafting and review of legislative reports and congressional testimony; (2) the implementation and enforcement of new legislation aimed at welfare reform and other program improvements; and (3) the ongoing program integrity and compliance initiatives. We expect the demand for legal services in connection with these and other activities to remain constant in fiscal years 2006 and 2007.

More specifically, during this past year, OGC attorneys provided formal and informal advice on a number of issues affecting the administration of the nutrition assistance programs. OGC provided assistance in the drafting and subsequent enactment of section 780 of the Consolidated Appropriations Act, 2005, which prohibits the use of funds appropriated under that act to reimburse the administrative costs of States under the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) for stores that receive more than 50 percent of their revenue from WIC transactions. This prohibition represents a significant cost savings for the WIC Program. OGC also worked effectively in the development of legislative proposals to limit categorical eligibility for the Food Stamp Program (FSP) to persons who receive actual cash benefits under the Temporary Assistance for Needy Families program and to authorize access, for program verification purposes, to the National Directory of New Hires. These legislative proposals supported the budgetary objectives of the administration. OGC also provided advice to the Center for Nutrition Policy and Promotion in connection with roll-out activities with respect to 2005 Dietary Guidelines for Americans and the associated MyPyramid.

During the past year, OGC assisted in the defense of several legal challenges to the nutrition assistance programs. Among other issues, OGC worked closely with the DOJ Antitrust Division in the preparation of a lawsuit to challenge the merger of two dairy companies which would have severely restricted competition in the procurement of milk contracts for the National School Lunch Program in Arkansas and substantially contributed to the successful defense against allegations of denial of due process raised by a Child and Adult Care Food Program sponsor.

OGC participated in the preparation and review of numerous significant documents, memoranda, rules, notices, and correspondence during this past year. As examples, OGC reviewed a substantial number of proposed and final Federal Register publications, including: (1) interim and final rules establishing new standards for the approval and operation of FSP electronic benefit transfer systems; (2) a proposed rule to amend the FSP regulations to implement the discretionary quality control provisions of Title IV of Public Law 107–171; (3) a proposed rule to revise regulations governing WIC food packages; and (4) a final rule to amend WIC regulations to address issues raised by WIC State agencies, members of the WIC community and the U.S. Government Accountability Office. Similarly, OGC provided legal review of the documentary basis for the Department's nutrition assistance response to disaster conditions caused by hurricanes Katrina, Rita, and Wilma along the Gulf Coast.

OGC also provided advice on a number of issues affecting the efficient administration of the nutrition assistance programs. OGC provided valuable assistance and advice to Department officials regarding the preparation of a joint letter signed by the Secretaries of Agriculture and Health and Human Services issuing guidance to State Governors regarding the eligibility of faith-based drug and alcohol abuse treatment programs to act as retail food stores under the FSP. This effort required close coordination with the White House Counsel's Office and Office of Faith-Based and Community Initiatives, as well as the Office of Management and Budget. OGC provided legal advice to FNS in connection with the denial by FNS of the request of a State school district to impose gender-specific seating requirements in cafeterias operated under the National School Lunch Program. OGC also worked closely with Department officials in the review of a State proposal for the fundamental restructuring of the FSP application process with a focus on improved efficiency and effectiveness of the delivery of program benefits. This review required careful analysis of authorities related to electronic signatures and record-keeping and to authorities regarding merit pay requirements for State officials involved in the certification of applicants. OGC continues to work closely with Department officials engaged in evaluating and sanctioning States for their performance in administering the FSP under the quality control system.

MARKETING, REGULATORY AND FOOD SAFETY PROGRAMS

OGC staff are providing the strongest possible legal support to the Food Safety and Inspection Service (FSIS) to ensure the safety of the Nation's meat, poultry, and egg products. We participate fully in the agency's work to enhance the effectiveness of the Hazard Analysis and Critical Control Points (HACCP)/Pathogen Reduction regulations, to support effectively the agency's compliance and enforcement program, and to defend FSIS in legal challenges to the implementation of its statutory authorities and regulations.

OGC attorneys continue to work with DOJ attorneys in defending civil actions that have been initiated in Federal court against the Department involving FSIS' food safety programs. One such case involves a Bivens complaint filed by Nebraska Beef in the District Court for the District of Nebraska alleging that FSIS employees improperly suspended inspection services. Nebraska Beef has also filed a related lawsuit in Federal court challenging FSIS enforcement actions. A second case involves a Bivens complaint filed by Montana Quality Foods in the District Court for the District of Columbia alleging that FSIS employees took retaliatory action in enforcing FSIS' policy regarding E. coli O157:H7 contamination.

OGC also provides assistance to FSIS in connection with its rule making activities. Our attorneys work with FSIS staff from the early stages of the agency's policy development activities, and participate in an array of agency working groups and regulation development teams. OGC has assisted FSIS in connection with ongoing rule making to strengthen protections against exposure to the bovine spongiform encephalopathy (BSE) agent. The interim rules require the removal of certain animals and specified risk materials from the human food chain, mandate additional process controls for establishments that use advanced meat recovery systems, require establishments to hold meat from cattle that have been tested for BSE until the test has been confirmed negative, and prohibit the air-injection stunning of cattle. We are working with the agency in developing a final rule that will encompass a careful evaluation of the comments submitted in response to the interim rule.

OGC also assisted FSIS on an array of rules, notices and directives aimed at improving the Department's food safety program. The issues involved included safe food handling practices, food security plans, and emergency preparedness, and revisions to the agency's recall procedures to improve the dissemination of recall information. We also worked with FSIS and the Food and Drug Administration (FDA) to amend food standards and regulatory requirements to provide a more coherent approach to food safety.

OGC devotes substantial resources to FSIS field operations activities and its critical compliance and enforcement programs. Our attorneys work on a daily basis with the agency's compliance and enforcement staff officials, with the Office of Inspector General (OIG), and with DOJ to achieve successful prosecution of criminal, civil and administrative cases involving violations of the meat, poultry, and egg products inspection laws, and to prevent the distribution of adulterated, misbranded, or uninspected products.

In the past year, OGC handled numerous criminal, civil, and administrative cases in this area. The criminal cases involve not only violations of the Federal Meat Inspection Act (FMIA) and Poultry Products Inspection Act (PPIA), but also violations of provisions of U.S. criminal laws relating to false statements, bribery, conspiracy, and mail and wire fraud. The civil cases involved injunctions, seizure actions, bankruptcy and claims collections actions and the defense of civil lawsuits brought against the Department and its officials. Typically, OGC prepares proposed indictments, information and complaints, and provide whatever assistance is necessary for the successful prosecution or defense of the cases.

OGC attorneys are responsible for prosecuting administrative actions initiated by FSIS to withdraw, suspend or deny Federal meat and poultry inspection or custom exemption services under the FMIA and PPIA based on criminal convictions, as well as on serious HACCP and Standard Sanitation Operating Procedures (SSOP) regulation violations.

The Department's programs for safeguarding the animal and plant health of the United States is a matter of utmost importance to American agriculture and to the public as a whole. OGC works very closely with the Animal and Plant Health Inspection Service (APHIS) in carrying out that agency's program responsibilities. APHIS's program and regulatory activities continue to increase substantially. The focus of our work with APHIS remains the development and implementation of legally supportable measures to prevent the introduction and dissemination of animal diseases and plant pests, to ensure the safe entry of people and goods into the United States, and the facilitation of agricultural trade in compliance with our international obligations. The demands on OGC staff for timely and effective legal support continue to increase proportionately.

During the past year, APHIS regulatory activities involving BSE have placed extraordinary demands on our attorney resources. Among the many challenging issues requiring extensive assistance was the agency's regulatory response to BSE in North America, particularly the litigation that followed on the publication of the rule to establish BSE minimal-risk regions. In addition, we assisted APHIS in its work on Asian longhorned beetle, emerald ashborer, grasshopper control, sudden oak death syndrome (SOD), control programs for low-pathogenic avian influenza, bovine tuberculosis, chronic wasting disease, and exotic Newcastle disease.

In addition, requests for OGC's assistance in connection with APHIS' regulation of biotechnology has continued to increase, and we have devoted substantial resources to the biotechnology regulatory programs and the implementation and enforcement of agency regulations. This includes defending litigation challenging the agency's regulation of genetically modified turf grasses.

OGC also handles a very substantial caseload of administrative cases on behalf of APHIS to enforce the agency's regulations. OGC attorneys have also continued our strong support for APHIS' Wildlife Services activities and programs and have defended these programs in a variety of litigation settings in the Federal courts.

In the past year, OGC attorneys reviewed over 150 dockets, as well as many other documents relating to marketing orders, and provided daily legal advice to client agencies in connection with a wide variety of matters arising under both the fruit and vegetable and the milk marketing order programs. Substantial legal services were devoted to both formal and informal rulemakings. Formal rulemaking proceedings presented complex and substantial amendments and revision to a number of marketing order programs. Significant legal services were provided in connection with enforcement and defense of these programs. There is one administrative challenge to the legality of the California Raisin marketing order which is pending. In addition, OGC has filed numerous administrative complaints to enforce the terms of marketing orders which require regulated entities to pay their assessments and to comply with the requirements in the order. Significant legal services were provided in connection with an administrative challenge to classification determinations concerning Class I and Class II milk. There are also a number of complaints pending in the Federal courts filed by DOJ in order to obtain payments from milk handlers into the producer-settlement fund.

An extensive amount of legal services was provided in the drafting of regulatory language in various rulemaking proceedings. OGC continued to provide legal assistance to the Agricultural Marketing Service (AMS) Dairy Programs on several rulemaking proceedings in the Mideast, Upper Midwest and Central Orders which provided for changes to the milk pooling standards and related issues. OGC continued work on the ongoing rulemaking proceeding involving potential changes in the producer-handler definition in the Pacific Northwest and Arizona-Las Vegas Orders including review of the recommended decision. OGC completed work on the amendment of the Appalachian, Florida, and Southeast Florida Orders to implement a temporary supplemental charge on Class I milk to be paid to handlers who incurred extraordinary transportation charges for moving milk to supply those markets because of the hurricanes in August and September 2005. OGC also completed work on changes to all the orders to reclassify milk used to produce evaporated milk and sweetened condensed milk in consumer-type packages from Class III to Class IV. OGC provided legal services on a rulemaking proceeding to amend the Class I fluid milk product definition in all milk marketing orders.

OGC continued to provide legal assistance to DOJ and the client agencies in numerous administrative and Federal court cases involving challenges to the constitutionality of generic advertising funded by mandatory assessments in research and promotion programs. Since the United States Supreme Court May 2005 ruling upholding the constitutionality of the Beef Promotion and Research Act, in Veneman v. Livestock Marketing Association, USDA is advancing those same arguments in defense of the other challenged research and promotion programs. All research and promotion programs continue to receive legal services in the intervening period. For example, OGC expended substantial resources litigating more than 100 administrative and Federal court First Amendment cases arising under research and promotion programs. These cases involve some of the most important, complex, and controversial legal and public policy issues in constitutional and agricultural law. Research and promotion programs cumulatively collect and spend over $700 million a year on commodity promotions. OGC also provided extensive legal analysis for a proposed implementation of a new research and promotion program for mangos.

OGC expended substantial resources in connection with the Animal Welfare Act and Horse Protection Act Programs. OGC attorneys serve as agency counsel in administrative enforcement actions brought under these two statutes, and in fiscal year 2005, OGC initiated 46 enforcement cases, and 49 decisions were issued in ongoing cases. In addition, OGC reviewed and provided drafting assistance to APHIS in a number of rulemaking actions for publication in the Federal Register.

OGC reviewed a variety of rulemaking and other documents in connection with this program. OGC continued to work with and advise the agency concerning program changes to better serve the grain industry in a more cost effective and efficient manner. OGC attorneys provided substantial advice and guidance in connection with a number of issues, including reauthorization of the program, use of contracting authority to provide inspection and weighing services and exemption of speciality grain from inspection and weighing requirements.

In the Trade Practices area, we provide legal services under the Packers and Stockyards Act (P&S Act), the Perishable Agricultural Commodities Act (PACA), and the Capper-Volstead Act and provide the liaison for the Department under the Memorandum of Understanding between the Department, the Federal Trade Commission and the DOJ on competition issues. Under the P&S Act, the attorneys of the Trade Practices Division file administrative complaints to enforce the provisions of the statute, requiring prompt payment for livestock and poultry and ensuring that livestock auction markets and dealers are solvent, provide accurate weights and measures, and account accurately to sellers and producers of livestock.

In 2005, OIG conducted an audit of the competition investigations and cases conducted by the Packers and Stockyards Program (P&SP). After several months, OIG issued a report finding that P&SP had difficulties defining and tracking investigations, planning and conducting competition and complex investigations, and making agency policy decisions. As a result, the report found that P&SP's tracking system was not reliable, competition and complex investigations were not being performed, and timely action was not being taken on issues that impact day-to-day activities. The report also found that P&SP should increase its communication and cooperation with OGC. As a result of the report's findings, GIPSA has requested OGC's assistance in streamlining procedures and in training its staff, and P&SP is seeking oral opinions and legal guidance on a more frequent basis.

OGC has provided extensive legal services in support of the GIPSA program in a case against Valley Pride Pack, Inc., ("Valley Pride"), a beef slaughter and meat processing company with its corporate headquarters and principal place of business in Norwalk, Wisconsin. Valley Pride shut down, leaving cattle sellers unpaid for roughly $3.5 million worth of livestock purchases from late July and early August 2001. Following Valley Pride's financial collapse, OGC assisted in preparing an analysis of unpaid livestock sellers' claims pursuant to the P&S Act trust, which requires meat packers to hold inventories, receivables and proceeds from the sale of meat or livestock derived products in trust for the benefit of livestock sellers. The analysis found $3.4 million in apparently valid, timely claims by cattle sellers. These claims were subsequently paid by Valley Pride's primary pre-petition lender, GE Capital, which held a security interest in Valley Pride's inventory and receivables. Cattle sellers received additional funds from Valley Pride's packer bond. Following the trust and bond payouts, approximately sixty-five cattle sellers remained unpaid for roughly $50,000 worth of cattle purchased by Valley Pride. On behalf of GIPSA, OGC filed an administrative, disciplinary complaint against Valley Pride alleging failures to make timely payment for cattle purchases, and naming the company's sole owner and chief executive officer, as a respondent, alleging that the violations of the P&S Act occurred while the company was under his direction, management and control. After GE Capital made allegations of fraud, OGC amended the complaint against Valley Pride and the company's sole owner, alleging that the respondents had engaged in unfair and deceptive practices by creating false records, including invoices and payment receipts, evidencing cattle and/or meat sales by Valley Pride to third parties for which no sales actually occurred. Millions of dollars in fictitious assets had been used to offset real liabilities in Valley Pride's financial reports, thereby disguising the company's insolvency. At the end of the fiscal year, the parties were seeking resolution of the complaint through an agreement that would result in the full payment to all livestock sellers. On January 30, 2006, just prior to the scheduled hearing for GIPSA's administrative complaint against Valley Pride and the company's owner, the case was resolved by a negotiated consent decision. Respondents, Valley Pride and the company's owner, agreed to cease and desist from further violations of the Packers and Stockyards Act's prompt payment provisions and agreed to keep records that fully and correctly disclosed all transactions in their business. Valley Pride and the company's owner were also jointly and severally assessed a civil penalty of $80,000. By agreement between the parties, GIPSA agreed to hold $55,000 of the civil penalty in abeyance to facilitate payments by respondents to cattle sellers who still remained unpaid for cattle purchases by Valley Pride.

OGC has also provided legal services to GIPSA in the review of the plan and data request for the Livestock and Meat Marketing Study (LMMS), a study requested by Congress to review the impact of long term contracting and use of captive supply by slaughtering packers. Captive supply is defined by P&S Programs as livestock that are committed to a packer more than 14 days prior to slaughter. The study was to review the question of whether such longer term commitment impacts the "spot" or cash market for livestock. OGC assisted P&S in the preparation of the information collection request for Departmental and OMB clearance, meeting with OMB officials on a number of occasions to address OMB's concerns regarding the agency's plans for the study and the treatment of confidential data.

Trade Practices attorneys prepared and filed administrative enforcement actions under the PACA. Of particular significance, the Trade Practices Division has continued to litigate administrative disciplinary cases arising out of the criminal convictions of eight USDA inspectors and 12 individuals who were owners and/or employees of PACA licensed produce firms located on the market. Fruit and Vegetable Programs of AMS filed eight disciplinary complaints against nine produce companies located on the Hunts Point market: (1) Post & Taback, Inc., (2) M. Trombetta & Sons, Inc., (3) Cooseman's Specialties, Inc., (4) KOAM Produce, Inc., (5) King Sol Produce, (6) BT Produce Co., Inc., (7) Kleiman & Hochberg, Inc., (8) G&T Terminal Packaging Co., Inc. and (9) Tray Wrap, Inc. The complaints alleged that the companies, which by statute are held to an identity of action with their employees or agents, had violated section 2(4) of the PACA by making illegal payments to Federal produce inspectors. Seven of the complaints sought a sanction of revocation of the company's PACA license. One complaint sought a sanction of a finding of the commission of flagrant or repeated violations of section 2(4) of the PACA, rather than a revocation, because the company no longer had a PACA license. The sanctions sought also include employment sanctions against the principals of the nine produce firms.

One of the eight cases, King Sol Produce, was decided by default. The remaining seven cases went to hearing before the Department's Administrative Law Judges (ALJ's), who have issued decisions in all seven cases (though the Respondent in BT Produce Co., Inc., has asked the Chief ALJ for reconsideration). Six of the ALJ decisions were appealed to the Department's Judicial Officer (JO), who has decided four of them (Post & Taback, Inc.; G&T Terminal Packaging Co. Inc.; Tray Wrap, Inc.; and M. Trombetta & Sons, Inc.), finding that the companies committed the alleged violations and issuing the sanctions requested by Fruit and Vegetable Programs. G&T Terminal Packaging Co., Inc., and Tray Wrap, Inc., has been appealed to the 2nd Circuit Court of Appeals. One case, Post & Taback, Inc., was appealed to the U.S. Court of Appeals for the D.C. Circuit, which upheld the JO's decision (Post & Taback, Inc. v. Department of Agric., 123 Fed Appx. 406 (D.C. Cir. 2005).

Also in support of the PACA Program, OGC and DOJ continued to defend against a challenge to an amendment of a PACA regulation that added coating or battering to the list of operations that do not alter the character of a fresh fruit or fresh vegetable so that it is no longer a "perishable agricultural commodity". The lawsuit, filed by a bankrupt wholesale grocer and retailer, argues that the regulatory amendment conflicts with the language and purpose of the PACA, and that the rulemaking process was inadequate. On June 7, 2004, a judge in the U.S. District Court for the Eastern District of Texas granted USDA's Motion for Summary Judgment. The judge found that the "PACA ambiguously states that fresh fruits and vegetables of every kind and character' are perishable agricultural commodities" and that, where legislative language is ambiguous, the Secretary is granted the authority to issue regulations to determine what may be classified as fresh fruits and vegetables for the purposes of the PACA. The judge also found that USDA followed the appropriate procedural requirements in amending the regulation. Therefore, the court found that the amendment to the regulation is valid. The grocer/retailer appealed the decision to the 5th Circuit Court of Appeals. Oral argument was held in New Orleans, Louisiana, on April 5, 2005. On February 1, 2006, the 5th Circuit Court of Appeals issued an unpublished decision affirming the decision of the U.S. District Court for the Eastern District of Texas upholding the validity of the amendment to the regulation. In its brief decision, the 5th Circuit affirmed, finding the regulation to be valid "for the reasons articulated by the district court in its comprehensive opinion".

RURAL DEVELOPMENT

OGC also provides legal services to USDA agencies which manage some of America's largest loan portfolios. OGC continues to be heavily involved in debt collection, foreclosure, and bankruptcy matters for FSA, Farm Loan Programs and the Rural Development (RD) mission area. OGC is assisting these agencies' implementation of provisions of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 that became effective on October 17, 2005, and greatly affected USDA as a creditor. OGC also has provided significant assistance in identifying and utilizing existing and new emergency authorities, responding to claims, and coordinating benefits in response to the many disasters that have recently impacted the southern United States including Hurricanes Katrina and Rita. OGC also has supported the agencies' efforts to implement eGovernment initiatives and move towards web-based credit application, servicing, and notification procedures.

OGC continues to defend approximately 300 existing and newly filed lawsuits involving approximately 800 RD multi-family housing projects whose owners want to prepay their loans and, thereby, remove a significant number of low-income housing units from rural America. OGC has devoted significant time and resources to working closely with DOJ to support litigation efforts, particularly in providing information and analysis in the context of settlement negotiations.

OGC is working extensively with the Rural Housing Service (RHS) on implementing several new programs. The Multi-Family Housing Preservation and Revitalization Restructuring Demonstration Program (Revitalization Program) will revitalize selected Rural Rental Housing (RRH) properties throughout the Nation. The Revitalization Program allows for loan servicing tools previously unavailable to RHS such as grants and subordinates section 515 loans with all principal and interest deferred as a balloon payment at the end of the loan term.. OGC is currently working with RHS on drafting the Notice of Funding Availability and the legal documents necessary for restructuring the owners' loans. The Multi-Family Housing Voucher Demonstration Program (Voucher Program) will provide continued rental assistance to low-income households in prepaid RRH projects. RHS is providing continued rental assistance in the form of 1-year portable vouchers. OGC is working with the Department of Housing and Urban Development and RHS in drafting a Notice of Funding Availability and Interagency Agreement for the Voucher Program. OGC also assisted RHS in developing its Preservation Revolving Loan Fund program which was authorized as a demonstration program under the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2005.

OGC also has assisted the Rural Business-Cooperative Service (RBS) on various new and continuing initiatives. OGC reviewed RBS' final rules implementing the new Energy Systems and Energy Efficiency Improvements Program and the Biomass Research and Development Program under the Farm Security and Rural Investment Act of 2002. OGC also provided RBS legal assistance in revising its Business and Industry loan regulations. RBS has needed increased support on secondary market issues and its Rural Business Investment Program that funds rural area venture capital investment activities. In addition, OGC is providing significant support on several major defaults on guaranteed Business and Industry loans and negligent servicing by guaranteed lenders. OGC continues to experience a significant increase in requests for advice regarding various grant and cooperative agreement issues, and is assisting RBS' and RHS' implementation of the President's Faith-Based and Community Initiative to ensure that faith-based and community organizations have equal access to USDA programs.

The need for legal services supporting the programs of the Rural Utilities Service (RUS) continued to grow significantly in fiscal year 2005 as a result of sustained increased funding for RUS programs, increased responsibilities for RUS resulting from the passage of the Farm Security and Rural Investment Act of 2002, and the impact of continuing changes in the electric and telecommunications program structures and policies.

The RUS Electric Program is the largest of these programs. Several of these loans involved large-scale generation and transmission projects. OGC furnishes the legal services necessary for RUS to document and secure these obligations, thereby enabling these programs to be delivered. OGC is providing a full range of legal services to RUS to enable successful administration of these programs, including the servicing of a direct and guaranteed loan portfolio.

The 2002 Farm Bill amended the Rural Electrification Act of 1936 by adding a new Title VI which established a Broadband Direct and Guarantee Loan Program (Broadband Program) in RUS. The RUS Broadband Program plays a critical role in implementing the President's initiative to make access to broadband technology available to every American by 2007. OGC furnishes all legal services necessary to establish and maintain this program. Since the beginning of this program in February 2003, OGC has furnished all legal assistance needed by RUS in approval of all loans. During fiscal year 2005, OGC improved the legal documentation packages necessary to protect the government's financial interests in these transactions. During fiscal year 2005, OGC began assisting RUS and DOJ in collecting obligations from telecommunications borrowers aggregating approximately $50 million. The bulk of these obligations to the Broadband and Internet Services Programs were established as pilot programs in 2001. The volume of pilot projects in legal collection is expected to continue growing in fiscal year 2006 and carry over into fiscal year 2007 as an increasing number of pilot projects default.

The 2002 Farm Bill also established a new guarantee program under Section 313A of the Rural Electrification Act which provides for RUS to issue guarantees of bonds and notes issued by lenders to electric cooperatives. OGC assisted RUS in developing the regulations to implement this new program. OGC provided substantial legal assistance to RUS in developing the legal documentation that enabled RUS to deliver its first guarantee. OGC efforts to provide legal support to RUS for administering these guarantee agreements will continue into fiscal year 2007.

In addition to the new Broadband Program, OGC is providing legal services to support several other new RUS initiatives. OGC also supports the RUS mission by providing legal services to RUS that enable the agency's participation in the Rural Telephone Bank (RTB). During fiscal year 2005, RTB's demand for OGC legal services to support the process of dissolving the public/private RTB rose dramatically. As proposed in the 2007 President's budget, RTB is expected to be dissolved by fiscal year 2007. However, the complex process of winding up the affairs of RTB is expected to continue to place significant demands on OGC legal resources beyond the dissolution and distribution of RTB stock proceeds to the shareholders that is scheduled to occur during fiscal year 2006.

Congress recently amended the Rural Electrification Act of 1936 to add new authority for RUS, in collaboration with the Department of the Treasury, to extend the maturities for outstanding loans associated with power plants and transmission lines which have been determined to have longer useful lives, e.g. in the case of a nuclear plant whose license has been extended by the Nuclear Regulatory Commission (NRC) for an additional 20-year term. The documentation and procedures for implementing this new authority, which also involves assessing a fee for this service, will need to be developed. OGC anticipates this program will be used extensively during fiscal year 2007.

OGC continues to provide significant assistance in the area of Federal crop insurance. OGC supports DOJ in defending several multi-million dollar lawsuits brought by insured farmers and companies reinsured by the Federal Crop Insurance Corporation (FCIC). These suits involve a wide variety of issues government committed an error or omission as to its 2000 sugar beet policy. OGC also is providing a great deal of support to the Risk Management Agency (RMA) with regard to the financial collapse and liquidation of one of its largest insurance providers, implementation of new risk management programs developed by the private industry, and responding to new and emerging diseases and the spread of existing diseases. OGC also is assisting RMA's development of a new combo policy that incorporates the provisions of the actual production history and various revenue plans of insurance into a single policy, and updates of numerous other crop insurance policies.

Implementation of the Agriculture Risk Protection Act of 2000 continues to increase the responsibilities of RMA and OGC. Compliance efforts have included the development of administrative disqualification, suspension, and debarment actions against producers, agents, loss adjusters, reinsured companies and the update of associated regulations. OGC also is assisting RMA's development of conflict of interest requirements for reinsured companies, agents and loss adjusters and reviewing administrative actions to alleviate fraud, waste and abuse in the program.

OGC continues to work with Department officials to reduce regulatory burdens and eliminate obsolete and unnecessary regulatory requirements, particularly in the areas of rural development, farm, and utility lending. Increased OGC assistance has been required in the defense of several significant civil rights actions against FSA and RHS and the continued implementation of the Pigford consent decree. We are assisting RHS and FSA in streamlining and rewriting loan-making and servicing regulations for the Guaranteed Single Family Housing Loan Programs, the Community Facilities Loan and Grant Programs, and the Farm Loan Programs. Our efforts on these long-range projects will continue into fiscal year 2007.

NATURAL RESOURCES

OGC continues to provide substantial legal assistance related to Forest Service (FS) land management planning and program area compliance with environmental and administrative laws and regulations. Litigation involving agency compliance with the National Environmental Policy Act (NEPA), the National Forest Management Act (NFMA) and the Endangered Species Act (ESA) continues apace, with approximately 170 cases pending at the end of fiscal year 2005, the same level as the previous year. OGC anticipates this level of litigation to continue or increase. Examples of litigation regarding program matters and regulatory actions include litigation related to the National Fire Plan, the State Petition Rule regarding roadless areas, the Planning Rule, the Northwest Forest Plan, the Sierra Nevada Framework and the Healthy Forest Restoration Act. Project level litigation involves among other things, timber sales, grazing permits, and special use authorizations.

OGC has provided extensive assistance regarding the preparation and defense of the FS's 125 Land and Resource Management Plans. Significant legal services were provided in association with development of interim direction and other guidance respecting the agency's revised NFMA planning regulation. The implementation of the revised NFMA planning regulations is underway in forest plan revisions, requiring a heavy investment of OGC legal services. OGC continues to devote substantial time and resources to assisting the FS with large-scale planning initiatives and project preparation.

USDA and FS efforts regarding the President's Healthy Forests Initiative and the Healthy Forests Restoration Act have also required significant assistance from OGC. This initiative will continue to require a substantial investment of OGC time and effort in defending agency reforms associated with this initiative. Numerous lawsuits are ongoing that challenge these reforms.

OGC continues to provide legal advice to ensure FS and Natural Resources Conservation Service (NRCS) compliance with Federal administrative laws, such as the Administrative Procedure Act, the Data Quality Act, the Federal Advisory Committee Act, the Freedom of Information Act, the Paperwork Reduction Act, the Privacy Act, Executive Orders, and other authorities governing Federal decision-making, which can and do arise in a variety of legal and factual settings.

In the recreation area, OGC drafted several FS directives implementing a new regulation governing management of off-highway vehicle use on National Forest System (NFS) lands. OGC provided significant legal advice regarding a final rule providing for cost recovery for processing special use applications and monitoring compliance with special use authorizations. OGC drafted a memorandum of understanding (MOU) among 5 Federal agencies and 31 shooting sports organizations regarding shooting sports activities on Federal lands. OGC created and updated standard special use authorization forms. Additionally, OGC developed FS accessibility guidelines for outdoor developed recreation areas and trails on NFS lands. OGC drafted a directive that extended the maximum term for FS outfitting and guiding permits from 5 to 10 years. OGC assisted with implementation of interagency recreation fee legislation that supplants the recreation fee authority in the Land and Water Conservation Fund Act and the Recreational Fee Demonstration Program statute. OGC defended a legal challenge to the FS's national trail classification system. OGC also provided assistance to the FS in requiring States and other non-Federal governmental entities that hold FS special use permits to insure and indemnify the United States under those permits.

In the forest management program area, OGC continued to provide litigation support to DOJ in collecting millions of dollars in damages owed the government by defaulting timber sale purchasers. OGC continued to provide assistance to DOJ in on-going settlement negotiations of several consolidated cases, at one time numbering twenty, concerning the collection of tens of millions of dollars in principal damages plus interest owed the government pursuant to orders issued in two of the representative consolidated cases. To date, the government has collected more than $16 million in damages from the consolidated cases.

OGC provided legal assistance on the defense of approximately 25 lawsuits challenging timber sale suspensions, modifications and cancellations, and alleging breach of contract for unlawful suspensions, modifications and cancellations seeking tens of millions of dollars. Additionally, OGC provided legal assistance in drafting contract provisions to limit liability for contractual damages and to clarify the obligations of the parties to the timber sale contract. OGC continued to revise and present, twice annually, a 3-day course on Contract Law to train FS contracting officers on various aspects of contract law as it relates to their daily program activities.

OGC continues to provide legal advice and assistance to FS regarding implementation of stewardship contracts and other forms of agreement which allow the agency to achieve forest resource management objectives in exchange for forest products. Under these stewardship contracts, timber is harvested while contractors perform services, such as road and trail maintenance, watershed restoration and restoration of wildlife habitat. OGC has reviewed and provided advice on the standard contract form and is working with the agency to adapt other instruments for use in a stewardship setting.

As the FS continues to implement OMB circular A–76 on competitive outsourcing, OGC has continued to serve as its legal advisor in this effort. OGC anticipates committing significant time and resources to the provision of advice and assistance in this area.

In congressional matters, the Natural Resources Division (NRD) provided extensive assistance in drafting various legislative proposals, including the FS's partnership initiative and reauthorization of the Secure Rural Schools and Community Self-Determination Act of 2000, and various FS appropriations provisions. NRD continued to provide assistance in addressing legal issues concerning implementation of the administration's Healthy Forest Initiative and related matters. NRD assisted the FS Legislative Affairs staff in preparation for numerous Congressional hearings. The Conservation and Environment Division provided similar assistance to the NRCS on legislative proposals affecting the agency's programs and activities.

OGC has continued to work closely with the FS and the NRCS on real property matters. For example, OGC provided legal services to both agencies for the acquisition of lands and conservation easements under various programs, almost 500 easements under the Farm and Ranch Lands Protection Program for NRCS alone in fiscal year 2005. Numerous land transactions requiring the preparation of contracts, environmental compliance documents, land titles, and closing documents have occurred during the last year. OGC also provides legal services regarding access and rights of way to public lands, title claims and disputes, treaty rights, land appraisals and surveys, and other issues incident to the ownership and management of real property assets of the government. The agency's real estate practice is divided among its Washington DC office, which primarily handles legislative, regulatory, and policy matters, and the regional and field offices which conduct most of the transactional work.

OGC has provided legal services on a number of significant issues concerning tribal relations. OGC assisted DOJ in the successful defense of suits alleging violations of the Religious Freedom Restoration Act and the Establishment Clause regarding land management activities in Arizona and Nevada. OGC provided substantial legal assistance regarding Federal laws, such as those concerning American Indian treaty rights and religious freedom, and historic and archaeological resource protection. OGC drafted legislation that would enhance FS tribal relations in areas involving access, use of forest products, and reburials of Indian remains. OGC assisted the FS in drafting regulations and guidelines to implement the Tribal Forest Protection Act of 2004. OGC also participated on FS sacred sites team, which is developing policy to protect tribal sacred sites on NFS land, as required under Executive Order 13007. OGC conducted trainings for FS employees in the field and Washington D.C. office regarding Indian law and tribal issues. OGC has provided legal services on a number of significant issues concerning tribal relations.

OGC counseled FS on a number of wilderness and wild and scenic river management issues, including representation in litigation and issuance of opinions involving commercial outfitter operations, placement of structures and installations, and management plan and protection requirements. OGC provided analysis of revisions to an agreement between the FS and a fish and wildlife organization representing States, addressing jurisdictional issues and agency decision-making authorities. OGC assisted with drafting and review of revisions to Forest Service Handbook (FSH) provisions pertaining to wilderness management and wild and scenic river evaluation procedures. OGC assisted with drafting and implementation of an appeal decision involving fishing and boating user conflicts on a designated river in South Carolina.

OGC has provided the FS extensive assistance regarding its cooperative authorities. In support of the FS's new Partnership Office, OGC drafted sections of the FS Partnership guide on ethics and conflict of interest. OGC also assisted the FS in drafting revisions to its FSH direction regarding the payment of overhead costs by FS cooperators. In addition, OGC advised the FS on drafting of numerous MOUs and cooperative agreements.

In the minerals area, OGC provided extensive assistance to the FS in promulgating a final rule clarifying when authorization is required before a person can commence mining on NFS lands under the United States mining laws. OGC has experienced an increase in demand for legal services as the FS undertakes program reviews and issues instructions due to the passage of the Energy Policy Act of 2005. OGC also provided significant assistance to the FS and DOJ in defending precedential litigation challenging minerals projects on NFS lands. OGC helped the FS by analyzing the implication of numerous legislative proposals on the disposal of minerals on NFS lands.

OGC provided extensive assistance to FS regarding hydroelectric licensing projects on NFS lands, including counseling FS regarding conditions on licenses, cost accounting requirements, and compliance with Federal Energy Regulatory Commission's (FERC) licensing procedures. OGC worked with counsel from the Departments of the Interior and Commerce to draft regulations in 90 days providing for expedited hearings involving challenges to conditions placed on hydropower licenses, as required under the Energy Policy Act of 2005. OGC provided guidance to the FS regarding the implications of the Energy legislation on the FS's conditioning authority, the information required to support filing of such conditions, and the hearing process that will occur before the Department of Agriculture's administrative law judges.

The Conservation and Environment Division (CED) provided legal advice and services to the NRCS regarding its programs for natural resource conservation on private or other non-Federal farm, range, pasture and nonindustrial forest lands, including programs authorized by the Food Security Act of 1985 and other statutory authorities. The 1985 Act, as amended in 2004, authorizes approximately $17 billion in conservation funding for the 2002–2014 period. In total, NRCS received more than $2.8 3.2 billion for natural resource conservation programs in fiscal year 20054, leading to an increase in requests for program related legal services. OGC provided legal counsel to the agency in developing new or revised regulations, standard form documents, and internal guidance needed to administer several conservation program authorities, such as the Conservation Security Program and the Farm and Ranch Lands Protection Conservation Program Technical Service Provider initiative. In addition, the administration of the Healthy Forest Reserve Program was transferred to NRCS from the FS in fiscal year 2005. OGC provided assistance in reviewing and drafting the regulation implementing that program. The following are examples of natural resource conservation program areas where legal advice and services were provided by OGC to NRCS and the Department in fiscal year 20054: (1) publishing revised regulations for the Conservation Security Program which is authorized at $6 billion in program funding through 2015; (2) negotiating and reviewing of cooperative agreements, conservation easements, and restoration agreements and/or providing title review across the easement programs and the purchase of several hundred conservation easements under the Grassland Reserve Program, the Emergency Watershed Protection Program, the Farm and Ranch Lands Protection Program, and the Wetland Reserve Program (WRP). As an example of the scope of thisis work, OGC has assisted NRCS in enrolling 146,111 1,633,3 acres into the Wetland Reserve Program through 907 easements or agreements. OGC provides title review for easement acquisitions as well as reviewing restoration contracts. It is anticipated that this program will continue to grow at an additional acreage increase of 150,000—200,000 acres per year; (3) assisting with enrolling 384,794 acres through 1,219 agreements in the Grassland Reserve Program, and 86,209 acres through 507 easement in the Farm and Ranch Lands Protection Program; and (4) providing training sessions for NRCS employees related to easement program implementation at two national meetings.

OGC also assisted the Department in reviewing and commenting on regulations promulgated by the Environmental Protection Agency (EPA) under the Clean Water Act for oil spill prevention and for point source pollution control as they relate to farms, and regulations under the Clean Air Act for the particulate matter. In addition, OGC assisted the Department in reviewing the Air Quality Compliance Agreement developed by EPA for animal feeding operations.

The CED Pollution Control Team (PCT) provided legal services and advice for all USDA agency matters related to the Resource Conservation and Recovery Act (RCRA) and Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). During the most recent fiscal year, the PCT negotiated with responsible parties to obtain substantial contributions to cleanup costs or cleanup work performed by responsible parties of more than $24 million. OGC also provided advice on compliance with pollution control standards concerning USDA programs and facilities, and provided advice on hazardous materials liability in real property transactions. Specific PCT efforts on behalf of USDA on pollution control matters include the following: (1) OGC is continuing to provide legal support to the FS as the lead agency for the cleanup of 9 phosphate mine sites contaminated with selenium in Southeastern Idaho where total response costs to address selenium contamination are projected to run as high as $225–450 million. This support includes negotiating Administrative Settlement Agreements and Orders on Consent and Consent Decrees with potentially responsible parties that conducted the phosphate mining under the Mineral Leasing Act; and (2) OGC continues to defend against claims concerning potential groundwater contamination by carbon tetrachloride used to fumigate grain at multiple former CCC grain storage facilities. OGC will continue to represent CCC in negotiating cleanup action at these affected sites. Such settlements will ensure appropriate response actions are taken to remediate aquifer contamination.

With the passage of the Forest Service Facilities Realignment and Enhancement Act of 2005 (FSFREA), OGC anticipates a significant increase in requests for advice from the FS on the disposal of surplus facilities as the FS reduces its operations and maintenance costs on surplus facilities by selling them. This new authority, which provides that an unlimited number of administrative sites may be conveyed, will require greater OGC allocation of effort to ensure that the facilities are transferred from Federal ownership in accordance with the necessary CERCLA Section 120(h) requirements.

GENERAL LAW DIVISION

The General Law Division (GLD) provides legal services to all agencies of the Department concerning those areas of law that apply generally to all agencies of the Federal Government. These services include, but are not limited to, the determination of claims filed under the Federal Tort Claims Act, personnel and labor matters, procurement, grants, fiscal law issues, and reviewing annually hundreds of Freedom of Information Act (FOIA) and Privacy Act appeals, each involving hundreds of pages of documents, in order to insure that the various agencies of the Department do not release or withhold documents inconsistent with applicable law. In addition, GLD attorneys assist DOJ with any litigation that arises in these and other areas, and represent the Department before the USDA Board of Contract Appeals and the Merit Systems Protection Board.

GLD also serves as legal counsel on program matters to specific client agencies in the Research, Education, and Economics (REE) mission area as well as Departmental Administration and staff offices such as the Office of the Chief Financial Officer (OCFO), Office of the Chief Information Officer (OCIO), the Office of the Chief Economist (OCE), and the National Appeals Division. As program counsel to the REE mission area, GLD commits significant resources to the interpretation of REE program authorities, review of proposed agreements, and counsel regarding the special relationship of the Department with land-grant colleges and universities. As an example of work for staff offices, GLD has worked closely with in drafting item designation and labeling rules for the Federal Biobased Products Preferred Procurement Program that will be published in 2006.

During the past fiscal year, GLD worked closely with employees and officials of APHIS and other Departmental officials regarding the confidentiality and releasability issues posed by the creation of a National Animal Identification System (NAIS). Since the Secretary announced that the NAIS should be maintained as a private system that can be accessed by State and Federal officials, we continue to be involved in advising APHIS regarding the potential applicability of FOIA to records in a privately maintained system. In connection with the BSE surveillance program, GLD also provided APHIS with extensive support with respect to interpretation of agreements and procurement contracts for equipment and sample collection, including defense in protest litigation.

Also during the past fiscal year, GLD attorneys provided significant legal resources advising policy officials on election reform for FSA County Committees pursuant to section 10708 of the Farm Security and Rural Investment Act of 2002. GLD continues to advise FSA regarding various issues related to the county committee election process, as well as proposed regulations implementing the process.

GLD provided extensive advice to OCFO in the past year with respect employment matters related to the reduction in Thrift Savings Plan work and with respect to the evacuation of the National Finance Center from New Orleans due to Hurricane Katrina. GLD also worked closely with the Office of Procurement and Property Management and other agencies in providing support for procurement and other response and recovery actions taken in response to Hurricanes Katrina.

GLD continues to provide legal advice, and contract protest litigation defense, for the consolidation of Federal agency recreational reservation systems into the USDA FS and United States Army Corps of Engineers National Recreation Reservation Service as part of the Recreation One Stop Initiative. GLD also defended multiple protests against the FS award of 5-year national contracts for catering services for firefighters.

LITIGATION DIVISION

Litigation Division attorneys, in cooperation with attorneys from DOJ and other divisions in OGC, presented USDA's position in appellate courts. These efforts included providing assistance to the Office of the Solicitor General and DOJ counsel, who represented USDA before the Supreme Court in Veneman v. Livestock Marketing Association, arguing that Congressionally-mandated assessments for generic advertising for beef research and promotion programs do not violate the First Amendment speech rights of cattle producers who disagree with the content of the advertisements. The Supreme Court issued an opinion which agreed with the position taken by the Department. In addition, our attorneys assisted DOJ attorneys in presenting, in the Courts of Appeals and the Supreme Court, arguments in cases addressing similar programs for pork and dairy products, which also have now been successfully resolved.

The Litigation Division assisted DOJ attorneys in winning a reversal by the Sixth Circuit of an adverse district court decision invalidating the Attorney General's decision pursuant to the Westfall Act, 28 U.S.C. 2679(d)(1), to certify that a FS employee was acting within the scope of his employment when the employee denied that the allegations of the plaintiff's claim were true; and also assisted DOJ in representing the Secretary before the District of Columbia Circuit in a case addressing whether a party can receive attorneys' fees and costs under the Equal Access to Justice Act when the party has won a preliminary injunction against the United States, but not a final decision on the merits of the lawsuit. Litigation Division attorneys also assisted DOJ in representing the Secretary before the Federal Circuit in a case addressing the basis for a contract default termination and the subsequent award of damages to the contractor; and assisted DOJ in defending before the First Circuit the Secretary's National Organic Final Rule, 7 C.F.R. Part 205, promulgated pursuant to the Organic Foods Production Act of 1990, 7 U.S.C. §§ 6501–6523. In addition, actions on other cases handled by Litigation Division attorneys include: (a) the

District of Columbia Circuit upheld the authority of the Department to interpret legislation and set interest rates for sugar loans; (b) the District of Columbia Circuit upheld the Secretary's adverse administrative action against a company licensed under the PACA after an employee of the company was convicted of criminal charges related to inspections of the company's produce; and (c) the Sixth Circuit upheld the Secretary's administrative action against a horse trainer found to have violated the Horse Protection Act, 15 U.S.C. §§ 1821–1831.

LEGISLATION DIVISION

During fiscal year 2005, OGC reviewed approximately 260 legislative reports on bills introduced in Congress or proposed by the Administration, and cleared for legal sufficiency written testimony of approximately 380 witnesses testifying on behalf of the administration before Congressional committees. The Division provided extensive assistance to USDA policy officials in drafting and analyzing legislative proposals and amendments, and coordinated the legal review for USDA in the clearance of legislation and ancillary legislative materials. The Division drafted or provided technical assistance in the preparation of bills and amendments for the Secretary, members of Congress, Congressional committees, Senate and House Offices of Legislative Counsel, and agencies within USDA, including the: (1) Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act for fiscal year 2006, Public Law 109–97; (2) Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico and Pandemic Influenza, 2006, Division B, Department of Defense Appropriations Act for fiscal year 2006, H.R. 2863; (3) Deficit Reduction Act of 2005, S.1932, H.R. 4241; and (4) legislation to protect the confidentiality of information collected in the developing Livestock Identification System.

CIVIL RIGHTS

For over 8 years, USDA has engaged in massive efforts to reform its civil rights performance. Critical to the achievement of these goals was the creation, in 1998, of the Civil Rights Division (CRD) within OGC. Recently, the Civil Rights Division reorganized into two distinct divisions; the Civil Rights Litigation Division (CRLD) and the Civil Rights Policy, Compliance and Counsel Division (CRPCCD). Staffed with attorneys with specialized expertise in civil rights and Equal Employment Opportunity (EEO) law, CRLD and CRPCCD maintain an extraordinarily diverse workload servicing the civil rights needs of the Secretary and USDA's agencies and staff offices.

CRLD's litigation duties include 5 active program class actions in Federal District Court and 8 active employment class actions, most of which are pending before the Equal Employment Opportunity Commission (EEOC). The requested damages in these class actions total over $45 billion. In addition, CRLD anticipates adding at least 1 new employment class action in the coming year to its litigation workload.

USDA continues to implement the April 14, 1999, consent decree in Pigford v. Johanns, orginally, Pigford v. Glickman (Pigford). The Pigford complaint was filed in 1997 on behalf of African American farmers alleging racial discrimination in farm lending and benefit programs. The consent decree provided a framework which assigned tasks and time frames to specific parties to resolve the claims. Under the Consent Decree framework, claimants determined by the Facilitator to be members of the class could choose one of two "tracks" for processing their claims.

Most claimants have chosen the more streamlined Track A which allows the claimant to submit a claim form upon which the Adjudicator issues a decision. A successful Track A claimant may receive a blanket payment of $50,000, plus loan forgiveness. Under Track B, those who believe they have evidence of extreme wrongdoing go before an Arbitrator to seek larger damages.

As of January 31, 2006, 64 percent of the 22,244 Track A claims submitted to the Adjudicator were decided in favor of claimants. The government has paid approximately $685 million to 14,297 prevailing Track A claimants. In addition, USDA has provided approximately $22 million in debt relief to over 1,341 prevailing claimants.

CRLD has taken the lead in ensuring that USDA meets its commitments under the consent decree, by coordinating the production of relevant documents, providing necessary legal analyses, and ensuring USDA's compliance with Adjudicator and Arbitrator decisions. CRLD is working with FSA and the DOJ to develop timely and appropriate government responses to claims filed by eligible farmers. CRLD also plays a major role in the appeals process, which allows petitions to a Monitor to reevaluate claims.

Key to settlement of the Pigford action was the 1998 enactment of the waiver of the Equal Credit Opportunity Act's statute of limitations that allows farmers with long-standing discrimination complaints to have their claims finally heard. CRLD and OGC field offices have represented USDA in over 130 cases in which a hearing was requested; the vast majority were dismissed on motions filed by OGC. With respect to farmer discrimination claims not covered by the Pigford settlement, CRLD works with the USDA Office of Civil Rights (CR) to ensure that all claims receive expeditious and fair consideration, within the bounds set by applicable law.

CRLD also coordinates USDA's defense in 4 other program class actions in Federal District Court. These cases include 3 class actions, Keepseagle v. Johanns, Garcia v. Johanns, and Love v. Johanns, all originally filed by the same attorneys that initiated the Pigford litigation. To date, the Keepseagle case is furthest along in litigation and may be the best predictor for the outcome of the other cases. Despite a vigorous defense, District Judge Emmet G. Sullivan certified the Keepseagle class to include all Native American farmers or ranchers, who (1) farmed or ranched between January 1, 1981 and November 24, 1999; (2) applied to the USDA for participation in a Federal program during that time period; and (3) filed a discrimination complaint with the USDA individually or through a representative during the time period. The Keepseagle case is proceeding through lengthy and comprehensive discovery on the merits which has, to date, resulted in the production of nearly 400,000 pages of documents to the Plaintiffs.

The Garcia and Love class actions were brought on behalf of Hispanic farmers and female farmers respectively, alleging discrimination in the administration of farm credit and disaster benefit programs. In September 2004, the D.C. District Court denied class certification in both cases. However, in December 2004, the U.S. Court of Appeals, D.C. Circuit, granted Plaintiffs' petitions to file appeals. In July 2005, the Circuit Court issued a consolidated briefing schedule for both cases that concluded in November 2005. Oral argument was held on February 6, 2006. On March 3, 2006, the Court of Appeals for the D.C. Circuit affirmed the District Court's denial of class certification in Love.

The remaining program class action is Chiang v. Johanns, filed on behalf of all black citizens or qualified aliens who reside in the U.S. Virgin Islands alleging discrimination in the access to and participation in RD programs for credit, assistance, training, educational opportunities, housing, or home ownership. The Chiang class was certified by the District Court in the Virgin Islands and is proceeding on the merits. In response to the government's appeal of class certification, the Third Circuit limited the class definition to Virgin Islanders. In September 2005, the parties participated in mandatory mediation but were unable to resolve the litigation. The parties are now proceeding through discovery on the merits.

CRLD provides primary litigation defense services in all employment class actions pending before EEOC. Since August of 2000, as a result of CRLD's vigorous defense, EEOC has dismissed over 20 class action employment complaints for failing to meet the legal standards for class certification.

Currently, CRLD is involved in 8 active employment class actions. To date, CRLD is actively litigating 4 of these complaints. CRLD seeks to resolve those matters that, upon careful review, indicate a need to address apparent underrepresentation or policies that may have an adverse impact on a particular group of employees. For example, CRLD has assisted DOJ in negotiating settlements in 2 major class actions filed by employees of the FS Region 5, Donnelly and Regional Hispanic Working Group (RHWG)/Brionez. The Donnelly consent decree expired in January 2006. There was a contempt hearing in RHWG/Brionez on February 10, 2006. The Court issued a brief order the next day, to be followed by a comprehensive opinion, which extended the Settlement Agreement for one year.

CRLD also carries a full docket of over 50 complex and politically sensitive individual Equal Employment Opportunity (EEO) cases involving either issues of first impression or disputes over positions at the highest levels within USDA. CRLD litigates these cases on behalf of USDA without the assistance of DOJ. Moreover, recent years have seen a dramatic increase in the demand for CRLD's litigation services in a number of formal individual EEO complaints previously defended by non-attorney agency personnel staff. CRLD's litigation responsibilities also have expanded as a result of several changes in the law, including a 1999 Supreme Court decision holding that EEOC possesses the legal authority to require Federal agencies to pay compensatory damages in EEO cases.

In addition to its primary litigation responsibilities, CRLD currently assists DOJ in the litigation of over 50 additional individual civil rights cases in both the employment and program areas pending in Federal district court. Although the Assistant U.S. Attorneys (AUSAs) and/or DOJ attorneys serve as lead counsel, CRLD is receiving an increasing number of requests for comprehensive litigation support, including drafting answers, dispositive motions, discovery responses; deposition participation; and witness preparation.

The newly created CRPCCD provides advice and counsel to agency components on civil rights issues, including: (1) completing an impressive number of legal sufficiency reviews and legal opinions each year; (2) providing daily, informal legal advice to the client agencies; and (3) providing periodic training on civil rights issues. CRPCCD is also responsible for providing advice and assisting in the early resolution of informal EEO matters.

In an average month, CRPCCD staff write at least 25 formal and informal opinions in response to, or in anticipation of, inquiries on a wide variety of civil rights topics. This advice is an essential element in CRPCCD's proactive relationship with its client agencies. CRPCCD anticipates that the demand for these services will only intensify. For example, CRPCCD continues to receive an increasing number of requests for advice on reasonable accommodation for employees with disabilities and program accessibility for customers with disabilities. In addition, CRPCCD receives numerous inquiries regarding the proper interpretation and application of Executive Order 13166 requiring agencies to ensure that customers with limited English proficiency have access to USDA programs. CRPCCD's formal policy responsibilities are on the rise as well. CRPCCD has been working with the Assistant Secretary for Civil Rights to develop a Departmental Regulation on alternative dispute resolution (ADR). In addition, CRPCCD reviews civil rights impact analyses of all major reorganizations throughout the Department.

In recent months, CRPCCD has also received an increasing number of requests for training presentations. CRPCCD has provided training to numerous agencies on issues such as reprisal, ADR, and reasonable accommodations.

FISCAL YEAR 2007 BUDGET REQUEST

For fiscal year 2007, the budget proposes a total of $40,647,000 for OGC salaries and expenses. This is an increase of $1,690,000 over the adjusted base for fiscal year 2006. This amount includes $515,000 to maintain staffing levels and $791,000 for pay costs. This critically important increase is needed to support and maintain current staffing levels to meet the current and projected increased demand in delivering predecisional legal advice, training, and litigation legal services to agencies. Approximately 92 percent of OGC's budget is in support of personnel compensation, which leaves no flexibility for absorbing promotions, within-grade and pay cost increases.

An increase of $384,000 and 5 staff years is requested to support significant workload increases in several areas of the office. Attorney staff years are needed to assist APHIS in addressing major animal health and food safety issues of the Department. There is a strong demand to add an additional attorney to support the farm loan and crop insurance programs, as well as an additional attorney to face the challenges in the areas of contracts, procurement, and outsourcing of Federal functions. Additional legal resources are also needed in OGC's Kansas City office in the areas of farm and loan programs, bankruptcy, risk management and contract law and also in OGC's San Francisco office to handle class action EEO complaints arising out of the activities of the FS Region 5 headquartered in Vallejo, California.

CLOSING

That concludes my statement. We very much appreciate the support the Subcommittee has given us in the past. Thank you.

Senator BENNETT. Thank you very much, Mr. Secretary.

We have been joined by Senator Burns, who has another commitment that is going to take him out of here in about 3 minutes. So if there is no objection, I would yield my time to Senator Burns before we turn to Senator Kohl. Then we will go to Senator Craig, and I will come in at the end, rather than the beginning.

Senator BURNS. Did you ask Senator Kohl about that?

Senator BENNETT. Well, I said if there is no objection, and I didn't hear a grunt from him.

Senator BURNS. I am not going to upstage my Ranking Member, I will tell you that. I know where I am on the pecking order.

So I have just got a couple of comments. And Mr. Secretary, thank you very much and all the work that you have done. And I think you know out of this $97 billion, or whatever it is number that we got, I was interested in how much of that money goes out in direct payments to farmers in subsidies, and only around $25 billion.

We do a lot of things that they said, well, you spend $97 billion on farmers. Well, we don't spend $97 billion on farmers. There are a lot of programs that are very, very important, and conservation being one of those and a lot of things. And some of those dollars do make it down to agriculture that is not counted directly to the commodity support.

Mr. Secretary, we are still concerned about the Japanese beef thing. I know you continue to work on that, and any good news that you give us would be welcome. If you have got bad news, well, we will just let that slide. But I would want some comment on that.

And then the second question, we are having difficulties with high energy prices, and we can't get our arm around our production costs. Energy being one of those, both in our fuels, in our fertilizer with natural gas being high and being the feed stock, the fertilizer.

We see another increase coming in fertilizer. We hear our producers are cutting back about a third of the fertilizer that is going on the ground this year because they just can't afford it, and that concerns me.

And your move to be a producer kind of advocate, the EPA again over there—I wish you would have somebody to take a look—because by changing definitions of what is happening that the EPA changes has a huge impact on our producers, especially in confined feeding and the way we handle chemicals and the way we do things.

A change of definitions has a huge impact on the costs we are having on the farm and ranch. And that appears to be happening over there, and we have got to take note of that and to work very closely with those groups that the impact on agriculture and our ability to produce food and fiber of this country is very, very important. You might want to comment on that.

And then the third one is that with the new technologies, I think we are going to put agriculture in the energy business. That was the drive in 2002. It was the drive in 2005, when we passed the energy bill because of renewables and alternative fuels, and it seems to be working. And I think we are going to have to have a strong title in the 2007, especially with the advances we have made in technology, in plant residue, in the biomass area.

We know that the production of ethanol and biodiesel is going to be very important. So agriculture is going to be in the energy business. And it needs to be because we need to increase our independence away from foreign oil, and if we can get our capacity of those alternative fuels up, we can deal with that along.

And the other night, we were on a television show on RFD–TV with Secretary Dorr. We continue in the rural communities, the cornerstone to their growth is still broadband deployment and telecommunications because we cannot compete in the national economy or the international economy unless we can move massive amounts of information from our smaller towns and rural villages.

So you might want to comment on that, and the Japanese situation, and then also the situation of working with the EPA to make sure that these definitions don't have a high impact on us.

BEEF EXPORTS TO JAPAN

Secretary JOHANNS. In reference to Japan, I can assure you I don't have any bad news. So I can start there.

Let me also say, Senator, how much we appreciate your tenacity relative to this issue. We can explain that to the Japanese, but it speaks volumes when House Members and Senators publicly explain how important this market is and the need to have it reopened. So we appreciate that.

The report, regarding the ineligible shipment of veal to Japan is done. We did a very thorough investigation. We even went the extra step and invited the inspector general to take a look at the findings in the report. There were actually two investigation reports submitted to Japan. We have been receiving questions from Japan. About half of those questions are answered already. We are not taking any extra time. We are getting those questions answered and back on their desk.

This weekend, I will have an opportunity to meet with Minister Nakagawa, who is my equivalent in Japan. I am very anxious to sit down with him. Our report has 475 pages. There was a lot of work put into it and I can assure you what we found out was that there was no attempt to hide anything here. There was just simply confusion on both sides.

We had an e-mail trail that showed that the person making the order from Japan was confused about what was authorized. It is listed right there in the e-mail. And the plant was confused also.

Now I don't offer that as an excuse, but we have a rather complicated agreement with Japan. So I am optimistic. They are probably going to have some additional inspection requirements. That is not a big issue for us. We will facilitate their requirements and get them in plants. My goal is to get this beef market reopened again just as quickly as we can.

I don't really see any reason for extensive delay. We have got the investigation done. We can answer their questions. We will meet their requirements, and I think it is time to get beef moving back to Japan again.

RENEWABLE ENERGY

In terms of renewable energy, I agree with your assessment. I do believe that as we think about farm policy for the future, a strong energy component for agriculture is critical. The news is very good.

We estimate 22 percent of corn crops will be processed into ethanol by 2010. It is currently 14 percent. So we just continue to see dramatic increases there.

Biodiesel, soybeans to biodiesel. Again, we just continue to see very dramatic growth in that area. There are also other biomass products that aren't as far along. And then there are still other areas, like wind energy to be developed.

In terms of your comments about working with the EPA, we have got a good working relationship with them. I will pass on to them whatever issues you have on your mind, and I would be happy to facilitate a meeting, too, where we can sit down with you or other members of this subcommittee and deal with those issues.

ENERGY COSTS

Energy costs are a big issue among farmers and ranchers. We heard about it in our Farm Bill forums. We do have some really promising things going on out there. We designed an energy strategy, and we have had a good response to it. It is an online system in part, so producers can figure out how they might save some energy costs, some nitrogen application costs, and then I directed the USDA to do everything we can to move money that we have available into this area of energy assistance and provide grants and loans to try to help with projects related to energy.

I wish I could tell you that I could bring the price of a barrel of oil down to $35, but I probably can't. But everything we can do at the USDA we have been doing to provide energy assistance.

Senator BURNS. If we could get a bushel of wheat to $6, you could offset it on that end, too.

Secretary JOHANNS. That solves the problem, too, doesn't it?

Senator BURNS. You know, there are a lot of ways to offset this.

I thank the Chairman for his courtesy, and thank you, Senator Kohl. I appreciate that very much.

Senator BENNETT. Senator Kohl? No, you go ahead. I will take Senator Burns spot.

Senator KOHL. All right. Thank you, Mr. Chairman.

DAIRY POLICY

Mr. Secretary, dairy annually generates over half of Wisconsin's cash farm receipts, and last year about $20.5 billion of economic activity in our State. So anything that disproportionately affects dairy and cheese disproportionately affects our entire State.

I am sure you can appreciate then my profound disappointment that the President's budget seems to have it in for dairy. First, it seeks a 5 percent across the board reduction of all commodity payments to farmers. Second, it re-proposes a statutory mechanism for adjusting the butter/powder tilt in the dairy support program, the practical effect of which will reduce value to producers. And third, it recommends a 3 cent per hundredweight farmer assessment on all milk, which would have totaled about $7 million for Wisconsin producers last year.

Earlier this week, a bipartisan group of senators joined me in a letter to the Senate Budget Committee urging rejection of this attack on dairy farmers.

Now I know you do not put together the entire budget, but does it make sense, Mr. Johanns, to you in a budget that includes billions of dollars in tax cuts for investors that you are being asked to fight for a tax increase on dairy farmers? And is that really the policy that you are asking us to support?

Secretary JOHANNS. I support the President's budget, as you might expect, Senator. And that probably comes as no surprise to anybody in this room.

But let me, if I may, just try to identify some of the things that have stood out for me as I have worked on what is really my first opportunity to be involved in the budget process from start to finish.

I hear your comments about the tax decreases, and what I would offer is that if you look at the revenue situation, revenues actually increased for the United States. What you are seeing is that those tax decreases, which really did apply across the board, improve the economy.

I have worked around government budgets long enough to know that there are number of factors that you consider in trying to put a budget together and trying to decide what level of taxation you should place upon your citizens. If the level of taxation placed upon citizens is too high, you are going to depress the economy, whether that is a State economy or a national economy. What we saw is revenues actually increased, and our budget people can give you specific numbers on that.

[The information follows:]

As a direct result of this strong economic growth, receipts to the Treasury have returned to healthy growth in the past 2 years, with increases of 5.5 percent in 2004 and an extraordinary 14.5 percent in 2005, more than 5 percentage points above the projection in last year's Budget. Growth in corporate receipts in 2005 was an astounding 47 percent. Total receipts reached 17.5 percent of GDP, up from a low of 16.3 percent of GDP in 2004. The administration projects that receipts will increase 6.1 percent in 2006 and an average of 5.9 percent annually through 2011. This cautious forecast is far slower than the 14.5 percent growth experienced in 2005, but still faster than the projected rate of economic growth.

REDUCING THE FEDERAL DEFICIT

Secretary JOHANNS. Now in reference to the situation relative to dairy, what we were trying to do is figure out a way to make these adjustments, whether it is a commodity program or the dairy program, recognizing that we have to deal with the Federal deficit, not in a way that picked on dairy, but in a way that we thought was fair to commodity programs whether you are a dairy farmer or a corn farmer or a soybean farmer.

That is how we came up with this approach and this formula basically implies that in every area, we are going to make some adjustments to deal with the situation of having to reduce the deficit.

So that is the philosophy behind it, Senator, and we may disagree on the approach. I hope we share the same goal of recognizing that somehow, some way we have got to deal with the Federal deficit.

Senator KOHL. One other question, and then I will defer to our Chairman.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Mr. Secretary, in Wisconsin alone, nearly 700 senior citizens are being turned away from the Commodity Supplemental Food Program this year, and well over 5,000 people are going to lose these food packages if we eliminate the program, which is what the budget proposes. Nationwide, the budget proposes to stop the CSFP food packages that are being delivered to 470,000 people, most of whom are seniors.

Many seniors, estimates go as high as 25 percent participating in CSFP, also participate in the Food Stamp Program because their Food Stamp benefit is too low to live on. I keep hearing about $10 a month. So, Mr. Secretary, do you have some advice for these people?

Secretary JOHANNS. I have some thoughts on the CSFP program. It is an interesting program to study, Senator, from this standpoint. This is not a national program. It is a program that exists only in 32 States. Two Native American tribes, I believe, have the program also. But, it is not even national in terms of the tribes, and I believe we also have the program in the District of Columbia.

The other interesting thing about the program is that even in the 32 States, it is not a statewide program. It is literally identified for certain areas, with certain States left out and certain parts of States that are left out. We have included in our budget request $2 million for the transition from CSFP to the Food Stamp Program.

It is our belief that the people that receive the benefits of this food box will qualify for some other part of our nutrition programs—Food Stamps, maybe even WIC. We know who these people are. Our goal is to reach out and identify them and get them signed up for another nutrition program that we have.

But again, as you study this program, it is a very interesting program. I am not arguing that people who receive these benefits don't enjoy them, but it is a program that never even got implemented statewide in the 32 States where it currently operates. We believe that with the $2 million transition money, that we can serve these people with nutrition programs that we actually have in existence across the entire country.

Senator KOHL. As you can imagine, I am not satisfied with your answer, but——

Secretary JOHANNS. I understand.

Senator KOHL [continuing]. I appreciate that very much. And Mr. Chairman, it is up to you.

Senator BENNETT. Thank you very much.

Senator Craig. Then I will take Senator Burns slot.

Senator CRAIG. Okay. Thank you. Thank you for that courtesy. I have several questions here. I will ask some, Mr. Chairman, and submit others for the record.

MILK INCOME LOSS CONTRACT

Senator Kohl, Mr. Secretary, expressed concern about dairy. As you know, Congress recently passed the $1 billion 2-year extension of the Milk Income Loss Contract, or milk program, in the budget deficit reduction act.

The administration backed the extension of this subsidy program during the budget reconciliation debate this past year. Your 2007 budget seeks an assessment of 3 cents per hundredweight on milk produced by our dairymen in order to save $578 million over 10. Additionally, the 2007 budget seeks to reduce milk subsidy payments to dairy producers by 5 percent and to better manage the Dairy Price Support Program.

So the administration backed a billion dollar extension of a discriminatory milk subsidy program. That is how my producers in Idaho see it. By law was intended to sunset in 2005. But you know, once you create these things, dependency hangs in there, and we now believe it is causing overproduction.

The milk program encourages overproduction. It certainly doesn't encourage movement with the market. So what doesn't add up here?

Secretary JOHANNS. Well, in the last few months, we have started to pay out again under the MILC program. That is a reflection of production up, prices down. I mean, that is, in effect, what kicks in with the MILC program when you hit a certain price level.

We have supported the MILC program. The thought I would offer, in terms of that extension, is that the extension tied the program to the life of the Farm Bill and, in effect, joined it with other commodity programs that were out there.

Next year, it is my hope that we will have a debate on farm policy and what farm policy should look like because 2007 is the year that we reauthorize the Farm Bill. And I believe it is an opportunity for us to look at all of our programs and make a decision about how best to approach them.

As I explained or offered to Senator Kohl, we have made adjustments to the MILC program. As we looked at the need to deal with the deficit, we did not feel that we could leave any program out. And so, this was a way of making adjustments in that program that we hoped, at least, would reflect the changes that we are making in other commodity programs.

The wheat growers in the Western part of the United States, for example, are going to get 5 percent less if the President's budget is approved. So we basically looked at the MILC program and said how do we make an adjustment there that at least reflects what we are doing in the other commodity programs?

But just to summarize, Senator, the thought about the MILC program extension was along the lines of if you extend it for the life of the Farm Bill, you join it with the other commodity programs in the Farm Bill, and it is in the Farm Bill, where you decide what you want to do with the whole commodity title and farm programs in general.

Senator CRAIG. Mr. Chairman, one last question. And thank you for that answer, Mr. Secretary.

RENEWABLE ENERGY

Section 9006 of the 2002 Farm Bill provides for loans, loan guarantees, and grants to farmers and small businesses for projects that use renewable resources to create energy. This provision has gotten a lot of attention in Idaho. Some of those loans and guarantees have been provided, and it is working.

And I think we are all quite impressed with the challenges farmers are stepping up to dealing with animal waste and crop refuse. You heard the senator from Montana talk about a variety of aspects of it. You have talked about biodiesel. Cellulose ethanol is something that is being looked at now. The President has spoken to it in his State of the Union.

Even though this program is a win-win for agriculture, the environment, and the production of energy at a time when energy production is not adequate—and we all really do believe that a decade from now or two or three, American agriculture is going to be a sizable producer of energy for our country—why did you cut that budget? It was small to begin with. You cut it from $23 million to

$10 million. It just doesn't seem to fit the arguments you have placed before this committee.

Secretary JOHANNS. Senator, let me, if I could, quickly walk you through what we have for renewable energy in the budget. The 2007 budget provides funding to support about $35 million for guaranteed renewable energy loans. The estimate for 2006 is $177 million in loans. However, it is unlikely that that amount will be made.

The 2007 budget provides nearly $8 million to award grants for use on renewable energy. This funding is about $3 million less, and we acknowledge that. However, the 2007 budget provides about a billion dollars in guaranteed loans under the Rural Business-Cooperative Service's business and industry program. This program can be used for financing renewable energy projects.

So when you pull together the constellation of authority we have to assist through loans, guaranteed loans, and grants, it is a substantial, renewable energy package that we submitted to Congress.

Also, when I was governor of Nebraska, I was the vice chair of the Governor's Ethanol Coalition, and I was the chairman of the Governor's Ethanol Coalition following Governor Tom Vilsack from Iowa. One of the things that I talked about during that period of time was that the standard of success in renewable energy is when it becomes economically self-sufficient, and we should celebrate that day.

Now there is probably a debate about whether we are far enough along here. But I will tell you that in the ethanol industry, corn to ethanol, it has been a remarkable 12 to 24 months. I mean truly remarkable.

As a governor, I worked on financing for a number of ethanol plants, and we just never would have predicted the return on investment that I think you are seeing in some of these areas. Every plant is different. Every area is different. But the goal should be that we work toward energy production or we work toward economic independence in these projects. In some areas, like I said, it has been a remarkable few years.

When you put all of that together, and you identify and pull together the constellation of what we have available, we think we can do some very, very exciting things in the renewable energy area, and we look forward to working with your staff and with you, sir, to make that happen.

Senator CRAIG. Well, thank you very much. I think you recognize as well as I because you have obviously worked in that field at a time when it was almost considered an experimental start-up industry.

One of the great difficulties we have in agriculture today—or anywhere, but especially agriculture—is when a new technology comes along, trying to put some capital behind it, to get it out on the ground and working so that from there grows changes and evolutions that make it increasingly more efficient.

Frankly, if Government hadn't come along and subsidized ethanol when it did, we would not be where we are. And as a result of that, while I am not too excited about subsidies, it appears that is one that is probably going to work. It is on its own now, and you are right. It is all but standing alone, and it gets increasingly efficient and more productive and, therefore, profitable.

Thank you.

Secretary JOHANNS. The energy policies of Congress worked. Let me just be very clear about that. Sometimes I think we wonder, is this going to make a difference? This made a huge difference.

What you are now seeing across the country is that Wall Street has discovered rural America.

Senator CRAIG. Yes.

Secretary JOHANNS. There is big debate about that. But quite honestly, Wall Street is beginning to realize this is a sound investment. But I will submit that through the efforts of the President and Congress, that is what led the way.

Senator CRAIG. Thank you.

Thank you, Mr. Chairman.

Senator BENNETT. Thank you.

AVIAN INFLUENZA

Mr. Secretary, in your opening statement, you talked about avian flu. I would like to focus on that just a little more because I think that is one of the things that people who are watching are concerned about.

In your opinion, how prepared is the United States agriculture for an avian flu outbreak?

Secretary JOHANNS. My opinion, I believe we are well prepared. I say that for a number of reasons. One is that the funding, which Congress approved, which the President sought, is there, and that is helping us do a lot of really good things.

But the other thing that I will share with you from our standpoint at the USDA, first of all, it is important to remind everyone that low path avian influenza is nothing new to the United States. It has been here 100 years. Birds have a flu season much like humans do. They pass through it every year. Typically, you don't even notice it.

High path avian influenza, we have dealt with that, in fact, on three occasions. The most recent occasion was in 2004.

We have a plan in place. We have surveillance in place. We have testing in place. As we have worked to expand testing capabilities, I can now tell you that we have those capabilities in 32 States, with 39 labs approved for AI testing. So we can identify where AI is domestically.

But we feel ready. The other thing I will mention to you, is that we are not taking anything for granted. The President has led a Government-wide effort in AI. And more specifically at USDA, just within the last week, we have tabletopped our response to identify any areas where we see weaknesses. We are preparing like avian influenza is going to be here.

Senator BENNETT. Have you used the $91 million in the supplemental?

Secretary JOHANNS. Yes, we are using those funds in a number of ways. One is we are assisting overseas. When foreign governments ask for technical assistance, part of that money helps us do that. We send people out to offer technical assistance. We work with our international partners.

As you might expect, some countries are better prepared than others. It is just simply a case where some countries don't have the infrastructure or the resources to be very well prepared. That is not true in other countries. So it is a little bit of a mixed bag.

We are also using that money for additional surveillance and research to enhance our capability to respond to avian influenza. We can give you a very detailed summary of how the money is being allocated.

[The information follows:]

PLANNED USE OF PANDEMIC INFLUENZA FUNDS

With $71.5 million appropriated to it and an additional $8.8 million from the Office of the Secretary, APHIS plans to devote funds to both international and domestic efforts. These include:

—$17.8 million for overseas in-country technical training and veterinary capacity building;
—$16.4 million for domestic wildlife surveillance in migratory flyways and wildfowl;
—$26.8 million for domestic surveillance and diagnostics (e.g., State cooperative agreements for surveillance in live bird markets, upland game and waterfowl, commercial poultry operations; laboratory support; anti-smuggling efforts; training; outreach; other activities);
—$19.3 million for domestic emergency preparedness (e.g., supplies and animal vaccines for the National Veterinary Stockpile (NVS); development of scenario models to direct efficient NVS acquisitions; preparedness training for State Incident Management Teams and the Veterinary Reserve Corps; related efforts).

With $7 million appropriated to it, ARS plans to conduct research as follows:

—$3 million for improved vaccines and mass immunization in domestic and wild birds;
—$1 million for environmental surveillance methodology of avian influenza (AI) in commercial and wild birds;
—$2 million for complete genome sequencing of outbreak AI viruses; and,
—$1 million for biosecurity against virus transmission between and within farms.

With $1.5 million appropriated to it, CSREES plans to conduct expanded AI surveillance in the Pacific flyway and associated activities.

The following funds from the Office of the Secretary will be used for other needs:

—$1.8 million for FAS to support the FAO, provide complementary overseas foreign surveillance, diagnostic, and other support;
—$0.5 million for the Office of Communications to develop a variety of brochures, posters, videos, and for other initiatives to effectively communicate with the public;
—$0.2 million for FSIS to develop a highly pathogenic AI module for its Non-routine Incident Management System to enable the agency to respond to an AI detection effectively and in a timely manner; and,
—$0.1 million for Departmental Administration to revise its Continuity of Operations Plan to help ensure the Department maintains essential functions and services in the event of significant and sustained absenteeism.

Secretary JOHANNS. So we have identified the key areas, and we have allocated those funds in a way that will boost our response in those areas.

Senator BENNETT. Very good. This is a nitpick, but it is the kind of thing that people pick up. I will use the inflammatory language, and then let you get to the more specifics. But this is the kind of thing that makes for headlines.

CENTRAL ADMINISTRATION FUNDING

You have cut discretionary funding for rural development by 13 percent. You have cut conservation by 20 percent. You cut research by 14 percent. But the spending for central administration has gone up by 12 percent. Now when I look at the chart with all of that on it, I realize that that is the smallest base. So adding $63 million to central administration is, percentage wise, a pretty big jump.

But I hope you can explain to the committee why you need to go up in central administration and how the taxpayer is going to get a return for that over the long term in view of the other cuts that you have recommended?

Secretary JOHANNS. Mr. Chairman, that is a really excellent question, and I must admit I did not analyze the individual areas that way in terms of central administration.

Senator BENNETT. Neither did I, but I have a very eagle-eyed staff.

Secretary JOHANNS. And I have got a very eagle-eyed budget director, and I am going to let him offer a few thoughts on why you are seeing that impact.

Mr. STEELE. Thank you, Mr. Secretary.

Mr. Chairman, we have included in our budget pay costs for all of our agencies, according to what the President is going to request. I think it is a 2.2 percent increase in pay costs across the board for all agencies.

The other area in administrative costs that we are dealing with is IT expenditures. Throughout the Department of Agriculture, we have a number of systems in the Department that need enhanced funding. We really appreciate the funding that the Committee has provided us in the past to help modernize these systems. But there is still a large number of systems that we are asking for increased funding to get them up to standard.

One of these areas is in the Farm Service Agency. The Common Computing Environment (CCE) has received substantial funding, but there are a lot of legacy systems that we have out in the field that utilize old software systems. We need to update those and migrate them onto this new Common Computing Environment so we can all use them efficiently.

Throughout the department, we can give other examples of those kinds of issues. We also have some issues in the financial area. We have to start looking at our foundation financial systems that we have. Some of those are outdated, and we have some money requested in the budget to start looking at ways of upgrading these financial systems and other operating systems.

Some of these IT systems were put in place in the 1980s and 1990s, and you have to refresh them every so often to get them up to standard. And there are a number of requests for those types of systems throughout the budget as well.

Senator BENNETT. Give me an example of a financial system.

Mr. STEELE. Well, we have a central accounting system called the Foundation Financial Information System (FFIS).

Senator BENNETT. Are we talking about Food Stamps, WIC?

Mr. STEELE. I wouldn't say that. It is more of a Department-wide accounting system, that we use through the National Finance Center in New Orleans. This is where our agencies do procurement and other kinds of financial transactions and where accounting records are maintained.

Some of those systems were put in place in the 1990s, and now we have new Government-wide standards that the OMB has put in place to achieve certain accountability in those accounting systems.

Our Chief Financial Officer now is investigating ways of upgrading our financial systems so that they are up to the Government-wide standard.

Now we are making progress, but we need to augment our funding. There is a request in the budget—I think $14 million or $15 million—to look into developing a better financial system at the Department.

Senator BENNETT. All right. Senator Dorgan.

Senator DORGAN. Mr. Chairman, thank you very much.

Mr. Secretary, welcome.

Secretary JOHANNS. Thank you.

WEATHER-RELATED DISASTER ASSISTANCE

Senator DORGAN. Mr. Secretary, last November or December, when we finished the emergency supplemental, I was one of the conferees. And I offered to the Senate conferees a $1.2 billion disaster aid package, which the Senate conferees accepted. The House conferees rejected it, and so we did not accomplish a disaster aid package.

You, in your statement, said that USDA has made available $2.8 billion to assist those impacted by the hurricanes of which $1.2 billion will be made available to agricultural producers through various programs and so on. I fully support all of that, and a hurricane is devastating to the agricultural producers of that region.

One community received one-third of its annual rainfall in 24 hours in the northern part of North Dakota last year, and we had a million acres that couldn't be planted. I was up there recently, and the question they asked is why could there not be some sort of disaster program for the weather-related disaster that occurred there? Illinois has its third-driest year last year since 1895.

So the question is, we came close to getting it in the conference. We did not get it because I was told that the House conferees, at the request of the Speaker, rejected it because the administration did not support it.

What is the administration's position—because we will attempt to do this again on the next supplemental, emergency supplemental. What is the administration's position on a disaster package for farmers and ranchers outside of the Gulf Coast who suffered a weather-related disaster?

Secretary JOHANNS. I would offer a couple of thoughts, if I could, on that issue. This first thing we would have to see is what is being proposed in the bill. But historically, as you know, pre-dating me, when disaster bills have come forward, the administration has taken a position of providing offsets.

And as I understand the policy behind that, when the Farm Bill was created in 2002 and debate was occurring on what was going to be the allocation of funding into that Farm Bill, I think there was a look to the history of direct payments made to farmers. And the allocation was based upon not only emergency disaster payments that had been made, but in addition, some other ad hoc supplemental assistance payments.

That is what has led to the issue of offsets. If there is going to be a disaster program, it has to be found within the budget of the Farm Bill.

A couple of other things I would offer. In 2000, there was a very major reform of crop insurance. Interestingly enough, as we conducted our Farm Bill forums, we did hear from farmers that they thought as we went to work on another Farm Bill, there should be some effort put into crop insurance and how that process is working.

And then the other thing I would mention, and again, interestingly enough—and Keith Collins can probably offer some thoughts on this—FCIC has actually paid out more in the Northern Plains for prevented planting than we have paid out for hurricane assistance. So those are some thoughts.

When there is a bill that asks for disaster assistance, of course, we will look at it. But I can tell you historically at least that has been the position of the administration that offsets in the Farm Bill would have to be sought to support disaster assistance payments.

Senator DORGAN. And Mr. Secretary, you would understand producers in one part of the country that suffer a weather-related disaster, lose their entire crop, they would probably look at this and say, well, I don't understand the difference in we provide disaster aid in one part without an offset, but you say in order to provide disaster aid in another part, even to consider whether you would support it, you have to have an offset.

I am sure you understand how producers would look at that and say that really probably isn't fair. But at any rate, we will grapple with that because we don't have a disaster piece in the Farm Bill that we now have. We have got to do that year by year, and the Congress has actually, in most cases, stepped up. Last year, it did not.

FSA STAFFING LEVELS

I would like to ask also about the staffing at the Farm Services Agency. The other thing I keep hearing in North Dakota from farmers and producers is that our county FSA offices we are losing a fourth of the people or 10 percent or 30 percent of the people in certain offices and they are not replaced. And it is interesting. Farmers are the ones that are coming, complaining, saying you need to have adequate staffing in these offices.

What is the recommendation from the USDA on staffing for the Farm Service offices, the FSA offices?

Secretary JOHANNS. We have a specific recommendation. The 2007 budget provides resources to maintain permanent, non-Federal county staff levels at about 8,775 staff-years, which is about the same as the estimated 2006 level. The temporary, non-Federal county staff-years will remain at the 2006 level of 650 staff-years.

These levels reflect reductions made in early 2006 in response to the tobacco program budget. So there has been some shifting there.

Scott, do you have anything more specific to offer on that?

Mr. STEELE. Well, there have been some changes in staffing in the Farm Service Agency due to changes in temporary employment. Every time you institute a new Farm Bill, you bring in a lot of temporary employees to implement the Farm Bill. And then as the workload tapers off, when you get the systems in place and get the payment structure set up, you find that you may not need as many temporary employees.

We still are maintaining temporary employees but at a reduced level. We are also trying to maintain permanent, full-time staff at a modestly reduced level. There is no dramatic reduction here across the country in FSA staffing, but there could be some local areas where there could be some staffing shortages.

There are a lot of small offices in FSA. I don't know the exact number, but there are a number of offices that have three or fewer people. We have situations where there are some offices where people retire, and they haven't been replaced. There has been some discussion that maybe there should be some consolidation of these small offices.

Now we are working with the Congress dealing with how to go about consolidating offices, and there is report language in last year's appropriations bill as to how USDA should go about determining what the staffing should be and how offices should be handled in these various localities. We are working through these issues now with Committee staff and staff in your offices.

Senator DORGAN. I am going to send you some questions about that.

BEEF EXPORTS TO JAPAN

Mr. Chairman, if I might make one additional comment? A few moments ago, about an hour ago, the administration released the last month's trade deficit numbers. It was the highest in history, $68.5 billion for the most recent month, which, of course, is a complete disaster for our country. And both the President and the Congress have had their head in the sand on trade for a long while.

On the issue of trade with Japan, because one Canadian cow found in the United States with BSE occurred, Japan has shut off, then started, then shut off again beef shipments to Japan.

Obviously, you are working to try to open that market, and my own feeling is that if Japan doesn't open their market, they should ship all their goods to Kenya and see how quick they get rid of their exports. But I just want to say that when that market is open—let us say it is fully open tomorrow—not many know it, but 15 or 17 years after the beef agreement with Japan, every pound of beef that we do get into Japan will have a 50 percent tariff attached to it.

At the end of the beef agreement, you would have thought both sides won the Olympics back in the late 1980s because they celebrated and thought it was wonderful, what a great agreement this is. Almost 17 years after the agreement, there would remain a 50 percent tariff because they have tariff reductions with a snapback on increased quantity.

It is unbelievable to me that even if you get that back open—and it should be open tomorrow, the beef market in Japan for U.S. beef—even if it is reopened, there will remain a 50 percent tariff on every pound of beef going to Japan. That is a colossal failure.

And I simply wanted to mention one more demonstration that in the area of trade, all kinds of trade, our country lacks backbone and will to say to other countries, we insist on reciprocal treatment and fair treatment. It is not fair 17 years after a beef agreement that they would continue to impose a 50 percent tariff.

Now that is not the most important thing. The most important thing at the moment is prying open that market. I know you are working on that. I know the administration is working on it. I think it is unbelievable the trade deficit we have with Japan. Last year, I believe close to $70 billion or over $70 billion.

And because one Canadian cow was found in the State of Washington with BSE, Japan has shut its market to U.S. producers. It is unbelievable to me. So keep working, and you can't be tough enough for my tastes. Whatever you do, the tougher you get, the more I will support it.

Secretary JOHANNS. Thank you. I appreciate that. Thank you.

Senator BENNETT. Senator Bond.

Senator BOND. Thank you very much, Mr. Chairman. And welcome, Mr. Secretary.

Following up on the comments by colleague from the Dakotas, foreign trade is extremely important. And in agriculture, our surplus has been as high as $30 billion that our exporters can generate from exporting farm goods.

And your budget officer talked about the need for 21st century IT for the central administration of USDA, and that sounds good. But farmers in the Midwest are telling me they need 21st century transportation if they are to get their goods to the world market.

MISSISSIPPI RIVER TRANSPORTATION INFRASTRUCTURE

And on the issue of having a competitive Mississippi River transportation and the Illinois system that serves the 21st century, as our 75-year-old system has served the previous century, I understand from news reports that you have reconfirmed that the administration does not oppose modernizing our aging locks on the Mississippi and Illinois Rivers. Is that correct?

Secretary JOHANNS. Correct.

Senator BOND. Thank you.

Deputy Secretary Conner, I was very much encouraged by the comments you made in response to questions from my colleague Jim Talent in your confirmation hearing when you said Mississippi River commerce is absolutely essential and that we would be absolutely dead in the water without it and that you would be an advocate within the administration in helping that reality become understood.

Does that remain your point of view?

Mr. CONNER. Absolutely, Senator.

Senator BOND. Haven't lost any of your enthusiasm for it?

Mr. CONNER. No. No, those were not statements made as a result of my confirmation. We continue to believe strongly in those, Senator Bond.

I don't think you need to look any further than the impact that Hurricane Katrina had on grain prices in the Midwest during that short period of time when the ports were closed to know just how essential this river transportation is to our farmers in the Midwest.

Senator BOND. I was pleased that I even saw some mention in the national media that there was something coming down the river going through the port of New Orleans called grain. And this may have been the first recognition by the national media that we do export grain, and that it is very important for our rural economies and as well as our balance of trade.

GRAIN EXPORTS FORECASTING

Dr. Collins, it is good to see you again. I remember very well, I believe it was 2 years ago, you told this subcommittee when asked about the requirement that the Corps come up with a 50-year projection, you said that you could make a 10-year projection that our exports in corn are projected to rise about 45 percent with about 70 percent of that expected to go out through the Gulf. And by extension, that means significantly down the Mississippi and Illinois Rivers.

When I asked you why you didn't try to make a 50-year, 5–0, forecast as some people had charged the Corps of Engineers for doing, I believe you said that doing it for 10 is heroic enough. Is that a fair representation, and would you like to explain that?

Mr. COLLINS. Senator Bond, I would still stand by that last comment. I think that 50-year projections are highly speculative. Our own 10-year projections, which we do every year to support the estimates in the President's budget, are also speculative.

Nevertheless, those projections do show that, over time, we would expect to increase our grain exports, particularly our corn exports. However, the increase is not quite as high in our current set of forecasts, as you just mentioned. Nevertheless, it is still a substantial increase over the next decade.

One of the reasons we lowered it was because of the increase in corn use for ethanol, which might compete a little bit in the export market. But even so, we show a strong increase in corn exports expected over the next decade. And we expect that roughly three quarters of those exports would move down the Mississippi River.

Senator BOND. And they are trying to go beyond that with all of the variables, not only uses, but exchange rates. Perhaps even transportation. That becomes beyond the realm of the realistic?

Mr. COLLINS. It is beyond what we normally try to forecast. Nevertheless, you can look out over the next 20, 30, 40, 50 years, and you can look at the economic growth that is occurring in the world. The increase in incomes in developing countries, higher income developing countries, and we know they are going to change their diets. We know they are going to move more toward meat, and they are going to be demanding feed grains and oil seeds to grow livestock and poultry products.

So we do think there is a good long-term market for grains and oil seeds in the world, and we think that the United States can compete successfully in that market. And I think having efficient infrastructure will help make that possible.

Senator BOND. Thank you, Doctor. That is very important, and I certainly appreciate it.

And I would ask Secretary Johanns' picture of some of the jammed up barges, on maybe even bringing some grain across from Nebraska to try to go into the world market. Do you agree that the system built 75 years ago with a 50-year projected life span that moves 80 million tons of commerce annually and two thirds of our exported grain has proved to be an important and wise investment?

Secretary JOHANNS. Yes.

Senator BOND. It is interesting that sometimes people are naysayers, and I would like to introduce you to a person, unfortunately, a dedicated man, well intentioned, bright, honorable. This is Major Charles L. Hall, the Rock Island engineer from 1927 to 1930.

He advised President Hoover at the time that the proposed system that currently exists, that we have now, was not economically feasible. He argued that limited barge traffic did not indicate that a viable barge industry would develop.

Fortunately, President Hoover and the Congress ignored the advice, and President Hoover said modernization would put the Nation's rivers back as great arteries of commerce after half a century of paralysis.

Now I suspect that Major Hall may have some grandchildren or great-grandchildren working dutifully over at OMB.

Senator BOND. But I ask that you let not just a positive vision of the future, but this history help inform you, the internal discussion on whether we should be trying to predict the future or shape the future, whether we want to compete or surrender.

And I was very much encouraged by Dr. Collins's comments, and I think that shows that if we are willing to build the future, if we are willing to provide the infrastructure, we can and will see it grow. If we say, hey, the 75-year-old system is good enough, it is going to break down, and so are our exports.

And I know that you are reluctant, Mr. Secretary, to comment in public about other agencies' budgets. But I think we all understand that there is absolutely no voice, nobody speaking up for agriculture at DOD, at CEQ, or at the Office of Management and Budget.

At DOD, wonderful folks to work with, but they are afraid that they are going to get beaten down if they try to step out of line. If you and your colleagues, well-informed at the United States Department of Agriculture, don't fight for agriculture, agriculture will be without a voice.

And I join with my colleagues in saying that voice not only needs to be for efficient, effective transportation, it needs to be for new technology, and we need to continue to develop the biotechnology and the other things that are significant.

And we need to continue to fight to make sure that agriculture has a seat and a prominent place in lowering tariff barriers so that we can realize the potential of American agriculture in feeding the hungry of the world and assuring not only solid rural communities, but good incomes for farmers.

Secretary JOHANNS. Thank you.

Senator BOND. Thank you very much. Thank you, Mr. Chairman, Mr. Secretary.

ADDITIONAL COMMITTEE QUESTIONS

Senator BENNETT. Thank you very much, Senator Bond.

With the eye on the clock and the recognition that the full committee is meeting, we will submit additional questions to you, Mr. Secretary, in writing. And as I said in the opening statement, I hope that all Senators have those questions to the subcommittee staff by Friday, March 17.

[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

USDA SHARE OF BUDGET CUTS

Question. Congressional Quarterly analyzed the administration's budget request by appropriations subcommittee. The analysis shows that overall discretionary funding for this subcommittee, as proposed by the administration, is down 7 percent. Since the budget for the Food and Drug Administration is up 5 percent, we know all of the cuts come from the budget of USDA. No other department has taken such a large decrease.

Why has USDA taken such a disproportionate share of the cuts to the non-defense, non-homeland security, portion of the discretionary budget?

Answer. The President's budget for 2007 continues to support the priorities of the United States Department of Agriculture (USDA). USDA is committed to the President's plans to reduce the deficit which will strengthen the economy and create jobs.

The reduction in USDA discretionary funding is largely the result of the following changes. First, the budget does not propose continuation of the one-time supplemental funding provided in 2006. Second, funding for selected programs, including earmarked research grants and watershed projects, is reduced or eliminated in the budget. Further, certain one-time funding, such as construction projects, is not continued in the budget. These reductions allow us to propose increases in high priority areas, including food and agriculture defense, avian influenza and food safety.

LEGISLATIVE PROPOSALS IN THE BUDGET

Question. Historically, the Congress has not enacted new user fees for the Food Safety and Inspection Service. The 2007 budget request includes a legislative proposal that would generate an additional $105 million.

If the Congress does not agree to new user fee proposals, how do you propose we make up the difference?

Answer. In 2007, the President's budget includes and requests the full amount of budget authority needed to operate FSIS' inspection services. We are requesting authority to charge user fees, deposit the fees into special receipt accounts, and use the fees subject to appropriations. We fully support the fee proposal as presented in the budget, which will shift the responsibility for funding these programs to those who most directly benefit.

Question. Will you submit a budget amendment?

Answer. No, the President's current budget includes and requests the full amount of budget authority needed to operate FSIS' inspection services.

Question. Have you submitted the text of your legislative proposals?

Answer. The proposal is currently being finalized and will be sent to Congress shortly.

WIC LEGISLATIVE PROPOSAL

Question. In addition, the budget proposes another legislative proposal to limit nutrition services and administration grants in the Women, Infants, and Children (WIC) program, which reduces the program by $152 million.

If the Congress does not agree to this proposal, how do you propose we make up the difference? Will you submit a budget amendment?

Answer. The WIC Program will continue to serve as many eligible persons as possible with the funding level provided by the Congress, including use of the $125 million contingency fund as needed. We do not plan to submit a budget amendment.

ANIMAL IDENTIFICATION

Question. Mr. Secretary, the Congress has provided over $66 million for the implementation of an animal identification system. This level of funding does not include an additional $18.7 million that was transferred from the Commodity Credit Corporation. With that in mind, the budget request for fiscal year 2007 proposes another $33 million to continue this animal identification exercise.

Please provide us with an update on the status of animal identification and when you expect a national program to be fully implemented.

Answer. Premises registration has been implemented in all 50 States and 2 Territories. Several Tribes are also registering their premises. The animal identification phase, in which APHIS will begin allocating animal identification numbers, is being implemented in March 2006. We anticipate the remaining systems elements will be operational in early 2007, but private entities will need to supply information to fill the private databases.

Question. To be more specific, infrastructure items such as ear tags, scanners, and private databases must be available for such a program to operate. Who will fund this infrastructure, the private sector or USDA?

Answer. USDA will continue to provide funding to the States to carry out their responsibilities at the local level. In addition, USDA will continue to support the premises registration and animal identification numbering systems, the data system necessary to support and integrate multiple data systems held by private industry and State sectors, and public outreach and education efforts. The private sector will be assuming costs associated with scanners, private databases, and animal identification devices.

OFFICE OF THE UNDER SECRETARY FOR MARKETING AND REGULATORY PROGRAMS

Question. Mr. Secretary, the Under Secretary position for Marketing and Regulatory programs is currently vacant. This position is one that is very significant based on current issues that the Department of Agriculture continues to monitor. For instance, this office provides oversight and management of Department actions related to avian influenza, pest eradication programs, marketing and grading of commodities, and animal disease surveillance. Please provide us with an update on this Under Secretary position. Also, how long do you expect this position to be vacant?

Answer. I appointed Dr. Charles "Chuck" Lambert as the Acting Under Secretary for Marketing and Regulatory Programs on November 14, 2005. Dr. Lambert served as Deputy Under Secretary for Marketing and Regulatory Programs since December 2, 2002. I anticipate that the President will nominate someone for this position in the very near future.

FARM SERVICE AGENCY (FSA)—COUNTY OFFICE REALIGNMENT

Question. Mr. Secretary, the Farm Service Agency continues to review the current county office structure to determine how to better manage the agency's day-to-day operations. Any action taken by the agency will most likely include a number of office closures and relocation of current employees.

Please provide us with an update of the current review process. Also, please take a moment to explain how altering the current office structure will impact productivity and customer service.

Answer. Consistent with Congressional guidance provided in the 2006 Appropriations Act, I have asked FSA's State Executive Directors (SED) to conduct independent reviews of the efficiency and effectiveness of FSA offices in their States. The SED and State committees will form review committees to identify what the optimum network of FSA facilities, staffing, training, and technology should be in each State within existing budgetary resources and staffing ceilings. Consistent with guidelines set out by Congress, the agency will notify Congressional delegations and conduct public hearings on proposals for closure or consolidation. There are no targets for office consolidations specified at the national level, but as you well know there is an urgent need to optimize the network of offices given the current number of inefficient offices.

We are encouraging the SED to explore joint opportunities with the Natural Resources Conservation Service (NRCS) and other agencies utilizing the State Food and Agriculture Councils. The agencies are being asked to work cooperatively in this effort.

We are committed to a continued dialogue with State and Congressional leaders to discuss how best to modernize the FSA county office system and the necessary steps required to improve its information technology (IT) infrastructure. As you know this budget contains a request for funding to develop a modern, web-based, program delivery IT infrastructure called MIDAS. The ultimate goal of the modernization/office consolidation process is to increase the effectiveness of FSA's local offices by upgrading equipment, investing in technology and providing personnel with critical training. IT modernization along with office consolidation is absolutely essential to ensure that America's farmers and ranchers continue to receive excellent service long into the future.

CLASSICAL CHINESE GARDEN

Question. Mr. Secretary, your budget requests approximately $8.4 million for the construction of a Classical Chinese Garden at the National Arboretum. I understand this is a joint project between China and the United States. In previous years, the

Congress was unable to fully fund the administration's request in a number of priority research programs such as the National Research Initiative (NRI), food safety, nutrition, obesity, and emerging plant and animal diseases. It is almost certain that we will not be able to fund all of your priorities again this year. What is the Classical Chinese Garden's priority with respect to these other research objectives? Answer. Although the construction of the Classical Chinese Garden is a joint project between China and the United States, it is essentially a gift from China to the United States. The Chinese will provide all the structures, rockeries, plants, furniture and art objects which are valued at over $50 million. The $8.4 million requested in the fiscal year 2007 budget is for infrastructure preparation including, excavation of the lakes, and building a story palace for the Garden. The Department has ranked this project as the highest priority facility project for ARS in the fiscal year 2007 budget.

NATIONAL FINANCE CENTER—STATUS

Question. USDA's National Finance Center (NFC), located in New Orleans, operates a centralized payroll, personnel, administrative payment, and central accounting system that serves more than 40 departments, independent agencies, and congressional entities. NFC employs more than 1,400 staff in New Orleans to carry out this mission. Because of the devastation Hurricane Katrina wrought on the New Orleans area, NFC was forced to evacuate and initiate its Continuity of Operations Plan. NFC was not able to return to its New Orleans office for several months.

The Hurricane supplemental that was passed in December provided $35 million to support temporary space for NFC employees, equipment, and refurbishment of the New Orleans office. The most recent supplemental request seeks an additional $25 million for continued support of recovery efforts at the National Finance Center.

Can you provide us with an update on the status of the National Finance Center and explain how these funds are being used?

Answer. With the help of the $35 million appropriated to the Department, the National Finance Center is returning to normal operating conditions utilizing its New Orleans facility. Service levels to client agencies are continuing to improve. The staff remains committed to the continued uninterrupted delivery of services for financial reporting and human resource and payroll clients. The National Finance Center pays approximately 565,000 civilian Federal employees in over 140 Federal agencies, provides human resource services for several USDA, DHS, and other agencies, and host the financial management system for USDA.

The National Finance Center and activities collocated with the Center incurred expenses for redeployment of personnel, for equipment and related technology to resume business operations as quickly as possible, for rental payments and contract costs associated with administering the emergency facility and for housing for personnel, and for emergency overtime for personnel working toward establishing operations. We are continuing to utilize and operate an interim computing facility in Philadelphia with a small on-site staff; all other employees are now operating out of the New Orleans facility.

The additional $25,000,000 in supplemental funds represents funding to support recovery and continuity of operations efforts during the "deployment" and to continue supporting the operation of the interim computing facility in Philadelphia. Specifically, supplemental funds are to be applied in the following areas:

—*Extraordinary Personnel and Related Expenses.*—Covers overtime and employee travel between New Orleans and the various alternate worksites. Additionally, provides continuing coverage of overtime and employee travel for staffing of the interim computing facility.

—*Rental Charges.*—Covers the residential rental expenditures incurred for deployed employees.

—*Contracts.*—Covers various contracts in support of the operation of the interim computing facility, backup facilities and the alternate worksites. Also includes space rental of the various alternate worksites.

—*Temporary Labor.*—Covers the additional costs incurred to temporarily replace expertise lost due to the dislocation and/or loss of employees.

—*Other Services.*—Covers essential support costs incurred and future costs needed to replace, refurbish, or rehabilitate facilities at the New Orleans site and the interim/backup computing facilities. This includes hardware leases and software licenses for the interim computing facility, replacement of destroyed furniture, office equipment, telecommunications infrastructure and support, and supplies.

—*Temporary Facilities.*—NFC expects to be done with temporary buildings by early summer.

NATIONAL FINANCE CENTER—DATA CENTER OPERATIONS

Question. I understand that under the Continuity of Operations Plan the NFC's data center, meaning the main computer servers and equipment, was moved to a temporary site in Philadelphia. Six months after Hurricane Katrina, NFC's data center is still located in this temporary space.

Can you provide us with an update on USDA's efforts to find a permanent site for NFC's data center?

Answer. On February 8, 2006, the USDA sent out a facility requirements package to Department of Defense organizations and the General Service Administration requesting information on existing Federal facilities that could satisfy NFC's requirements. This package included a copy of NFC's current facility requirements (i.e. floor space, power, pricing, security, etc.). As of March 21, 2006, information on 17 available facilities has been received. NFC is currently evaluating those responses to determine the best alternatives. Once the best alternatives are determined, NFC will conduct visits to those sites to complete the assessment process. NFC is working to complete the assessment and site selection process as quickly as possible. This effort should be completed this spring.

Question. Can the NFC use USDA's National Information Technology Center in Kansas City as a permanent site?

Answer. NFC explored the possible use of USDA's National Information Technology Center (NITC) in Kansas City as a permanent site. However, it was determined that the pressing program needs of the Department at the Kansas City site would have resulted in implementation and operational costs that were incompatible with the current rate structure employed with NFC customers. On February 8, 2006, the USDA sent out a facility requirements package to Department of Defense organizations and the General Service Administration requesting information on other existing Federal facilities that could satisfy NFC's requirements. Once responses are received and assessment and comparison of all acceptable alternatives are completed, a decision of where to locate NFC's permanent site will be made.

515 HOUSING PROGRAM

Question. Mr. Secretary, the fiscal year 2007 budget request eliminates funding for the 515 Rural Rental Housing Program. The 515 housing program provides funding for construction and revitalization of affordable rental housing for rural families who have very low to moderate incomes.

If the Congress does not provide funding for the 515 housing program, will low income citizens have any other option when it comes to affordable housing?

Answer. We stress that the Section 538 program, like the 515 program, provides housing for very low income citizens. The 2007 budget includes almost $200 million for Section 538 guaranteed loans for rural rental housing—double the amount available for 2006. These guaranteed loans may be used for either new construction or repairs and rehabilitation. In most cases, they are used in conjunction with other sources of financial assistance. These guaranteed loans help increase the supply of rental housing in rural areas.

As for the Section 515 program, the administration proposes to focus on the critical needs of the existing multi-family projects that have been financed under this program, primarily in the 1980's. Almost half a million rural people reside in these projects. A study completed in 2004 demonstrated that most of the projects are still viable for low-income housing; however, a substantial portion of these projects are in need of revitalization. Moreover, there is a risk that some projects will be prepaid and leave the program. This would put the tenants of those projects at risk of substantial rent increases and possible loss of their housing. The 2007 budget includes $74 million for housing vouchers to assist these tenants. The administration has also submitted a legislative proposal to Congress that authorizes debt restructuring and other incentives to encourage revitalization coupled with a long-term commitment from project sponsors to remain in the program. Further, the 2007 budget reflects the administration's commitment to fully funding the renewal of all expiring rental assistance contracts, which is vital to keeping the projects affordable to low income people.

Also, opportunities need to be provided for low-income people to own their own homes. The 2007 budget supports about $1.2 billion in direct loans and $3.5 billion in guaranteed loans for single-family housing—about the same as available for 2006, except for emergency funding for the Gulf Coast hurricanes. This level of funding is expected to provide over 40,000 homeownership opportunities. All of the direct loans and about a third of the guaranteed loans are expected to go to low-income families with incomes below 80 percent of median income.

NATIONAL VETERINARY MEDICAL SERVICES ACT

Question. In fiscal year 2006, Senator Kohl and I provided funding to implement the National Veterinary Medical Services Act (NVMSA), to help get more vets into underserved areas. No funds are requested by USDA to continue this program in fiscal year 2007. A March 2005 Government Accountability Office report about agroterrorism states that : "USDA officials told us they intend to increase the number of veterinarians entering public service by making new efforts to increase veterinary students' awareness of potential careers in public service." This appears to be inconsistent.

Why the inconsistency?

Answer. The $500,000 appropriated in fiscal year 2006 has not been obligated. Therefore, there was no need to request funds in the fiscal year 2007 budget. As no-year funds, they will be obligated when the program is developed and incur costs. CSREES is currently working with other agencies in the Department and informally discussing implementation options with program constituents to determine how best to design and deliver a full loan subsidy program. A critical initial task will be to determine criteria for demonstrating, measuring, and monitoring need for veterinarians across fields of service, geographic locations, and national service needs. Once these criteria and program guidance have been developed and made available for public comment, specific needs for the program can be estimated.

Question. These vets will be extremely important as first responders in the case of an outbreak of a foreign animal disease.

What is USDA doing to make sure that there will be enough vets familiar with foreign animal diseases to help protect U.S. agriculture?

Answer. Veterinary Services, part of the U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS), administers the National Veterinary Accreditation Program. This voluntary program certifies private veterinary practitioners to work cooperatively with Federal veterinarians and State animal health officials. Accredited veterinarians are instrumental in increasing our capability to perform competent health certifications, maintain extensive disease surveillance and monitoring, and provide valuable veterinary service during national emergencies. Producers that export animals interstate and internationally rely on the expertise of accredited veterinarians to help ensure that exported animals will not introduce diseases into another State or country. The accreditation program has served the animal industry well for many years and remains integral to their future growth. There are currently over 60,000 active accredited veterinarians in the national database.

The President's budget requests $2.4 million to enhance the National Veterinary Accreditation Program to develop web-based certification and training modules for veterinarians. This will provide a method for veterinarians to expand their knowledge of, and vigilance for foreign animal diseases.

MANDATORY COMMODITY PROGRAMS

Question. Mr. Secretary, the administration's fiscal year 2007 budget includes a legislative proposal to reduce farm program spending by approximately $1 billion in fiscal year 2007. This proposal would include a number of changes to the current farm law that would decrease commodity support.

Please take a moment to describe this legislative proposal and the cost savings that will be achieved should it become law.

Answer. The fiscal year 2007 Budget again proposes some changes in farm programs designed to save about $1.1 billion in fiscal year 2007 and about $5 billion over a 5 year period. Key changes proposed include: a 5 percent reduction in all farm program payments; a reduction in the payment limit from $360,000 to $250,000 per natural person; a 1.2 percent assessment on all sugar marketed; a three cent per hundredweight assessed on milk marketed; cost minimizing adjustments for the dairy price support program, and some moderate changes in the crop insurance program, including modest reductions in premium subsidies and in administrative expenses paid to crop insurance companies.

FOREST SERVICE FUNDING

Question. Please give us details on any funding provided by this subcommittee that benefits the United States Forest Service. Include agencies and amounts.

Answer. The Forest Service receives a small amount of funding provided by the Agriculture Subcommittee to the Hazardous Materials Management (HMM) account. Funds are used to address environmental contaminations on Federal land. More details are provided for the record.

[The information follows:]

The appropriation language for the HMM account provides for the necessary expenses of the Department of Agriculture to comply with the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and the Resource Conservation and Recovery Act (RCRA). The funds remain available until expended and may be transferred to any agency of the Department for its use in meeting requirements pursuant to CERCLA and RCRA on Federal and non-Federal lands.

Agencies compete for HMM funding by submitting proposals explaining the RCRA or CERCLA work that is needed, the strategic impact of that work, and the public benefits that will be realized. Funding priorities reflect those planned impacts and benefits. The following table shows actual amounts for fiscal year 2005, estimated fiscal year 2006, and requested fiscal year 2007 HMM budgets for USDA agencies:

USDA HMM BUDGETS FOR FISCAL YEARS 2005, 2006, AND 2007

[In thousands of dollars]

Agency	Fiscal year		
	2005 actual	2006 estimate	2007 request
Agricultural Research Service	2,259	3,770	2,027
Food Safety and Inspection Service	17		
Forest Service	5,645	4,900	6,593
Departmental Administration [1]	2,580	1,533	1,700
Office of the General Counsel	1,484	1,677	1,700
Total	11,985	11,880	12,020

[1] Actual reflects amounts under DA's Office of Procurement and Property Management, as well as for agencies not in the FFIS system, CCC, FSA, and Rural Development.

The HMM funding the Forest Service receives in this process supplements the $10–15 million of annual Forest Service funding in support of USDA's Hazardous Materials Management Program. The Forest Service is not required to reimburse the account, except when cleanup costs are recovered from other responsible parties. It is estimated that HMM funding helped to leverage the estimated $22 million of environmental cleanup work responsible parties performed in lieu of cash payments in fiscal year 2005.

FINANCIAL MANAGEMENT SYSTEM

Question. The budget request includes an increase of $13.9 million to begin planning for the implementation of a new financial system. I understand that these funds will be used for hardware and software procurement.

What, specifically, does USDA plan to purchase with this funding?

Answer. USDA is pursuing modernization of its core financial management system and associated business practices. It is critical that this modernization be advanced now to ensure a sound financial management system to support the Department's large and diverse portfolio of programs. The new, web-based system will replace outdated technology that is costly to maintain and not fully compliant with current financial management standards. Further, the new system will allow full integration of existing and new eGovernment initiatives and provide efficiency through shared services. Funds requested for 2007 are needed to begin the process of designing and implementing the new system. Specifically, the funds will support a contract to begin acquiring hardware and software. Implementation is expected to continue for approximately 5 years beginning with a 1-year planning and start-up phased during 2007.

Question. What is the status of the planning and implementation effort for the new financial system?

Answer. The new financial management system, called the Financial Management Modernization Initiative (FMMI), is in the early stages of procurement. A Request for Information was released in August, 2005. The information USDA received was used to further refine USDA's plans. A Request for Proposals was issued in late December, 2005 to solicit contractors to provide planning and integration services for the financial management system. USDA prefers to contract with one entity for both the hardware and software. It is expected that a contract will be awarded in the fourth quarter of fiscal year 2006 so that integration planning and implementation can begin and continue during fiscal year 2007.

Question. Does USDA have an estimate for how much it will cost to fully implement the financial system?

Answer. Until USDA receives and evaluates proposals, we will not know the total cost or schedule for implementing FMMI.

Question. How does USDA plan to pay for this system? Will all of the funding come through the CFO account or will each USDA agency be asked to provide funding for the system?

Answer. USDA will determine the funding approach after we receive and evaluate proposals for FMMI. The funding requested for fiscal year 2007 is critical to permit the project to continue to move forward.

PROVINCIAL RECONSTRUCTION TEAM

Question. Please provide detailed information on USDA's past participation in the Provincial Reconstruction Teams, including total funding obligated. Please give specific examples of the results achieved and the number of individuals who served as advisors and their employing agency.

Answer. USDA agricultural advisors on Provincial Reconstruction Teams (PRTs) in Afghanistan provide technical guidance to PRT commanders, local and international non-governmental organizations, and individual farmers and herders. Advisors also provide training and information for local offices and staff of Afghanistan's Ministry of Agriculture, Animal Husbandry and Food, and the Ministry of

Reconstruction and Rural Development. Additional information is provided for the record below.

[The information follows:]

Total funding obligated for these activities, including State Department International Cooperative Administrative Support Services (ICASS) costs, is shown below by fiscal year:

Fiscal year	Amount
2004	$940,000
2005	2,628,000
2006 (projected) [1]	3,909,000
2007 (projected)	5,012,000

[1]Includes $1 million transferred to USDA from the U.S. Agency for International Development to help defray an unanticipated increase in security and other support costs.

From 2003 through 2006, 39 USDA staff served on PRTs in Afghanistan. Currently, USDA has six advisors in Afghanistan, including an area agronomist for the Natural Resources Conservation Service from Brice, Utah, who serves on the Farah PRT.

USDA agencies and the number of their staff participating over the years are as follows:

—Natural Resources Conservation Service—17
—Food Safety and Inspection Service—6 Farm Service Agency—4
—Rural Business Cooperative Service—3
—Animal and Plant Health Inspection Service—3
—Cooperative State Research, Education, and Extension Service—2
—Foreign Agricultural Service—2
—Agricultural Marketing Service—1
—Forest Service—1

Below are some specific examples of results achieved:

—USDA advisors guided their Afghan counterparts in organizing the protection of the endangered Koli-Kashman watershed. More than 2,500 trees were planted to stabilize the watershed; other conservation plant materials were incorporated; and erosion control and other protective structures were established. More than 2,570 paid labor days were generated to benefit Afghan participants. Disarmed and demobilized combatants were trained and employed for this activity, as well as unemployed youth, women, the elderly, and disabled. The program is being replicated in 28 other provinces.

—USDA advisors serving on PRTs in the Kandahar area designed, secured funding, and worked with their military counterparts to install 15 windmills to pump water for irrigation and livestock. The advisors established a distribution network and water user associations to operate and maintain the systems. Alternative sources of energy are extremely important in this country which has negligible reserves of fossil fuels.

—A USDA veterinarian designed, secured funding, constructed, and trained Afghans to staff two veterinary clinics in Parwan and Kapisa Provinces. These clinics provide access to professional animal health care and herd improvement information for Afghanistan's livestock producers. Approximately 85 percent of Afghanistan's families own livestock; therefore, this is a critically important service.

—A USDA advisor serving on the Kondoz PRT trained local non-governmental organizations to provide credit programs to farmers and rural businesses. Credit cooperatives were established throughout northeast Afghanistan, and they have remained functional and financially solvent for nearly 3 years. These credit programs have provided the first access to credit in decades for farmers in this region of Afghanistan, and have resulted in increased agricultural production and incomes.

—USDA advisors provided training to faculty at the agricultural colleges in Jalalabad, Herat, Kandahar, and Kabul. Curricula were developed for new courses and new training materials were developed and shared with other agricultural training institutions. Training was provided in veterinary sciences, natural resources management, horticultural production, and farm management. This training provided these faculties with their first exposure in decades to modern course materials and technical information on current agricultural practices.

—The USDA advisor serving on the Kandahar PRT established a province-wide poultry project that provided eggs to more than 400 families, for consumption and sales. This project provided direct benefits to women and children through increased family incomes and improved nutrition.

Question. How will the $5,000,000 requested in the budget to continue USDA's participation in the PRT be used, (e.g. salaries, training, equipment, logistical support)? How much will go to the Department of State or any other department?

Answer. Approximately $3,400,000 is for salaries, benefits, and allowances and $830,000 is for travel, equipment, program costs, and other support. Approximately $782,000 is budgeted to go to the Department of State for projected ICASS and security costs.

FOREIGN SERVICE PERFORMANCE PAY

Question. The budget requests $990,000 for foreign service performance pay. Why is this funding needed? How was this figure arrived at? What criteria will be used to award such funding? Why was this requested in the Office of the Secretary?

Answer. The requested funding supports the first step of transition to a performance-based pay system and global rate of pay for Foreign Service personnel grade FS–01 and below. The forthcoming Foreign Service Modernization legislative proposal linked to this funding would amend Section 406 of the Foreign Service Act (22 USC 3966) to eliminate longevity-based pay increases and institute a strictly pay-for-performance system similar to that instituted for the Senior Foreign Service in Public Law 108–447.

The proposal would also establish a global rate of pay for the Foreign Service to attract and retain a labor market for worldwide-available personnel, based on the needs of the Service, consistent with other pay systems with similar worldwide availability requirements. This global rate also addresses the increasing pay disincentive to overseas service, due to the frequent rotation of assignments, influenced by 5 USC 5304.

The Modernization proposal would equalize the Foreign Service global rate at the Washington, DC, rate, including locality pay, over 2 years. The requested funding supports the first step of this transition. Additional funding will be required in fiscal year 2008 and fiscal year 2009 to fully close the gap, in order to begin a new pay-for-performance system effective April 2008, under a uniform global rate pay system. Funds are requested in the Office of the Secretary so that further allocations can be made to the agencies within USDA that have Foreign Service personnel.

CROSS CUTTING TRADE NEGOTIATIONS AND BIOTECHNOLOGY RESOURCES

Question. How has the fiscal year 2006 funding for this been used (please be specific and give examples of the results achieved)? What agencies are involved in the utilization of this funding? What will the proposed increase of $366,000 achieve?

Answer. Funding in the Office of the Secretary to support cross-cutting trade negotiation and biotechnology issues allows critical coordination of efforts that span several agencies within USDA. In addition to supporting the Senior Advisor to the Secretary, the agencies involved in the biotechnology funding are: the Animal and Plant Health Inspection Service; the Cooperative State Research, Education, and Extension Service; and the Foreign Agricultural Service. Their use of the money is described below.

The proposed increase of $366,000 would enable the Department to more effectively address:

—Quantitative analyses and studies needed to support increasingly complex compliance activities;

—Expansion of a project to develop a regulatory and trade strategy for specialty crops;

—Increased activity in the area of transgenic animals—domestically, in international markets, and in international standard setting organizations; and

—Increasing need for communication materials for both domestic and international markets.

[The information follows:]

APHIS has used the fiscal year 2006 funding for a number of small to medium size projects that together will strengthen and improve the biotechnology regulatory process:

—Extended an existing agreement with the National Plant Board to continue the collection of information from the States and stakeholders on key aspects of the agency's regulatory system and items that APHIS should consider during State evaluations. These efforts will help APHIS to improve the biotechnology regulatory process.

—Extended our current agreement with the National Association of State Departments of Agriculture (NASDA) to coordinate and conduct the pilot program for State personnel to perform notification inspections. Once the pilot project is complete, a task group consisting of NASDA and APHIS personnel will conduct a full joint review of the program.

—Continued work with Iowa State University to prepare additional chapters for the APHIS–Biotechnology Regulatory Services equipment inspection manual to be used to train third-party inspectors (State and other APHIS employees) on proper techniques and procedures for cleaning and inspecting equipment for contaminated materials.

—Supported the agency's efforts to procure a geographical information system to assist in managing and analyzing program data. Examples include the production of large and small maps of regulated States, counties and sites to improve compliance, risk analysis, and program management functions; the ability to "geo-identify" sites that may have been affected by weather events such as hurricanes or tornados in order to respond appropriately to these events to evaluate the potential spread of regulated genetic materials; and the ability to layer a number of data sets on a single map to provide the APHIS biotechnology regulatory program with an enhanced data analysis capability.

The fiscal year 2006 funding for Cooperative State Research, Education, and Extension Service has been used to begin the development of an

implementation/business plan by a contractor to deal with biotechnology regulatory issues associated with specialty crops. To date, a Scope of Work was prepared, and proposals were received by the Specialty Crops Regulatory Initiative (SCRI) Steering Committee. The Steering Committee is composed of representatives of technology developers, including USDA, 1890 and 1862 land-grant universities, other universities, a spectrum of private sector companies, and commodity groups.It is anticipated that a consultant will be hired in May 2006, through an award to Arkansas State University. A draft business plan is anticipated by the end of the year, to include proposals for the structure and function of the SCRI, and implementation plans including mechanisms to fund the finalization of the operation of the SCRI.

The Foreign Agricultural Service has applied the fiscal year 2006 funds to address global market access issues, capacity building, and technical assistance needs associated with agricultural biotechnology. In collaboration with other Federal agencies, funds have been targeted to sustain and expand a number of ongoing bilateral and multilateral activities aimed at advancing the development of science and rule-based regulatory systems for the products of agricultural biotechnology and adherence to World Trade Organization principles. This in turn has helped foster global market access for U.S. agricultural products that, increasingly, are produced using modern biotechnology.

Specifically, policy and technical engagement with Japan, China, Canada, and Mexico, as well as within the Asia Pacific Economic Cooperation (APEC) and other international fora, has helped maintain open access to these key markets for U.S. agricultural products, including those produced through modern biotechnology. A notable success of the engagement has been the continued market access for U.S. corn exports to Japan after an unapproved biotechnology corn product was found in the United States. Bilateral and multilateral efforts have been undertaken with countries in the Western Hemisphere, as well as China and Japan, which have helped guide implementation of the Cartagena Protocol on Biosafety in a practical and predictable manner that will maintain access to global markets for U.S. agricultural products. Numerous technical assistance and educational activities have been undertaken aimed at promoting adoption and acceptance of biotechnology. These have included outreach to farmers in Africa and efforts to promote farmer adoption of plum pox resistant plum production in Europe. Targeted technical assistance and policy dialogues on biotechnology have also been undertaken with numerous countries with which the United States is engaged in FTA negotiations.

OFFICE OF CIVIL RIGHTS

Question. Please generally describe the Civil Rights Enterprise System and provide the following information: How much funding has been provided for this system through fiscal year 2006? What is the total anticipated cost of the system? How has this system helped improve the processing and resolution of discrimination complaints?

Answer. The Civil Rights Enterprise System (CRES) is a web-based USDA enterprise-wide complaint tracking system used for tracking, processing and reporting employment and program complaints. The system is being implemented in two phases: Phase 1—Employment Complaints Tracking System in fiscal year 2004 and 2005, and Phase 2—Program Complaints Tracking System in fiscal year 2006 and fiscal year 2007.

The CRES project is on schedule and within budget. Phase 1, the Employment Complaints Tracking System component, has been fully implemented and is currently operational. The employment complaint legacy systems have been shut down. Phase 2, the Program Complaints Tracking System is under development with testing scheduled for the summer.

One of USDA's most significant achievements is the implementation of a web-based, Department-wide discrimination complaint tracking system in fiscal year 2004 to track, process and report on employment and program complaint activity.

The Civil Rights Enterprise System is being implemented in two phases:

—Phase 1—Employment complaint tracking system was implemented on time and within budget during fiscal year 2005.

—Phase 2—Program complaint tracking system will be implemented in fiscal years 2006 and 2007.

Additional information is provided for the record.

[The information follows:]

CRES planned budgeted cost is as follows:

Fiscal year 2003	System Planning	$0.1 million, completed
Fiscal year 2004	System Acquisition & Implementation Costs	1.6 million, completed
Fiscal year 2005	System Acquisition & Implementation Costs	1.5 million, completed
Fiscal year 2006	System Acquisition & Implementation Costs	1.8 million, planned
Fiscal year 2007	System Acquisition & Implementation Costs	1.987 million, planned
TOTAL		6.987 million, planned

The Civil Rights Enterprise System has improved efficiency through:

—Standardization and elimination of duplicative systems.

—Real time access to EEO complaint data.

—Support of a paperless environment.

—Ability to track, process and report informal and formal employment complaint activity.

—Implementation of accurate performance based reports.

In fiscal year 2006, USDA is enhancing the Civil Rights Enterprise System, including "eFiling" and an online docketing system that will allow complainants and agency representatives to access real time complaint status information. These initiatives are currently in the development and testing phase.

This includes the ability to respond to mandatory reporting requirements, including:

—Annual Federal Equal Employment Opportunity Statistical Report of

Discrimination Complaints (EEOC Form 462).

—Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002 (the No FEAR Act).

—EEOC Management Directive 715.

Question. What are the specific activities and their associated funding in the fiscal year 2007 budget that are targeted to the prevention of equal employment opportunity and program complaints?

Answer. As Secretary of Agriculture, I am firmly committed to ensuring the civil rights of all USDA's customers and employees. The Office of the Assistant Secretary for Civil Rights was reorganized in July 2005 to facilitate the fair and equitable treatment of USDA customers and employees while ensuring the delivery and enforcement of civil rights programs and activities. This includes processing complaints in a time and cost effective manner and implementing initiatives to prevent EEO and program complaints. Additional information on prevention activities is provided for the record.

[The information follows:]

OFFICE OF CIVIL RIGHTS PROGRAM FUNDING

Conflict Prevention Resolution

The Conflict Prevention and Resolution Center (CPRC) was established to lead and coordinate conflict management and ADR efforts throughout USDA. ADR programs exist in all USDA agencies and mission areas, and vary in both scope and level of activity. ADR itself is applicable, in a variety of forms, to workplace disputes, EEO complaints, USDA program disputes, including civil rights complaints, and group interventions. Reorganization and subsequent inclusion of CPRC in Civil Rights maintains the USDA-wide focus on conflict resolution, with additional emphasis in support of the Assistant Secretary for Civil Rights.

Outreach

The USDA Office of Outreach strengthens USDA outreach efforts to limited-resource farmers and ranchers and under-represented customers, coordinates program delivery outreach throughout USDA, and assists underserved customer groups in collaboration with the Agency Outreach Coordinators and State Outreach Councils. Outreach develops policy, thereby enhancing the building of partnerships with universities/colleges, community/faith-based organizations and other groups, associations and organizations. Outreach provides leadership through policy guidance, high-level strategic planning and goal setting, performance measurement and feedback to USDA national, State and local outreach coordinators and councils. Outreach monitors, analyzes, and evaluates trends related to USDA programs and activities through mission area outreach plans, outreach coordinators, and State outreach councils. Outreach develops and provides training and education in outreach function models, best practices, policies, environmental justice, strategic plans and goals to USDA employees and stakeholders to provide an effective educational resource and linkage to internal and external customers regarding USDA-wide programs.

Program	Fiscal year 2005 funding actual	Fiscal year 2005 FTEs	Fiscal year 2006 funding estimate	Fiscal year 2006 FTEs	Fiscal year 2007 funding estimate	Fiscal year 2007 FTEs
Outreach	$1,338,387	8	$981,000	8	$1,001,000	8
Conflict Prevention & Resolution Center	706,700	6	736,000	6	751,000	6
Totals	2,045,087	14	1,717,000	14	1,752,000	14

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

DAIRY ASSISTANCE

Question. Agriculture is the largest industry in Pennsylvania, producing over $45 billion annually and providing approximately 1 in 6 jobs in agriculture and related businesses. Of this industry, dairy is the number one sector in the State and ranks number 4 in overall milk production in the entire Nation. Milk prices for dairy farmers have been on a down trend since January and economists project that the price of milk will continue to fall. The proposed 3 cent per cwt. assessment in the fiscal year 2007 Budget on all milk production will only compound the severity of this situation. Although the Milk Income Loss Contract (MILC) program, that I worked very hard on to be extended to October 2007, will provide the safety-net needed for our dairy farmers, the falling prices of milk and the continued high costs of fuel will make it more difficult for dairy farmers across America to survive.

What does the Department plan on doing to help our Nation's dairy farmers when they need you the most?

Answer. We share your concern about the rising cost-price pressures faced by dairy farmers and for that matter most farmers. In addition to the credit and other programs the Department has available to help producers when financial stress rises, our dairy programs are by design geared to provide support when prices decline. The dairy price support program puts a floor under milk prices to provide some protection in that way. And as you mentioned, the Milk Income Loss Contract (MILC) program will provide some counter-cycle protection by providing payments to eligible dairy producers when prices decline. As you will recall the President had proposed that this program be extended through the end of the 2002 Farm Bill and Congress did enact that extension in the recent Deficit Reduction Act. The Department is now implementing the newly extended program.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question. The Commodity Supplemental Food Program (CSFP) provides 6.4 million food packages to over 400,000 mothers, infants, children, and primarily low-income seniors—in fiscal year 2005, 15,575 households in PA received CSFP packages. CSFP food packages are delivered monthly, and provide $50 worth of food including cheese, milk, and canned fruits and vegetables. The President eliminated this program in his fiscal year 2007 budget, stating Food Stamps and the WIC program could meet the needs of CSFP recipients. However, seniors, who represent 90 percent of CSFP recipients, are not eligible for the WIC program, and many of these seniors are also not eligible for food stamps, or are eligible to receive only $10 per month in food stamp benefits. An additional benefit of the CSFP program to seniors with disabilities is that they do not have to leave their home to receive the CSFP food package.

How does the Department plan to meet the needs of many of these seniors who depend on the CSFP program and who will not be eligible to receive any benefits, or will receive reduced benefits, from the Food Stamp program?

Answer. Elderly participants who are leaving the CSFP upon the termination of its funding and who are not already receiving Food Stamp Program (FSP) benefits will be eligible to receive a transitional benefit worth $20 per month ending in the first month following enrollment in the FSP under normal program rules, or 6 months, whichever occurs first. We estimate that most elderly CSFP participants will be eligible to participate in the regular Food Stamp Program.

Based on the information we have about the characteristics of all elderly food stamp participants, the average monthly food stamp benefit for an elderly person living alone was $65 per month in 2004. The percentage of food stamp households with elderly that received the maximum benefit (14 percent) was nearly as large as the percentage that received the minimum benefit of $10 (17 percent). Thus, most elderly food stamp participants receive more than the $10. We expect that this pattern would extend to new FSP participants leaving the CSFP as well.

LIVESTOCK PROTECTION PROGRAM

Question. The Livestock Protection Program (LPP), implemented by the Pennsylvania Department of Agriculture, in conjunction with the U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) Wildlife Service (WS), the Pennsylvania Game Commission, and the Pennsylvania State University is a crucial pilot program that provides technical and operational assistance to help Pennsylvanian agriculture producers control wildlife damage to their crops and property. Started in 2005, this program is fully implemented in eight counties, while on a limited basis across the rest of the Commonwealth of Pennsylvania. The goal of the LPP is to expand fully to other counties in order to protect dairy farmers from feed loss due to starlings, protect sheep farmers from coyotes, and protect property from geese damage. On an annual basis, dairy farmers lose about $2,000 from feed loss due to starlings. I, along with U.S. Senators Bennett and Santorum, and U.S. Representatives Sherwood, Holden, Shuster, English, Platts, Kanjorksi, Murphy, and Murtha sent you a letter on January 24th requesting that you direct any additional fiscal year 2006 Agricultural Appropriations funding for APHIS Wildlife Services to the LPP in order to keep this important program in existence.

What is the status of this request? Does the Department plan on redirecting extra funds to the Livestock Protection Program?

Answer. The Department recognizes the vital role of agriculture and the LPP to Pennsylvania's economy. APHIS allocated $70,000 in fiscal year 2006 to support this program.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

NATIONAL AGRO-FORESTRY CENTER

Question. When USDA National Agro-forestry Center, a partnership between the Forest Service and NRCS, in Lincoln, NE, was affected by the NRCS re-organization, the USDA provided assurances that the center would be supported by NRCS at a funding level of $655,000.

What was the actual NRCS funding for the above mentioned partnership in Lincoln, NE in 2006? How much is the NRCS funding for the above mentioned partnership in Lincoln, NE for 2007?

Answer. NRCS continues a close collaboration with the National Agroforestry Center. A NRCS Lead Agroforester position was reestablished and filled at the beginning of fiscal year 2006 and additional direct support totals $140,000. This position serves as a liaison with the Center. Further support is provided from the three foresters at NRCS new National Technology Support Centers. Salaries and support total an estimated $360,000. The total support cost in fiscal year 2006 is $500,000. Specifics for the fiscal year 2007 Budget have not been developed.

NATIONAL INSTITUTE FOR FOOD AND AGRICULTURE

Question. The President announced a major initiative as part of the State of the Union address to enhance America's competitive standing in the global marketplace. The American Competitiveness Initiative proposes to significantly boost the Federal Government's investment in basic research for the physical sciences acknowledging the vital importance of basic research to future discovery and eventual economic growth.

How much basic research does USDA perform? Over the last two decades has that amount grown? Would the establishment of a National Institute for Food and Agriculture—-similar to other National scientific institutes like the NIH or NSF enhance the future competitiveness of our farm and food sectors? If so, will you endorse its creation?

Answer. While the distinction between basic and applied research is not clear cut, it is estimated that slightly less than half of the USDA research budget supports basic research.

The National Institute for Food and Agriculture is one of several initiatives that have been proposed to strengthen the Nation's agricultural research system, with the ultimate goal of strengthening the competitive position of the U.S. farm and food sector. NIFA, among other proposals, has generated useful discussion among the diverse stakeholders of the food and agriculture research community that enrich future consideration of options for strengthening the research component of the farm and food sector.

Question. The National Institutes of Health spends nearly $15 on research for every dollar spent by the USDA. In competitive, merit based, peer-reviewed grants—long considered the best way to achieve advances in fundamental science—the NIH outspends the USDA by more than 100 to 1.

What is the cause for this funding imbalance? Do you believe the competitive interests of our farmers are being met with such a funding disparity?

Answer. The administration continues to show strong support for the National Research Initiative (NRI), the competitive, merit-based, peer-reviewed grant program within USDA. Funding for the NRI has increased in recent years, and the administration has requested an increase of $66.3 million in fiscal year 2007. The NRI is a critical component of a balanced research portfolio of intramural and extramural research that is effectively serving the competitive interests of farmers.

Question. In USDA's budget proposal for fiscal year 2007, your administration lists six strategic goals that describe the Department's major objectives which include enhancing international competitiveness, enhancing the competitiveness and sustainability of rural economies, enhancing food safety, improving the Nation's nutrition and health, protecting our natural environment, establishing energy independence and improving the quality of life in Rural America. Similar objectives were listed by the 2002 USDA Research, Education and Economics Task Force which called for the creation of a National Institute for Food and Agriculture to achieve these goals.

Has the Department taken any steps to meet the objectives outlined in this task force report? My thought would be that if NIFA were in place for the last 15 years we probably would be producing at least 20 percent of our energy needs from cellulose sources and other renewable fuels. Would you agree with that?

Answer. The Department's fiscal year 2007 strategic goals are similar to those identified by the 2002 USDA task force report. This suggests that the Department's research agencies and programs are focused on achieving the same goals and objectives as those outlined in the task force report.

Question. Mr. Secretary, since this administration financially supports joint research with major overseas competitors like India to improve farming technology as part of an Agricultural Knowledge Initiative, will this administration support an agricultural knowledge initiative here at home known as the National Institute for Food and Agriculture? It seems to me, Mr. Secretary that we ought to reinvest in our research infrastructure here at home before going overseas. I think my farmers would support a major U.S. Agricultural Initiative before they would support a U.S.-India Agriculture Initiative. Let's fix our own research problems before fixing those of our competitors.

Answer. The Department has a strong agricultural research program that is generating new knowledge and technology that will enhance American farmers' ability to be competitive in global markets. In particular, the administration continues to support the National Research Initiative, USDA's flagship competitive research program. In the fiscal year 2007 Budget the President once again recommends increasing the investment in the NRI to help address the critical issues facing our Nation's farmers.

EPA REGULATIONS

Question. Specific provisions of concern to Ag retailers and distributors regards the proposed EPA rules relating to secondary containment requirements covered under "Scope and Applicability"—Section 165.141 (This defines facilities covered by these sections of the rule) through "Administrative Standards"—Section 165.157.

Included in these sections are new Federal requirements that relate to bulk pesticide containment only. For example, "General Requirements for Containment Structures"—Sec. 165.146(a)(1)(2) and "Specific Requirements for Liquid Bulk Containment Structures"—Section 165.148(a) discuss types of containment structure Ag retailers would need to comply with.

Will the above mentioned specific provisions be applied in a fair and even manner for the entire Ag sector? If not, then will these provisions be dropped from any final EPA rule and continue to allow the States to regulate this area as they have been doing for the past several decades without EPA oversight?

Answer. EPA administers pesticide regulations under the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA), and is responsible for their implementation and interpretation. USDA and EPA actively work together to ensure unnecessary regulatory burdens are not imposed on the agricultural sector. We will work with EPA to encourage them to adopt provisions in the rulemaking that can be applied in a fair and even manner for the entire Ag sector.

QUESTIONS SUBMITTED BY SENATOR CONRAD BURNS

RESUMING BEEF EXPORTS TO JAPAN

Question. Mr. Secretary, many of my producers in Montana are frustrated that you don't appear to be taking a more firm stance with Japan regarding beef exports.

Can you tell me what USDA is doing to get the borders back open?

Answer. On January 20, when we announced that a U.S. exporter sent a shipment of veal to Japan that did not comply with the terms of the Export Verification Program, we made very clear that we take this matter very seriously. We immediately set about to implement follow-up actions that would prevent such an incident from occurring again and would help get exports to Japan resumed as soon as possible. To help in this effort, we made clear in a series of meetings with senior Japanese officials that this is a top priority and that our investigation of the incident would be thorough.

On February 17, the results of the Department's investigation into the ineligible shipment of veal were announced. In conjunction with that announcement, a comprehensive USDA report was released that details the findings of the investigation and actions taken by USDA. At that time, it was announced that additional actions beyond those announced January 20 would be taken in response to findings in the report. These actions go beyond the circumstances of the incident to incorporate further efficiencies and protections into the U.S. export system.

This information was submitted to Japanese authorities for their review. The document contained two distinct reports: an investigation by the Food Safety and Inspection Service and an audit by the Office of the Inspector General. Japanese authorities reviewed the two reports and transmitted questions to USDA about the report. USDA has responded to all of Japan's official questions and delivered them to the Ministry of Agriculture. In addition, a technical team will be traveling to Japan in late March for meetings to provide any necessary clarifications as well as respond to any remaining questions. Department of Agriculture officials, as well as those from other Executive Branch agencies, have pressed upon Japan the importance of resolving this matter and the need to provide a timeline for reestablishing trade. We have stated on a number of occasions that time is of the essence and that we need to have assurances that this process will not be drawn out. We have also made clear that Japan may be inviting a complication in our bilateral trade relationship if this matter is not resolved quickly.

PESTICIDES

Question. Mr. Secretary, you and I have often talked about the need for USDA to serve as an advocate for agriculture at EPA. I am concerned that rules relating to Superfund and pesticide containment are treating agriculture unfairly, and I believe that you need to step up on behalf of America's farmers and ranchers.

Can you share with the Committee your thoughts on the relationship between EPA and USDA?

Answer. The Department normally reviews proposed rules that EPA promulgates to evaluate their impact on USDA activities, and on production agriculture. We work cooperatively with EPA, and often provide comments, both informally and formally, in order to attain key environmental objectives without unduly penalizing farmers and ranchers.

Representatives of USDA regularly meet with EPA personnel in a series of bimonthly meetings to share progress on conservation programs, and look for opportunities to assist producers in proactively meeting regulatory constraints. These meetings also inform EPA staff so that they can tailor regulatory programs to achieve protection of the environment while allowing producers to have flexibility in achieving the desired results.

For example, USDA has been working with EPA during their efforts to promulgate regulations on the containment of pesticides at storage facilities to achieve a final regulation that will not be unfairly burdensome to agricultural producers. The draft final rule would establish standards for removal of pesticides from containers and for rinsing containers; facilitate the safe use, refill, reuse, and disposal of pesticide containers by establishing standards for container design, labeling and refilling; and establish requirements for containment of large, stationary pesticide containers and for containment of pesticide dispensing areas. These regulations do not directly impact farm containers. Since this effort is not yet finalized, I am not at liberty to discuss any further details of the pending regulatory language, but we continue to evaluate proposed changes and will provide EPA with comments on their draft final rule.

RENEWABLE FUELS

Question. Renewable fuel development holds tremendous potential for rural States like Montana, particularly the development of cellulose ethanol and biodiesel. I understand this is a top priority for USDA.

Can you update the Committee on USDA's activities in implementing the Energy title of the Farm Bill and in making producers aware of the resources that USDA has available?

Answer. Renewable fuel and bioenergy development remains a top priority for USDA. The Energy Title of the Farm Security and Rural Investment Act of 2002 (Farm Bill) authorized various renewable fuels programs. Section 9010 of the Farm Bill continued support for the bioenergy program to support increased production of bioenergy. Since fiscal year 2002, USDA has awarded over $450 million in payments to bioenergy producers through this program. Section 9004 established the Biodiesel Fuel Education Program through which USDA awards grants to educate governmental and private entities and the public about the benefits of biodiesel. USDA also continues to team with the Department of Energy on the Biomass Research and Development Initiative with authorized funding from section 9008. This initiative supports the development of new bioenergy technologies and biobased products.

USDA conducts outreach to producers in many ways. Service Center Agencies provide information at their individual locations. USDA participates in many conferences each year that are designed to reach producers and potential producers.

BEGINNING FARMERS AND RANCHERS

Question. I believe one of the most important things we can be debating, especially in light of Farm Bill reauthorization, is role the Federal Government can play in encouraging young farmers and ranchers to get into production agriculture.

Is USDA considering incentives and/or elimination of barriers for young farmers and ranchers, and how will that play into Farm Bill proposals?

Answer. I recently completed a series of Farm Bill listening sessions around the country. A recurring theme at these sessions was the need to help young farmers and ranchers to get into production agriculture. A number of comments and suggestions were received which warrant consideration during the upcoming Farm Bill debate. Further, the USDA Beginning Farmer and Rancher Advisory Committee will be meeting later this year. In the past, this committee has provided valuable guidance in framing Farm Bill debate pertaining to assistance to beginning farmers and ranchers.

NATIONAL ANIMAL IDENTIFICATION SYSTEM

Question. Producers in Montana continue to be concerned about the development of a national animal ID system. I hear concerns relating to cost, confidentiality, and liability.

Can you please share what is being done to address these concerns?

Answer. The size and scope of the National Animal Identification System (NAIS) demand that it be a cooperative program, with industry and government sharing the cost of the necessary elements. By the end of fiscal year 2006, USDA will have invested $84.8 million into developing NAIS in terms of premises registration, information technology development, education and outreach, and staffing. The animal identification component is USDA's next implementation priority, along with the information-technology architecture to support multiple tracking databases. The animal tracking databases themselves will be developed and maintained by industry and States, and the cost of capturing animal movement data will be their responsibility.

USDA recognizes that some producers have concerns about misuse of the data that will be collected and how the information will be maintained. We are working with industry to establish an information technology solution for animal movement data to be maintained in animal tracking databases managed by the industry and States. As proposed, USDA will only be able to access the information through a querying mechanism initiated when a disease of concern has been reported. As industry develops data collection systems and this process moves forward, USDA will continue to keep producers informed. The NAIS will not expose producers to any unwarranted or additional liability.

QUESTIONS SUBMITTED BY SENATOR SAM BROWNBACK

NEW USES EXPO FOR BIOBASED PRODUCTS

Question. I recently sent a letter to you concerning the biobased products component of the Department of Agriculture's Research, Education and Economics "Strategic Vision of 2005–2008". I offered Kansas City as a site for the USDA to host a New Uses Expo to highlight new, non-food, non-feed uses for agricultural products. Your office was kind to reply to my letter by saying that the USDA "hopes to sponsor, as resources allow, a National Biobased Products Conference to highlight new biobased products" in 2007.

Mr. Secretary, what resources does your department need in order to make this New Uses Expo happen?

Answer. At this time, the Department has not committed to holding a Biobased Products Conference in 2007. If we decide to hold a conference, we will coordinate with other Federal agencies.

HORSE SLAUGHTER

Question. Last year the Senate passed an amendment that sought to de-fund USDA inspections of horse packing plants. I believe this policy to be extremely short-sighted. Now horse packing plants are required to pay "user fees" for inspectors to certify the quality of the meat. This is essentially an extra tax on packing plants that will lead to a loss of jobs here in America. Plus, if we outlaw the slaughter of horses, I believe this will lead to less humane treatment of unwanted horses. Experts estimate 70–80,000 horses each year are disposed of because they are no longer viable, are old, infirm, unmanageable or unwanted. These same experts estimate this number will approach 100,000 unwanted animals a year very shortly and could double within a few years. While most horses are sold, an unknown number are abandoned. When sold, approximately 55,000 animals will move to USDA-regulated and inspected processing plants, transported under USDA regulations, promulgated under the Commercial Transport of Equine for Slaughter provisions of the 1996 Farm Bill. Once they reach the processing plant, these animals are euthanized humanely under the Federal Humane Slaughter Act, and the meat is inspected and certified by USDA's Food Safety & Inspection Service (FSIS). While some meat is sold in the United States to satisfy cultural markets, the majority is exported. Some argue these unwanted animals can be easily moved to existing "adoption" facilities. The capacities of such facilities range from 5 horses to, in rare instances, a maximum of 1,000 horses. The average capacity of one of these facilities, however, is 30 animals. In the first year of a Federal ban on horse processing, nearly 2,700 additional facilities would be needed, according the American Association of Equine Practitioners (AAEP), the professional organization of equine veterinarians. This is PETA's first salvo in the war against meat. What's next, the outlawing of slaughtering cattle? I intend to undo this mistake we made last year.

What is the administration's position on the "Horse Slaughter" amendment as passed last year?

Answer. USDA has abided by the prohibition of federally-funded USDA inspections of horses presented for slaughter at official establishments. The fiscal year 2006 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act included a section prohibiting the use of appropriated funds to pay the salaries or expenses of personnel to inspect horses (ante-mortem inspection) after March 10. Conference report language for the act recognized FSIS' obligation under existing statutes to "provide for the inspection of meat intended for human consumption (domestic and exported)."

While the appropriations bill prohibited appropriated funds from being used to pay for ante-mortem inspection, it does not eliminate FSIS' responsibility under the FMIA to carry out post-mortem inspection of carcasses and meat at official establishments that slaughter horses. In response to a petition, FSIS established a fee-for-service program under which establishments can apply and pay for ante-mortem inspection of horses. The interim final rule became effective March 10, 2006.

LAND GRANT UNIVERSITY FUNDING

Question. As a Senator from a State with a first class land-grant university and a graduate of that same university, I am very proud of the legacy the land grant university system has in our country. As you know the land grant university system makes up the infrastructure which is the basis of our country's agriculture research, teaching, and extension programs. These are programs that support our farmers, ranchers, youth, families, and rural residents. Without the base funds that our Land Grants schools receive for Hatch Act, McIntire-Stennis Cooperative Forestry, and the Animal Health programs many schools would be in dire straits to continue to offer programs that support our constituents. The President's budget proposes to cut 55 percent of Hatch Act funds, 50 percent of the McIntire-Stennis funds, that our Land Grant Universities currently get and make them available only to multi-state projects and eliminate the Animal Health funding. Some Universities would very likely have to terminate many of their Agriculture programs. Some may have to go as far as not offering agriculture as part of a curriculum. A University like Kansas State might suffer a loss of $1.6 million. Kansas State is an institution that would compete very well for those funds if in a multi-state pool. However, there would be major disruption in current programs while we had to go through the motions of competing. They would have to lay off faculty, stop on-going research projects, and undertake other disruptive measures. And then there would be no guarantee that my institution would get back to even. Without these funds the Land Grants system would be in disarray.

In making this proposal, did you consider the financial and programmatic impacts there would be on each Land Grant institution and the other stakeholders who depend on these programs?

If "YES"—can you please provide the Committee with a copy of your analysis of these impacts?

If "No"—How can you expect us to embrace such a major change in program administration without a detailed analysis of how these changes will affect the Land Grant institutions in our State?

Answer. Yes, we did consider the impact on eligible institutions. The analysis is provided for the record.

[The information follows:]

REVIEW OF STAKEHOLDER RESPONSE TO THE FISCAL YEAR 2006 BUDGET AS BACKGROUND FOR COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES) FISCAL YEAR 2007 BUDGET PROPOSAL

Key Elements of the President's Fiscal Year 2006 Budget for CSREES

The fiscal year 2006 budget expanded the NRI to $250 million; established a new, SAES Competitive Grants Program at $75 million; cut the Hatch and McIntire-Stennis research formulas by 50 percent in 2006, and 100 percent in 2007; cut the Animal Health (Section 1433) research formula by 100 percent, starting in 2006; and moved six competitive grants programs currently funded under Section 406, Integrated Competitive Grants programs, to the integrated programs area of the NRI initially provided through Congressional appropriations actions beginning in 2004. The proposal also called for full indirect cost recovery on all competitively award grants, up from the current level of 20 percent of direct costs, and an increase in integrated grants authority from 20 to 30 percent.

Congressional Response

In questions to the Agency during the hearing, and more intensively in post hearing, written questions, the House sought accomplishment information for formula based programs and asked the agency about stakeholder input and the administration's analyses leading to the recommendations to redirect formula funded research programs to competitive grants.

The Senate committee is very unlikely to adopt the administration's proposal to redirect formula funds to competitive programs, and may be reticent to consolidate the 406 programs with the NRI, particularly if this action limits the integrated programs in the NRI which began in 2004.

University Response

Agricultural Research and Extension Administrators, Land-Grant Universities (LGUs): The collective response of these administrators has been extraordinarily negative to the formula-competitive conversion. Initial analysis of the university director's response to the initial proposals in the President's fiscal year 2006 budget indicate that the primary concerns are: (1) lack of consultation with affected universities and stakeholders; (2) loss of matching funds; (3) program continuity and length of awards; (4) sustaining breadth of capacity in agricultural science and education nationwide; (5) providing responsiveness to State and local issues; and (6) leveraging and sustaining partnerships across institutions.

—Directors particularly have cited consequences for employment (estimating as many as 2000 scientists and equal numbers of technicians and graduate students will lose their jobs; see CRIS tables on employment by Hatch projects for actual numbers.); concerns about program infrastructure; loss of matching funds; and continuity of efforts. In addition, agricultural research directors have expressed concern about a net decline in total research effort, if funds are diverted from direct scientific effort to covering indirect administrative expenses. They also are concerned by the speed with which these changes would be implemented especially given that they argue there was no consultation on the proposal. In 2005, LGU agriculture deans and directors have declined the offer of CSREES to participate in a joint planning team to examine alternate strategies to implement fiscal year 2006 proposed, competitive research programs.

—Central Administrators at LGU's: Chancellors, Presidents and Vice President's for Research, particularly, though not exclusively, those at larger institutions, have expressed support for the proposals in the administration's fiscal year 2006 budget proposal. Their support appears predicated not only on the need for agricultural research grants to carry indirect cost recovery to the degree consistent with other Federal grants, but also to help bring agricultural science into the broader fold—and stature—of peer reviewed research on campus.

Scientific Societies

Individual organizations and consortia of scientific societies have supported growth in competitive research programs, and have been either fully supportive of the fiscal year 2006 administration budget, or supportive of the growth the NRI and other competitive programs while silent on the formula-related provisions. For example, the American Phytopathology Society has focused its lobbying efforts on seeking to expand competitive grants, as included in the fiscal year 2006 proposal. Co-Farm, the Coalition for Funding Agricultural Research Missions, is seeking overall growth in funding for agricultural science, thus emphasizes programs with higher numbers than previous appropriations. Episodic reports from individual scientists have varied from concern about loss of start-up funds and preliminary studies needed to test approaches prior to developing proposals for grant funding provided by some institutions through formula programs to supporting increases in available funds for competitive grants especially to increase the average size and duration of awards.

Public Citizens and Associations of Producers, Processors, Consumers and other Interests

Few citizens or public stakeholder groups have expressed views to the Agency regarding funding mechanisms employed by CSREES. CARET, the Council for Agricultural Research, Extension and Teaching, collectively has called for the restoration of formula funds, although individual members have expressed an interest in developing alternative funding approaches. Major commodity groups have not expressed views on this issue.

HATCH ACT

Recipients of Hatch Act funds have the flexibility to distribute funds among research projects, infrastructure, and personnel as they wish to meet the needs of their university. The distribution of these dollars varies from State to State. The latest data on personnel supported with Hatch funds as reported into the Current Research Information System (CRIS) by recipients of Hatch Act Funds is for fiscal year 2004. The recipient institutions do not assemble the data until the close of the fiscal year and then the reporting process requires approximately 6 months. The fiscal year 2005 data is being collected now but not all institutions have made their reports available yet. Therefore, we do not have complete data for fiscal year 2005 at this point. The recipient institutions do not report estimates to CSREES so estimates for fiscal year 2006 and 2007 are not available.

The information is submitted for the record.

SUMMARY OF PERSONNEL SUPPORTED WITH HATCH ACT FUNDS IN FISCAL YEAR 2004

University/Recipient	Hatch Funds	Scientist Support	Professional Support	Technical Support	Clerical Support	Total Support
Alabama - Auburn University	3,768,657	15.4	8.6	12.3	3.0	39.2
Alaska - University of Alaska	939,214	4.8	1.1	2.6	1.2	9.7
Arkansas - University of Arkansas	3,231,967	8.6	21.4	5.6	5.3	40.8
Arizona - University of Arizona	1,827,902	4.2	8.7	3.5	1.7	18.1
California - University of California	4,885,893	8.8	26.7	3.9	8.6	47.9
Colorado - University of Colorado	2,457,245	3.5	19.9	2.9	4.4	30.7
Connecticut - Agricultural Experiment Station	760,964	4.1	0.0	2.6	0.0	6.7
Connecticut - University of Connecticut	926,420	1.5	4.0	0.5	1.0	7.0
District of Columbia - University of the District of Columbia	653,248	1.4	2.2	0.7	0.2	4.5
Delaware - University of Delaware	1,229,518	9.0	0.0	0.0	0.0	9.0
Florida - University of Florida	2,801,740	9.0	7.8	12.4	7.8	37.0
Georgia - University of Georgia	3,116,576	11.9	11.2	14.0	3.3	40.3
Hawaii - University of Hawaii	969,509	4.1	2.0	0.1	6.6	12.8
Idaho - University of Idaho	1,999,755	4.5	2.5	1.7	3.3	12.1
Illinois - University of Illinois	5,099,002	12.3	32.0	3.1	9.2	56.6
Indiana - Purdue University	5,088,652	14.7	23.3	3.2	17.1	58.4
Iowa - Iowa State University	4,810,610	10.7	19.4	0.9	18.3	49.4
Kansas - University of Kansas	3,018,644	9.7	18.2	5.2	3.7	36.8
Kentucky - University of Kentucky	4,747,019	12.6	17.4	17.0	16.7	63.7
Louisiana - Louisiana State University	3,004,347	10.1	16.2	1.5	5.7	33.6
Massachusetts - University of Massachusetts	1,955,794	2.2	0.4	1.0	1.3	4.9
Maryland - University of Maryland	2,334,726	8.7	11.7	7.6	5.9	34.0
Maine - University of Maine	1,737,636	6.1	7.0	3.0	0.1	16.2
Michigan - Michigan State University	4,813,462	9.6	23.9	2.3	12.9	48.7
Minnesota - University of Minnesota	4,685,422	11.3	22.4	5.0	12.6	51.2
Mississippi - Mississippi State University	3,813,594	7.4	14.9	4.3	18.1	44.7
Missouri - University of Missouri	4,466,720	5.3	11.7	2.1	4.4	23.5
Montana - Montana State University	2,039,082	4.7	8.1	3.9	2.5	19.2
North Carolina - N C State University	6,554,499	15.3	30.9	28.8	4.5	79.5
North Dakota - North Dakota State University	2,262,825	7.3	16.8	2.5	1.5	28.1
Nebraska - University of Nebraska	3,121,395	7.4	15.2	12.3	2.9	37.8
Nevada - University of Nevada	1,151,535	2.9	2.4	0.6	1.5	7.4
New Hampshire - University of New Hampshire	1,367,602	5.2	5.9	0.8	0.0	11.9
New Jersey - Rutgers University	2,676,028	6.5	12.3	5.0	2.5	26.4
New Mexico - New Mexico State University	1,532,977	6.4	3.0	4.3	1.4	15.1
Northern Marianas - Northern Marianas College	655,092	2.0	2.5	2.5	0.5	7.5
New York - Cornell University	4,105,397	13.1	19.0	6.6	43.3	81.9
New York - Geneva Agricultural Experiment Station	907,354	3.1	3.2	2.2	5.2	13.7
Ohio - Ohio State University	5,576,441	15.5	21.7	11.8	15.8	64.8
Oklahoma - Oklahoma State University	2,926,729	7.4	17.5	4.0	3.0	31.8
Oregon - Oregon State University	2,706,547	8.6	10.7	1.6	4.2	25.1
Pennsylvania - Pennsylvania State University	5,801,386	28.1	43.9	6.2	11.5	89.7
Puerto Rico - University of Puerto Rico	3,734,686	14.2	2.4	15.8	78.1	110.5
Rhode Island - University of Rhode Island	934,403	3.9	0.7	0.0	0.8	5.4
South Carolina - Clemson University	3,219,084	12.0	9.1	14.7	11.9	47.6
South Dakota - South Dakota State University	2,387,271	8.2	15.5	4.6	10.0	38.3
Tennessee - University of Tennessee	4,662,627	11.1	22.2	4.8	14.9	53.0
Texas - Texas A&M University	5,874,304	11.9	34.0	5.6	9.9	61.4
Utah - Utah State University	1,711,469	5.2	5.2	2.7	0.6	13.7
Virginia - Virginia Polytechnic Institute and State University	3,918,210	8.1	16.5	15.2	2.8	42.6
Virgin Islands - College of the Virgin Islands	792,599	2.0	4.8	7.0	1.4	15.2
Vermont - University of Vermont	1,374,176	4.3	4.8	3.8	1.4	14.3
Wisconsin - University of Wisconsin	4,821,058	8.3	33.4	4.9	2.4	49.1
Washington - Washington State University	3,460,979	9.0	13.2	8.7	8.6	39.6
West Virginia - West Virginia University	2,394,300	9.0	5.4	7.2	11.1	32.7
Wyoming - University of Wyoming	1,464,347	3.4	1.9	2.8	0.9	9.1
TOTAL	**$163,278,638**	**455.4**	**716.6**	**309.9**	**427.8**	**1,909.7**

Note:
These staffing levels represent positions supported directly through Hatch allocations as reported by recipient institution in the Current Research Information System (CRIS).
Hatch appropriations are matched by state and other funds, resulting in total project staffing which may exceed levels reported here.
Recipients have the flexibility to use Hatch funds for personnel or other cost as they meet the needs of their community.

MCINTIRE-STENNIS FORESTRY GRANTS

Recipients of McIntire-Stennis funds have the flexibility to distribute funds among research projects, infrastructure, and personnel as they wish to meet the needs of their university. The distribution of these dollars varies from State to State. The latest data on personnel supported with McIntire-Stennis funds as reported into the Current Research Information System (CRIS) by recipients of McIntire-Stennis Funds is for fiscal year 2004. The recipient institutions do not assemble the data until the close of the fiscal year and then the reporting process requires approximately 6 months. The fiscal year 2005 data is being collected now but not all institutions have made their reports available yet. Therefore, we do not have complete data for fiscal year 2005 at this point. The recipient institutions do not report estimates to CSREES so estimates for fiscal years 2006 and 2007 are not available.

The information is submitted for the record.

[The information follows:]

SUMMARY OF PERSONNEL SUPPORTED WITH MCINTIRE-STENNIS FUNDS

University/Recipient	McIntire-Stennis Funds	Scientist Support	Professional Support	Technical Support	Clerical Support	Total Support
Alabama - Auburn University	714,552	2.3	5.0	0.2	0.3	7.8
Alaska - University of Alaska	495,283	2.7	0.7	2.2	0.6	6.2
Arizona - Northern Arizona University, Flagstaff	180,082	0.4	1.5	0.1	0.1	2.1
Arizona - University of Arizona	180,532	0.5	1.4	0.5	0.2	2.6
Arkansas - University of Arkansas	602,925	2.6	3.4	0.0	0.5	6.5
California - University of California, Arcata	97,714	0.3	0.4	0.1	0.0	0.8
California - University of California, Berkeley	459,721	1.2	2.7	1.4	1.0	6.2
California - University of California, San Luis Obispo	97,445	0.2	0.3	0.1	0.3	1.0
Colorado - Colorado State University	347,276	0.6	3.2	0.8	1.0	5.6
Connecticut - Agricultural Experiment Station	169,635	0.9	0.0	1.1	0.0	2.0
Connecticut - University of Connecticut	55,490	0.2	0.2	0.0	0.0	0.4
Delaware - University of Delaware	78,173	0.2	0.0	0.0	0.0	0.2
Florida - University of Florida	543,945	1.5	2.7	1.3	0.7	6.2
Georgia - University of Georgia	700,602	3.3	0.0	0.0	0.0	3.3
Hawaii - University of Hawaii	168,553	0.6	0.3	0.0	0.9	1.7
Idaho - University of Idaho	405,725	0.7	0.2	0.0	0.0	0.9
Illinois - Southern Illinois University	150,841	0.2	0.9	0.0	0.1	1.2
Illinois - University of Illinois	147,788	0.6	1.2	0.0	0.1	1.8
Indiana - Purdue University	333,821	1.2	2.0	0.0	0.6	3.9
Iowa - Iowa State University	253,533	1.0	2.1	0.0	0.6	3.7
Kansas - University of Kansas	140,422	0.4	0.1	0.8	0.4	1.7
Kentucky - University of Kentucky	454,919	0.6	0.4	1.2	0.9	3.1
Louisiana - Louisiana State University	431,466	1.7	4.4	8.2	5.2	19.5
Louisiana - Louisiana Tech University	184,914	0.7	0.5	0.0	0.3	1.5
Maine - University of Maine	562,559	1.9	2.6	0.5	0.2	5.3
Maryland - University of Maryland	239,635	1.2	0.9	0.5	1.2	3.7
Massachusetts - University of Massachusetts	253,063	0.3	0.0	0.0	0.2	0.6
Michigan - Michigan State University	192,004	0.5	0.9	0.1	1.0	2.4
Michigan - Michigan Technological University	192,005	0.9	1.1	0.2	0.0	2.2
Minnesota - University of Minnesota	453,687	1.0	3.0	0.1	1.4	5.6
Mississippi - Mississippi State University	710,566	1.6	4.0	0.3	1.7	7.6
Missouri - University of Missouri	441,463	0.6	2.8	0.3	0.5	4.2
Montana - University of Montana	386,599	1.3	4.4	1.9	0.9	8.5
Nebraska - University of Nebraska	172,359	0.5	0.3	0.2	0.0	1.0
Nevada - University of Nevada	131,993	0.4	0.5	0.1	0.2	1.1
New Hampshire - University of New Hampshire	320,365	1.3	1.7	0.0	0.0	3.0
New Jersey - Rutgers University	172,359	0.6	0.8	0.9	0.6	3.0
New Mexico - New Mexico State University	280,001	1.1	0.5	0.7	0.7	3.0
New York - Cornell University	156,178	0.7	0.3	0.3	0.6	2.0
North Carolina - N C State University	692,221	1.4	3.8	0.5	0.8	6.5
North Dakota - North Dakota State University	91,629	0.4	0.6	0.0	0.1	1.1
Ohio - The Ohio State University	374,187	0.9	1.5	0.4	0.8	3.7
Oklahoma - Oklahoma State University	387,643	1.4	3.3	0.8	0.0	5.6
Oregon - Oregon State University	697,111	1.9	0.6	1.4	0.5	4.4
Pennsylvania - Pennsylvania State University	491,971	3.1	4.1	0.0	1.7	9.0
Puerto Rico - University of Puerto Rico	105,000	0.1	0.0	0.1	0.1	0.4
Rhode Island - University of Rhode Island	63,559	0.3	0.0	0.0	0.0	0.3
South Carolina - Clemson University	535,649	2.1	1.7	2.8	2.1	8.8
South Dakota - South Dakota State University	117,250	0.2	1.7	0.0	1.7	3.7
Tennessee - University of Tennessee	535,095	1.2	3.9	0.8	0.6	6.5
Texas - Stephen F. Austin State University	318,348	0.1	0.5	0.0	0.1	0.7
Texas - Texas A&M University	334,371	0.9	2.2	0.2	0.0	3.3
Utah - Utah State University	199,270	1.2	0.0	0.0	0.0	1.2
Vermont - University of Vermont	280,003	0.1	0.8	0.2	0.2	1.2
Virgin Islands - College of the Virgin Islands	46,681	0.3	0.3	1.0	0.2	1.8
Virginia - Virginia Polytechnic Institute and State University	589,469	1.4	3.6	1.0	0.7	6.6
Washington - University of Washington	345,307	0.0	0.0	0.0	0.0	0.0
Washington - Washington State University, Pullman	294,508	0.7	1.7	0.4	0.1	2.9
West Virginia - West Virginia University	423,114	1.9	1.4	0.6	0.8	4.7
Wisconsin - University of Wisconsin	481,828	1.5	4.7	0.0	0.4	6.6
Wyoming - University of Wyoming	199,270	0.6	0.6	0.0	0.1	1.3
TOTAL	**$19,663,677**	**60.2**	**94.7**	**34.5**	**33.9**	**223.3**

Note:

These staffing levels represent positions supported directly through McIntire-Stennis allocations as reported by recipient in Current Research Information System (CRIS).

McIntire-Stennis appropriations are matched by state and other funds, resulting in total project staffing which may exceeds levels reported here.

Recipients have the flexibility to use McIntire-Stennis funds for personnel or other costs as they wish to meet the needs of their university.

ANIMAL HEALTH AND DISEASE RESEARCH

Recipients of Animal Health and Disease Research funds have the flexibility to distribute funds among research projects, infrastructure, and personnel as they wish to meet the needs of their university. The distribution of these dollars varies from State to State. The latest data on personnel supported with Animal Health and Disease funds as reported into the Current Research Information System (CRIS) by recipients of Animal Health and Disease Funds is for fiscal year 2004. The recipient institutions do not assemble the data until the close of the fiscal year and then reporting process requires approximately 6 months. The fiscal year 2005 data is being collected now but not all institutions have made their reports available yet. Therefore, we do not have complete data for fiscal year 2005 at this point. The recipient institutions do not report estimates to CSREES so estimates for fiscal years 2006 and 2007 are not available.

The information is submitted for the record.

[The information follows:]

SUMMARY OF PERSONNEL SUPPORTED WITH ANIMAL HEALTH AND DISEASE RESEARCH PROGRAM FUNDS IN FISCAL YEAR 2004

University/Recipient	Animal Health Funds	Scientist Support	Professional Support	Technical Support	Clerical Support	Total Support
Alabama - Auburn University	35,742	0.1	0.0	0.1	0.0	0.2
Alabama - Auburn University, Vet School	39,420	0.1	0.0	0.1	0.1	0.2
Alaska - University of Alaska	2,821	0.0	0.0	0.1	0.0	0.1
Arizona - University of Arizona	48,069	0.1	0.3	0.0	0.0	0.4
Arkansas - University of Arkansas	104,428	0.2	0.8	0.0	0.1	1.0
California - University of California, Berkeley	132,616	0.2	0.7	0.1	0.2	1.3
California - University of California, Davis, Vet School	386,407	1.5	2.2	0.4	0.2	4.3
Colorado - Colorado State University, Vet School	170,175	0.2	0.8	0.1	0.2	1.3
Connecticut - University of Connecticut, Storrs	16,813	0.0	0.1	0.0	0.0	0.1
Delaware - University of Delaware	24,133	1.0	0.0	0.0	0.0	1.0
Florida - University of Florida	58,186	0.3	0.0	0.1	0.0	0.4
Florida - University of Florida, Vet School	17,957	0.1	0.0	0.1	0.0	0.2
Georgia - University of Georgia	12,770	0.0	0.0	0.1	0.0	0.1
Georgia - University of Georgia, Vet School	98,100	0.3	0.7	0.1	0.1	1.2
Hawaii - University of Hawaii	2,412	0.0	0.0	0.0	0.0	0.0
Idaho - University of Idaho	48,370	0.0	0.0	0.0	0.0	0.0
Illinois - University of Illinois	114,424	0.4	0.7	0.0	0.1	1.2
Indiana - Purdue University	59,153	0.1	0.2	0.2	0.2	0.8
Iowa - Iowa State University	53,453	0.0	0.5	0.0	0.3	0.8
Iowa - Iowa State University, Vet School	161,370	1.6	1.8	1.7	0.4	5.5
Kansas - Kansas State University	106,098	0.0	0.1	0.2	0.1	0.5
Kentucky - University of Kentucky	52,936	0.3	0.5	0.1	0.2	1.1
Louisiana - Louisiana State University	33,181	0.1	0.2	0.0	0.0	0.3
Louisiana - Louisiana State University, Vet School	32,485	0.1	0.0	0.1	0.0	0.3
Maine - University of Maine	16,306	0.0	0.0	0.1	0.0	0.2
Maryland - University of Maryland	23,030	0.3	0.7	0.3	0.4	1.7
Massachusetts - University of Massachusetts	5,271	0.0	0.0	0.0	0.1	0.1
Massachusetts - University of Massachusetts, Vet School	4,386	0.1	0.0	0.0	0.0	0.1
Michigan - Michigan State University	87,576	0.2	0.3	0.0	0.1	0.5
Minnesota - University of Minnesota	58,553	0.4	0.0	0.0	0.1	0.5
Minnesota - University of Minnesota, Vet School	114,374	0.3	0.0	0.0	0.0	0.3
Mississippi - Mississippi State University, Vet School	75,795	0.3	0.2	0.3	0.0	0.7
Missouri - University of Missouri	43,834	0.0	0.0	0.0	0.0	0.0
Missouri - University of Missouri, Vet School	123,591	0.8	0.1	0.0	0.0	1.0
Montana - Montana State University	47,850	0.0	0.0	0.0	0.0	0.0
Nebraska - University of Nebraska	132,560	0.2	0.6	0.7	0.0	1.5
Nevada - University of Nevada	9,600	0.0	0.0	0.0	0.0	0.0
New Jersey - Rutgers University	25,417	0.1	0.1	0.0	0.0	0.2
New Mexico - New Mexico State University	34,311	0.1	0.1	0.0	0.1	0.3
New York - Cornell University	36,472	0.0	0.1	0.0	0.0	0.1
New York - Cornell University, Vet School	47,169	0.3	0.0	0.0	0.0	0.3
North Carolina - N C State University	35,748	0.1	0.1	0.2	0.1	0.5
North Carolina - N C State University, Vet School	115,412	0.2	0.0	0.6	0.0	0.8
North Dakota - North Dakota State University	27,507	0.1	0.2	0.0	0.1	0.4
Ohio - Ohio State University	56,681	0.1	0.4	0.1	0.1	0.7
Ohio - Ohio State University, Vet School	27,085	0.4	0.8	0.5	0.2	1.9
Oklahoma - Oklahoma State University	116,396	0.2	0.9	0.0	0.4	1.4
Oregon - Oregon State University	74,979	0.0	0.0	0.0	0.0	0.0
Pennsylvania - Pennsylvania State University	53,795	0.2	0.3	0.0	0.0	0.6
Pennsylvania - University of Pennsylvania, Vet School	117,689	0.1	0.4	0.0	0.0	0.5
South Carolina - Clemson University	17,316	0.0	0.0	0.1	0.1	0.3
South Dakota - South Dakota State University	60,449	0.3	0.8	0.0	0.3	1.3
Tennessee - University of Tennessee	27,649	0.0	0.2	0.2	0.0	0.4
Tennessee - University of Tennessee, Vet School	15,552	0.0	0.1	0.0	0.0	0.1
Texas - Texas A&M University	278,808	0.4	1.6	0.3	0.0	2.3
Utah - Utah State University	26,271	0.1	0.0	0.0	0.0	0.1
Vermont - University of Vermont	12,639	0.0	0.0	0.0	0.0	0.0
Virginia - Virginia Polytechnic Institute and State University	67,447	0.3	0.1	0.2	0.0	0.6
Washington - Washington State University	9,270	0.1	0.0	0.0	0.0	0.1
Washington - Washington State University, Vet School	91,833	0.0	0.5	0.7	0.0	1.2
West Virginia - West Virginia University	21,253	0.1	0.0	0.1	0.1	0.2
Wisconsin - University of Wisconsin	129,438	0.2	0.5	0.0	0.1	0.8
Wyoming - University of Wyoming	28,419	0.1	0.1	0.0	0.0	0.2
TOTAL	**$4,109,250**	**12.8**	**18.6**	**8.1**	**4.5**	**44.0**

Note:

Animal Health & Disease Research Program appropriations are matched by state and other funds, resulting in total project staffing which may exceed levels reported here.
Recipients have the flexibility to use Animal Health & Disease Research Program funds for personnel or other cost as they wish to meet the needs of their university.
The staffing levels represent positions supported directly through Animal Health & Disease Research Program allocations as reported by reciepient institutions in Current Research Information System (CRIS).

The Land Grant University System is supported through a broad portfolio of funding mechanisms at the Federal, State, and in the case of Cooperative Extension, the local level. The proposal in the fiscal year 2007 President's budget for CSREES seeks to expand the proportion of Federal funding flowing to agricultural research through credible, competitive processes, while building on the strengths of land grant universities to work together to solve research-based problems. University and USDA staff members currently are working together to design a multi-state program implementation plan such that universities could address issues of great importance locally, which collectively achieve regional or national goals in agriculture. The plan recognizes the value of expanding the capacity at smaller institutions through joint and collaborative work, addressing issues on local and State agendas to assure matching funds for the programs, and recognizing the geographically diverse nature of agriculture and natural resources.

Issues which could be addressed through expanded multi-state and institutional collaboration include animal and plant disease, including current issues such as citrus greening and Asian soybean rust; water availability and management; best practices for small-sized agricultural producers. In addition, the multi-institutional research program has been used to expand access to subject matter colleagues across State lines, rapidly respond to emerging issues, and sustain national research support efforts, such as pesticide clearance.

By sustaining funding through the Hatch and McIntire-Stennis programs, the President's budget proposal responds to concerns expressed by universities in previous years about retaining matching requirements, allowing planning and management of programs to remain in the context of the Agricultural Experiment Stations (AES) and Cooperative Forest Research programs, and proving continuity and planning through a full, 5 year award cycle to AES directors and Administrative Technical Representatives (McIntire-Stennis managers) for each multi-state project in which a State participates.

Question. The Land Grant University System is currently undertaking a comprehensive review of all of these programs and how they might be changed in the context of the 2007 Farm Bill to meet the 21st century challenges facing agriculture, rural communities, and our entire food and fiber system through research, extension and teaching. Do you agree that such changes can best be considered through a collaborative process with an eye toward the 2007 Farm Bill as opposed to the implementation of drastic changes imposed unilaterally by USDA?

Answer. Although revising the Farm Bill to restructure the research agencies at the U.S. Department of Agriculture could address some of the issues regarding sustainability of funding for science, other concerns such as competitiveness, quality and coordination of programs and projects, and linkage to other Federal Science programs also can be addressed through budget allocations and mechanisms.

Question. Rather than imposing these drastic changes now, would you be willing to continue engage the Land Grant System in their efforts to review and build consensus for changes in our collaborative research, extension and teaching efforts?

Answer. Currently, University and USDA staff members are working together to design a multi-state program implementation plan such that universities could address issues of great importance locally, which collectively achieve regional or national goals in agriculture.

FARM PROGRAM FUNDING

Question. I applaud President Bush's proposal to reduce the payment limit from its current $360,000 level to $250,000. I've voted for lowering this limit in the past and I continuing to believe the payment limit should be lowered from its current level. Obviously, this could help play a role in reining in government spending. I also believe tougher enforcement on those who circumvent the payment limits could help us spend less money in commodity payments.

What commitment level does this administration give to lowering payment limits, strengthening enforcement when loopholes are found and developing a measurable standard to determine who should and should not be receiving farm subsidies?

Answer. The President's Budget for fiscal year 2007 includes a package of proposed farm program changes for the purpose of reducing spending in these programs as part of the effort to reduce the budget deficit. One of these proposals would reduce payment limits and significantly reform current payment limitation law. Among other things the proposal would reduce the overall payment limit from $360,000 to $250,000 per natural person. It would establish a form of direct attribution and strengthen provisions for enforcement against loopholes. These proposals would apply to the remainder of the 2002 Farm Bill.

NATIONAL ANIMAL IDENTIFICATION SYSTEM (NAIS)

Question. If States and private industry were to contribute the same amount of funding as the Federal Government for the implementation of the NAIS—$33 million per year in this budget request and in the previous 2 years—would it be possible to maintain the implementation timeline outlined in the Department's May 2005 Draft Strategic Plan (i.e., full program implementation by January 2009)? If not, what percentage of the total funding would have to come from outside the Federal Government in order to have an animal ID system fully operational by January 2009—would States and private industry be responsible for two-thirds of the funding, or three-fourths, or more?

Answer. NAIS will be a fully operational system in early 2007 and consist of three main components: premises registration, animal identification, and animal tracking. Premises registration has been implemented in all 50 States and 2 Territories. Several Tribes are also registering their premises. In March, APHIS will begin distributing animal identification numbers. We anticipate the remaining systems elements will be operational in early 2007, but private entities will need to supply information to fill the private databases.

Question. Does USDA have the authority under the Animal Health Protection Act, or any other statute, to require a mandatory animal identification program? Does the transfer of the animal-tracking database to the private sector affect the Department's ability to mandate participation as originally envisioned in the May 2005 Draft Strategic Plan?

Answer. The Animal Health Protection Act provides authority to issue regulations establishing a mandatory National Animal Identification System. The inclusion of State or private animal movement tracking systems within the NAIS would not alter the Department's authority to mandate participation.

SERICEA LESPEDEZA

Question. Sericea lespedeza is an important Federal field crop in the southeastern United States, but it is an invasive species in the central plains States, including my home State of Kansas, as it destroys the ecological balance of tallgrass prairie lands. Currently, conservation efforts in Kansas' tallgrass prairie cannot sequester USDA's assistance to find ecologically/economically compatible controls for Sericea lespedeza because of its status as a Federal field crop through APHIS. However, we need to address this critically important issue affecting our prairie before it's too late.

How can we find a way to ascertain USDA's help in controlling this destructive invasive species in Kansas while ensuring that these methods of control do not compromise Sericea's production in the southeastern United States? Would APHIS be open to providing varying regional statuses for Sericea lespedeza?

Answer. There is no formal definition of a "Federal field crop." APHIS' focus is on quarantine pests. The offending pest must be new to the United States, or present but not known to be widely distributed in the United States and currently under an active control program. S. lespedeza has been in the country for more than a century and is in at least 60 percent of the States. Consequently, it does not meet the requirements of a quarantine pest.

However, regional effort is an option that could be pursued using State statutes. Currently, Kansas is the only State that regulates S. lespedeza as a State noxious weed.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

HORSE SLAUGHTER/USER FEES

Question. Meat inspection user fees have been proposed many times, but have ultimately been rejected by Congress because the general assumption was that statutory authorization was required before the Department could collect fees. However, based on your recently announced rule for fee inspection, and the subsequent court ruling, USDA apparently CAN collect user fees without explicit statutory language. Now that USDA lawyers assert that these fees can be collected, it seems this dramatically changes the dynamic.

Can Congress assume that USDA still believes it has legal authority to collect these fees?

Answer. User fees have been proposed for inspection under the Federal Meat Inspection Act (FMIA), the Poultry Products Inspection Act (PPIA), and the Egg Products Inspection Act (EPIA), because these statutes only authorize user fees for overtime and holidays. The Agricultural Marketing Act of 1946 provides USDA the legislative authority to collect user fees for ante-mortem inspection of horses. This authority also authorizes the collection of fees for other types of voluntary meat and poultry inspection activities, including inspection of species not covered by the FMIA.

Question. Since USDA prevailed in court on the question of fees for horse inspection, does that same legal theory apply to other meat and poultry inspections, including those activities for which user fees are proposed in the budget?

Answer. Under the Agricultural Marketing Act of 1946 (AMA), USDA is directed and authorized to provide, when requested, inspection of eligible species on a fee-for-service basis. Such fee-for-service inspections have long been provided by FSIS inspection program personnel for other species not eligible for inspection or not eligible to receive certain types of services under the FMIA. The AMA does not provide the authority necessary to recover the costs of providing inspection services under the FMIA, PPIA, or the EPIA.

Question. Is USDA still in favor of user fees as a way to pay for meat and poultry overtime inspections?

Answer. Yes. USDA will continue to recover the costs of providing overtime and holiday inspection through user fees. In addition, legislation will be submitted to Congress to authorize fees to recover the costs of providing inspection beyond a single approved primary shift.

Question. Since the President's budget simply asks us to provide $757 million for FSIS, can Congress assume that you will be able to support all FSIS activities through the new user fees you propose whether or not the authorization committee takes action? If not, what is your contingency plan—what's going to get cut?

Answer. The President's 2007 budget requests $863 million, the full amount of budget authority needed to operate FSIS' inspection services. We are requesting authority to charge user fees, deposit the fees into special receipt accounts, and use the fees subject to appropriations.

FOOD SAFETY BUDGET TRENDS

Question. According to an OMB document published on January 23rd, fiscal year 2008 budget for FSIS decreases by $27 million from the fiscal year 2007 proposed level, and that trend continues.

Should we be prepared for a trend in requesting fewer dollars for food safety activities? If these decreases on this OMB document actually occur over the next 5 years—one analysis maintains that it will equal a 17 percent cut—what activities are going to suffer?

Answer. The fiscal year 2007 budget documents include estimates for fiscal year 2008 and beyond that reflect the President's commitment to reduce the Federal deficit in half by fiscal year 2009. These out-year estimates are computer generated using set formulae that do not reflect policy decisions. No conclusion on the administration's priorities for food safety or other USDA activities should be drawn from these numbers.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question. How much carryover did CSFP have at the end of fiscal year 2005?

Answer. At the end of fiscal year 2005, the Commodity Assistance Food Program (CSFP) had a carryover amount of $118,000.

Question. How much will be used to help fund the fiscal year 2006 Shortfall? If this will not occur, please explain the reasoning, especially since the budget proposes to eliminate the program next year, making carryover into 2007 unnecessary.

Answer. All of the fiscal year 2005 carryover funds will be used in 2006. We plan to use all of the fiscal year 2005 funds in 2006.

Question. What is the status of the $4 million additional funding provided for CSFP in the last supplemental? Could this be used to help the fiscal year 2006 shortfall? If not, why?

Answer. The supplemental assistance will be offered to the three Gulf-area CSFP States that were directly affected by the hurricanes (Louisiana, Mississippi and Texas). These three CSFP States have the vast majority (over 93 percent) of all disaster assistance applicants. The assistance will be provided in the form of caseload, administrative funds, and commodities.

The supplemental funding cannot be used to make up the fiscal year 2006 shortfall. The legislation that provided the supplemental funding to CSFP requires that the supplemental funding be used "for necessary expenses related to the consequences of Hurricane Katrina . . . ." Therefore, these funds cannot be used to restore caseload to all CSFP States.

Question. Has there ever been a full evaluation of the CSFP, other than the administration's PART review, which stated that CSFP was a good alternative to the Food Stamp Program for senior citizens? If not, why wasn't one planned or carried out before this elimination?

Answer. There is very limited information on the impact of the CSFP on participants' nutrition and health status, and no evaluation of which we are aware that characterized the program as a good alternative to the Food Stamp Program. A 1982 evaluation examined administrative and medical records data from 3 CSFP sites and found positive impacts for pregnant women and suggestive evidence of positive impacts for children. However, the program has changed substantially since this study was done. In particular, it did not include the elderly, who now account for about three-fourths of program participants.

In 2005, the Economic Research Service began a study to examine participation and administrative issues related to the CSFP, including how CSFP fits into States' overall designs to address food insecurity among target populations, why some States choose not to participate, and who among those eligible tends to participate. The study will be published in early 2007.

Though questions have been raised about the effectiveness of CSFP, other important factors influenced the administration's decision to eliminate program funding. The key consideration influencing this decision is that the program is not available nationally and is substantially redundant of other nutrition assistance programs that are available nationally.

In the administration's view, ensuring adequate funding for programs that have the scope and reach necessary to provide access to eligible people wherever they may reside is a better and more equitable use of scarce resources than to allocate them to programs that cannot provide access to many areas of the country. For this reason, the administration has placed a priority on funding the Food Stamp, WIC, and other nationally-available programs that provide benefits to eligible people wherever they may live.

Question. How many senior citizens do you estimate will be ineligible for the Food Stamp Program, or may choose not to participate for other reasons?

Answer. Based on the best-available national information on the circumstances of all low-income elderly, we estimate that about 101,000 elderly CSFP participants will not be eligible for food stamps, largely because they hold countable assets that put them over the Food Stamp Program's resource limit. Our budget request assumes that 88,000 CSFP participants will make the transition to food stamps and that about 118,000 will choose not to even though they are eligible. We are prepared, however, to use the requested food stamp benefit reserve if necessary to support participation by all who are eligible. We have also requested $2 million for outreach to encourage elderly CSFP participants to participate in Food Stamps.

Question. What is the average market value of the food boxes received in the CSFP program by seniors, and how does that compare to the $20 in temporary assistance you are offering to provide?

Answer. We estimate that a CSFP food package for elderly participants would have a retail value of approximately $42.35, on average, if purchased at retail prices in 2005. However, this cost could vary greatly depending on type, brand, etc. of foods in the package. In comparison, the average food stamp benefit for a senior living alone was $65 per month in 2004.

GIPSA OIG AUDIT

Question. I know that USDA is taking specific actions to try to fix all of the problems identified in a recent OIG audit of GIPSA. However, in 1997 and in 2000 GIPSA was reviewed and changes were suggested, but problems weren't fixed.

Why will this time be different? How will you regain the confidence of the markets GIPSA is supposed to protect?

Answer. GIPSA intends to restore confidence by implementing all recommendations in the OIG report. GIPSA has already issued policy directives in response to several of the recommendations and is initiating a review process to ensure that the directives are being followed and implemented properly.

However, GIPSA has gone further than just the OIG recommendations. For example, the agency has requested a full scale organizational review to provide recommendations on how to improve the agency's operational effectiveness. Also, the new GIPSA Administrator recently ordered an Office of Personnel Management-administered Organizational Assessment Survey. The survey gives employees an anonymous opportunity to let the Administrator know what they think about the organization on a range of topics. Results will be used to make decisions about work environment improvements in the program and enhance its organizational effectiveness. The Administrator is also working to develop an organizational culture to ensure at all levels a recommitment to OIG and GAO recommendations and to redirect resources to achieve mission-critical activities.

Question. On January 24th, I sent a letter to the Justice Department's Special Counsel for Agriculture, with a copy to USDA, encouraging them to work with you to prevent anti-competitive market conditions—especially while GIPSA is still working to improve its efforts. Have you, or anyone from USDA, been in touch with the Justice Department? Do you plan to work with them?

Answer. USDA has undertaken a number of initiatives related to working with the Department of Justice (DOJ). First, an economist from GIPSA's Industry Analysis Division, has been detailed to work at DOJ for 4 months on a case. GIPSA is also currently working in collaboration with DOJ on an anti-competitive investigation. Finally, GIPSA has a memorandum of understanding between the Office of General Counsel (OGC) at USDA and DOJ in place. Already DOJ and OGC are coordinating on relevant issues where warranted.

Question. Since this report came out after the budget was written, do you now think you need additional resources in order to implement all of OIG's recommendations?

Answer. GIPSA is conducting an evaluation of program resources. If changes to resources are needed, they will be taken into consideration for the 2008 budget request.

SMALL FARM/DIRECT MARKETING

Question. Can you point to any actions USDA has taken recently to help small producers work through regulatory problems that might stifle their ingenuity? Last year we provided funds for a new program to help promote farmers markets and other outlets for small producers, but they are not included in your budget.

Answer. USDA has many programs that enhance the reliability and economic livelihood of small farmers and ranchers across America. Through these programs we actively encourage the growth and continuation of small, limited-resource, and minority farmers and ranchers, as well as local communities. Through outreach, research, market development, financial support, and technical assistance we are helping them compete.

In January 2006, USDA issued its third progress and achievement report entitled "Making a Difference for America's Small Farmers and Ranchers in the 21st Century." This report highlights USDA's continuing efforts to assist the Nation's small farmers, ranchers, and farm workers. It identifies the major achievements and continuing actions taken by USDA in response to the 8-policy goals and 146 recommendations included in the USDA National Commission on Small Farms' report, A Time to Act.

The Farmers Market Promotion Program is included in USDA's fiscal year 2007 budget. Following Congressional approval of funds for the administration of the Farmers Market Promotion Program for fiscal year 2006, USDA has been rapidly implementing this grants program through the Agricultural Marketing Service. The program is designed to facilitate and promote farmers markets and other direct-to-consumer marketing channels for farm products. By the end of fiscal year 2006, AMS will administer approximately $1 million in grants, with a statutory maximum of $75,000 per grant, to eligible entities. A Notice of Funds Availability for the Farmers Market Promotion Program was published in the Federal Register on March 15, 2006. The Notice invites eligible entities to submit project proposals to AMS by May 1, 2006. Eligible entities include agricultural cooperatives, local governments, non-profit corporations, public benefit corporations, economic development corporations, regional farmers' market authorities, and Tribal governments. Grants will be awarded on a competitive basis following a comprehensive internal review.

Question. What initiatives have you proposed to assist small farmers, to encourage their creativity, and to help American farmers remain independent?

Answer. USDA's budget for fiscal year 2007 proposes to continue the Farmers Market Promotion Program, which is designed to facilitate and promote farmers markets and other direct-to-consumer marketing channels for farm products. In addition, AMS offers technical assistance useful to small farmers through its ongoing Wholesale, Farmers, and Alternative Markets and Transportation Services programs. Examples of recent initiatives include the creation of a Farmers Market Consortium in November 2005, bringing together Federal agencies and private foundations that support development of farmers markets which has already produced and released a Farmers Market Resource Guide in March 2006. Also, the Federal-State Marketing Improvement Program offers grants that encourage creative solutions to local and regional agricultural marketing challenges.

BSE—JAPANESE EXPORTS

Question. One of the things USDA is doing in response to the recent shipment of banned material to Japan is re-training the FSIS inspectors to make sure this never happens again.

What is the status of that training, and what, exactly does it entail?

Answer. On January 23, 2006, USDA's Food Safety and Inspection Service (FSIS) conducted interactive web-based training for its inspection program personnel at Export Verification (EV)-approved establishments. All FSIS inspection program personnel currently assigned to an establishment with an approved EV program completed the on-line training course by March 21, 2006.

FSIS inspection personnel are provided computer-based follow-up and supplemental training. Inspectors who rotate into any establishment that produces product that is subject to EV requirements will also undergo training. All new employees hired after March 2006 will receive training.

FSIS' EV training reviews policies pertaining to Export Certification, Re-Inspection of Product intended for Export, and Certifying Beef Products under the EV Programs and all pertinent Export Directives.

To be certain that FSIS inspection program personnel are fully aware of specific products approved for export to countries participating in EV programs, the Agricultural Marketing Service (AMS) will maintain a list of specific products approved for export to each country on an internal Web site accessible to FSIS-trained inspection program personnel. AMS will also notify FSIS each time establishments are audited, listed or delisted for EV programs.

NON-AMBULATORY DISABLED CATTLE

Question. A recent OIG report on BSE surveillance notes that there has been some confusion regarding what constitutes a "downer" animal. I understand that the number of times this happened is extremely low—less than 50, I believe, out of all of the animals processed during the time of enhanced surveillance. However, I also understand the effect that even one case of BSE can have on our markets.

What steps is the Department taking in order to provide a more clear description of what animals are to be considered "downers"?

Answer. On January 12, 2004, USDA issued an interim final rule which includes requirements for the disposition of non-ambulatory disabled cattle. The preamble to the rule States, "FSIS is requiring that all non-ambulatory disabled cattle presented for slaughter be condemned" (Docket No. 03–025IF, Federal Register, January 12, 2004). The rule has not changed. However, in those extremely rare instances when a cow suffers an acute injury after passing ante mortem inspection and becomes non-ambulatory, the cow is not automatically condemned.

Under an FSIS notice issued January 18, 2006, the animal is tagged as "U.S. Suspect" (FSIS Notice 05–06). The "U.S. Suspect" designation was not created for this rare situation, but is a long-standing practice. Inspection program personnel conduct careful ante mortem reinspection of animals so designated. Pursuant to the notice, Public Health Veterinarians (PHVs) perform an examination on these animals to ensure that the injury is acute and not the result of a chronic condition. If there is any evidence of a chronic condition, or if the PHV cannot be sure the injury was not caused by a chronic condition, the notice provides that the animal is to be condemned.

A previous notice, issued on January 12, 2004, addressed this rare situation but did not provide for tagging. The application of a "U.S. Suspect" tag will help the Agency to better track occurrences in which acute injuries occur after ante mortem inspection at the slaughter plant.

All cattle tagged "U.S. Suspect" are eligible to go to slaughter. The "U.S. Suspect" designation indicates that the animal needs closer postmortem examination, and consequently the PHV makes the final postmortem disposition of every "U.S. Suspect" animal. All cattle designated as "U.S. Condemned" are banned from entering the slaughter establishment.

Question. Is additional training or information being provided to your inspectors in this regard?

Answer. Public Health Veterinarians (PHVs) have the requisite veterinary medical education to distinguish between chronic conditions and acute injuries. A significant part of PHV training is dedicated to determining acute versus chronic conditions. A chronic disposition often leads to condemnation because the condition is ongoing, whereas an acute condition would likely lead to condemnation of part of the animal.

BSE—JAPANESE EXPORTS

Question. I understand that as part of the "verification" program set up to ship beef to Japan, two signatures are required to ensure that the shipment does indeed meet Japanese requirements.

Are both of these signatures from FSIS employees?

Answer. As the result of the January 20, 2006, discovery of three boxes of veal with vertebral column shipped from the United States, in violation of the terms of our Export Verification (EV) agreement with Japan, I announced 15 Action Steps, including the requirement of an additional signature during the EV process. Both the Agricultural Marketing Service (AMS) and the Food Safety and Inspection Service (FSIS) share the responsibility to confirm shipments for the EV program and employees from both agencies sign the documentation.

Question. Do both verification form signatories physically check to make sure the shipment meets the proper standards?

Answer. FSIS and AMS both have specific responsibilities for confirming that shipments meet the appropriate EV standards. These responsibilities do not require the signatories to physically check the shipment.

AMS confirms that both the establishment and products are approved for export to the importing country.

FSIS certifies and signs that all food safety requirements have been met. When signing an export certificate, an FSIS certifying official should receive the following from an establishment: (1) the original FSIS Form 9060–5, Meat and Poultry Export Certificate of Wholesomeness; (2) any other certificates required by the importing country; and (3) a copy of the letter from AMS that confirms that AMS conducted a review and that AMS has determined the items listed are approved for export to the country listed on the certificate and from the facilities listed.

If all documents are acceptable, the FSIS certifying official will sign all certifications and maintain a copy of the AMS letter in the government file along with the certifications.

Question. What steps is USDA taking to try to make the regulatory market more streamlined, as opposed to wide variety of requirements for each country to which we export?

Answer. Most market openings (with the exception of Japan, where the terms of the market opening were negotiated in October 2004) have been for boneless beef from cattle under 30 months of age. The terms of these market openings were guided largely by international guidelines as maintained by the World Organization for Animal Health (OIE) and by precedents set by major importers, including the terms that the United States applies to imports from other countries that have experienced BSE. While these openings have resulted in a number of different import requirements by country, these requirements were negotiated with the full cooperation and knowledge of the U.S. industry with the intention of getting back into the market as quickly as possible with at least some product and the understanding that greater access would be negotiated at a later date. In our current negotiations USDA is pushing for broader access for U.S. beef overseas, arguing that OIE guidelines permit more favorable access than boneless/under 30 months.

Question. I also understand that in this recent case of banned veal being sent to Japan, the inspector was an online inspector who was, according to FSIS regulations, not authorized to do the final inspection on this beef. Is this accurate?

Answer. No, this is not accurate, because the inspector was authorized to do the final inspection of this beef. The problem arose from USDA inspection program personnel and the Japanese importer lacked familiarity with USDA's bovine export verification (EV) requirements for Japan.

Question. What steps are you taking to prevent this from happening again, and to ensure that there are a sufficient number of offline inspectors to prevent online inspectors from having to perform duties they are not officially authorized to do?

Answer. The problems have been identified and appropriate actions have been taken. The problem was not related to an online inspector conducting activities that person was not authorized to perform. Rather, the problem was related to USDA inspection program personnel and the Japanese importer lacking familiarity with USDA's bovine EV requirements for Japan. In response to this incident, the establishments involved were immediately removed from the approved list, and extensive training has been conducted with all involved FSIS inspection program personnel. AMS and FSIS also have strengthened coordination between their personnel. Eligibility of both the establishment and the products for export must be confirmed by AMS prior to FSIS certifying export documents.

ALTERNATIVE FUELS

Question. Mr. Secretary, I believe you agree that American Agriculture has a strong role to play in energy development, so please explain why USDA's investments in this area are going down instead of up.

Answer. The fiscal year 2007 Budget supports an estimated $345 million in loans, grants, research and other support for energy projects. These funds will support investments to encourage additional biofuels production, develop improved feedstocks and efficient conversion technologies and increase energy efficiency. The bioenergy incentives program, funded at $60 million in 2006, expires at the end of 2006.

Question. What is the status of new technology and knowledge about feed stocks that U.S. farmers and rural business people can use to provide new, cleaner, and less costly, sources of energy for this country?

Answer. Progress is being made on the development of technologies for converting cellulosic biomass to useable energy. Commercial pilot facilities for fermenting agricultural residues such as wheat straw and corn stover to ethanol are either operational (Iogen—Ontario, CA) or under construction (Abengoa—York, Nebraska).

Companies are also scaling up new technologies for gasifying biomass and producing methane. For instance, Frontline Bioenergy (Ames, Iowa) and Chippewa Valley Ethanol Corporation (CVEC—Benson, Minnesota) announced that construction will begin this year on a facility to gasify distillers dried grains, and eventually corn stover. Their gasification unit will eventually displace over 90 percent of the natural gas now used at CVEC's Benson site. And Viresco Energy (Riverside, California) plans to build a pilot plant to gasify a mixture of coal and wood. Technology also exists to convert the product gas from biomass gasification to methanol or diesel fuel.

Technology is also being developed to pyrolyze biomass at or near the farm and produce an energy-dense bio-oil. The bio-oil could then be transported to a central refinery for conversion into hydrogen, diesel fuel or even gasoline.

In spite of this progress, however, significant technology development is needed before a sizable industry for producing energy from agricultural and/or woody biomass can be realized.

Question. What are USDA research and development programs doing to assist that effort?

Answer. The Agricultural Research Service (ARS) has a number of programs to develop technologies that will enable the growth of a sizable industry for producing energy from agricultural and/or woody biomass.

—ARS-Peoria, IL has a number of projects for improving the efficiency of fermenting cellulosic biomass to ethanol.

—ARS-Lincoln, NE and a number of other ARS facilities are involved in a critical project to understand the long-term impact of harvesting crop residues, such as corn stover, on farm soils.

—ARS-Albany, CA is working to sequence the genome of switchgrass, and to develop genetic tools for breeding new varieties of switchgrass with superior traits as an energy feedstock.

—ARS-Corvallis, OR and ARS-Wyndmoor, PA have partnered with the Western Research Institute to develop a portable gasifier for converting wheat and grass-seed straw into methane, rather than burning these residues in the field as is currently practiced.

—ARS-Wyndmoor, PA and ARS-University Park, PA are field-testing a portable gasifier for switchgrass.

—ARS-Florence, NC is developing a proposed program to gasify manure wastes into methane, thereby eliminating effluent lagoons and, at the same time, generating useful fuel.

—ARS-Albany, CA is developing a proposed program to investigate the fundamental, biological mechanisms involved in the production of cell walls, the component of plants that is the basis of all ligno-cellulosic biomass. This research is necessary to enable the breeding of new plants that will significantly lower the cost of biomass-derived energy.

Additionally, CSREES, through the National Research Initiative's Biobased Products and Bioenergy Production Research Program, supports activities which expand science-based knowledge and technologies that support the efficient, economical and environmentally friendly conversion of agricultural residuals into value-added industrial products and biofuels.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

USDA SERVICE CENTERS

Question. Since 1993, the county-based agencies have been implementing streamlining plans to cut red tape and co-locate offices in the same county, with the goal of providing one-stop service for USDA customers. However, we have also witnessed the erosion of this customer service objective, first with the replacement of local USDA Rural Development offices with area offices that serve multiple counties and more recently with the Farm Service Agency directive to State offices to identify offices that can be closed and consolidated.

If it is necessary to consider consolidating local offices, isn't it appropriate to consider the convenience of keeping together all agency services related to customer needs in any specific Service Center?

Answer. USDA utilizes the State Food and Agriculture Councils (SFACs) to provide a cross-agency, decision-making and communication forum for administering programs at the local level. We are encouraging FSA, NRCS, RD and all other agencies to work together in a spirit of cooperation to work with the SFACs to achieve the optimum network of local offices, staffing, training and technology.

USDA is committed to delivering farm program services through the Service Center model and is exploring all "shared space" opportunities where multiple USDA agencies can share space, supplies, mailroom, printing, conference room, common computer facilities, and basic office equipment.

USDA is committed to a continued dialogue with State and congressional leaders to discuss how best to modernize the FSA county office system and the necessary steps required to improve its information technology (IT) infrastructure. The ultimate goal of this process is to increase the effectiveness of FSA's local offices by upgrading equipment, investing in technology and providing personnel with critical training. We are committed to working with our partners to ensure that America's farmers and ranchers continue to receive excellent service long into the future.

Question. Why hasn't USDA approached this as a Service Center issue rather than a decision by just one of USDA's agencies?

Answer. Each USDA agency is faced with individual resource concerns as well as infrastructure problems. Although many p our customers are the same, each agency also has distinctly different clientele. As you note, the Service Center Agencies already maintain different office structures. For example, in your State of Iowa, Rural Development maintains a network of 10 area offices while FSA maintains a presence in all 99 counties of the State.

However, USDA is committed to delivering farm program services through the Service Center model and is exploring all "shared space" opportunities where multiple USDA agencies can share space, supplies, mailroom, printing, conference room, common computer facilities, and basic office equipment.

Question. How is the Department coordinating the multiple mission areas of local Service Centers?

Answer. State Food and Agriculture Councils (SFACs) are the primary vehicles for administering programs at the local level. SFACs provide a policy-level, cross-agency, decision-making and communication forum to achieve USDA's goals and objectives.

Furthermore, the Farm Service Agency (FSA) State Executive Directors (SEDs) are currently conducting local-level reviews of the efficiency and effectiveness of FSA offices in each State. The SEDs and State committees are forming review committees to better identify what the optimum network of FSA facilities, staffing, training and technology should be for each State within existing budgetary resources and staffing ceilings. Each SED is also exploring potential joint-effort opportunities with the Natural Resources Conservation Service and other USDA agencies.

COMMON COMPUTING ENVIRONMENT

Question. The objective of the Service Center Modernization Initiative is to create an environment of one-stop quality service for customers of the Farm Service Agency, the Natural Resources Conservation Service, and the Rural Development agencies. The Common Computing Environment (CCE) is intended to enable the 3 agencies to share information technology to improve customer service. Since fiscal year 1996, USDA has been planning and deploying an integrated information system to replace several old systems in Service Center Agencies that could not share data. In March 2000, the Office of Chief Information Officer was given direct management responsibility for the CCE.

Given that this effort has been underway for 10 years, has USDA made sufficient progress in reaching the objective number of shared information technology and ability to share and transfer data?

Answer. USDA has made significant progress in reaching the shared information technology objectives. The shared technology platform, the Common Computing Environment (CCE), is in place. The platform allows USDA to maintain one standardized environment for use by the Service Center Agencies (SCAs). The platform is the foundation for on-going efforts to modernize individual SCA systems and business processes. Despite the fact that full modernization has yet to be achieved, the platform has provided several administrative and technological benefits. Examples of the benefits have been provided.

[The information follows:]

Common Administrative Functions

Common computer technology on each of 50,000 agency and contributing partner desks, including shared software;

Shared networks, making higher speed connectivity affordable for the SCAs; and

Common IT security with the capability to manage from a single operation nationwide.

Centralized Computing Technology

Shared Storage Area Network (SAN) technology (5 locations) for tabular and geospatial data and backup/disaster recovery (full redundancy);

Common eAuthentication portal for user validation in the SCAs; and

Web Farm Technology (consolidated IT locations) developed and deployed to support Web access for employees and customers.

Telecommunications Architecture and Operations

Maintenance for phones and network routers and upgrades to data network and technology to meet future demands; and

Transition to the Departments Universal Telecommunications Network (UTN)—component of the USDA Enterprise Architecture in fiscal year 2006.

USDA Data Center

Data acquisition for Geographic Information Systems (GIS)—examples: Common Land Use (CLU) data for FSA, Soils data for NRCS; and

Data acquisition for aerial/high altitude imagery for mapping and compliance review—example: NAIP photography.

Question. How has the cost of the common computing environment been allocated among program areas?

Answer. The cost of the Common Computing Environment (CCE) is allocated across the three Service Center Agencies. A formula based on the number of computers an agency has connected to the CCE network was derived for the allocation of $19,538,000 for base infrastructure. For fiscal year 2006, FSA has 40 percent of the computers, NRCS has 39 percent, and RD has 21 percent. Agency-specific and interagency funds account for the remainder of the CCE costs. These funds are: $73,260,000 (FSA-specific), $11,025,000 (NRCS-specific), $3,960,000 (RD-specific), and $1,188,000 (Interagency eGoverment).

Question. Is there any evidence that producers have begun to embrace the web-based system of program delivery?

Answer. The Service Center Agencies (SCAs) have begun to see increased producer interest in Web-based program delivery. Examples of this interest have been provided.

[The information follows:]

As of March 1, 2006, over 32,000 producers have obtained an eAuthentication Level 2 ID. This credential is required to access, sign, and electronically submit loan applications and to review the combined customer statement that uses data from each of the SCAs.

For the 2005 crop year, Service Centers used the Web-based Electronic Loan Deficiency Payment (eLDP) system to process about 87 percent of the LDPs. As of March 23, 2006, over 1.287 million applications have been processed, resulting in the payment of over $4.258 billion. Of these, 16,630 eLDP applications were submitted directly from producers resulting in the payment of $75.9 million.

Nearly 5,800 producers self-enrolled for the Electronic Direct and Counter Cyclical Payment Program (eDCP) for the 2005 crop year. As of March 21, 2006, FSA has enrolled over 1.35 million contracts for the 2006 crop year with nearly 10,000 producers enrolling electronically.

Over 1,700 FSA customers regularly conduct business via the eForms Web portal. Electronic forms submission has grown from 54 in fiscal year 2002 to 2,965 in fiscal year 2005.

The NRCS Soil Data Mart is averaging 12,000 downloaded soil surveys and 17,800 online reports viewed per month. In addition, about 1,400 users per day are using the Web Soil Survey, saving staff time at the Service Centers.

CROP INSURANCE

Question. The Group Risk Insurance Plan (GRIP) has grown by leaps and bounds over the past 2 years because of the perception held by farmers that they have a better chance of collecting an indemnity with a GRIP policy than a standard yield or revenue product. Many critics of GRIP claim that the product, in its present form, does not work like insurance but like a lottery. They allege that, under this program, a farmer could experience a significant loss but not be due an indemnity payment. The exact opposite scenario could also be true—the policy could pay farmers an indemnity even though they have a bumper crop. I am told that these situations have already occurred.

Has RMA looked into the question of how common these overpayments or underpayments relative to actual crop losses on a specific farm actually are, and if so, what has the Agency found?

Answer. The Group Risk Income Protection (GRIP) plan of insurance, as with Revenue Assurance (RA) and Crop Revenue Coverage (CRC), is designed to protect growers against an unexpected decline in revenue, not merely against a yield shortfall. GRIP indemnities are triggered by the declining value of the harvest not the quantity harvested. This is important because indemnities can be triggered by large price declines even as the producer harvests a bumper crop. Likewise, a producer could have significantly reduced yields but not receive an indemnity if a large price increase moderates the loss of revenue.

RMA has not specifically studied the performance of the GRIP plan of insurance; however, the agency contracted for an outside study of a related product, the Group Risk Protection (GRP) program. This review addressed the question about GRP's effectiveness in reducing a grower's risk. The results are relevant for GRIP because it uses the same yield data for determining guarantees and indemnities. The external review found that:

—GRP, on average, provides substantial risk reduction to growers.

—GRP tends to be more effective where individual yields are more homogenous across the county.

—GRP tends to be more effective in the major production regions.

Question. Could the problem be addressed by re-rating the policies or acquiring more accurate information about county-level yields?

Answer. The potential for a grower to receive an indemnity when he or she did not suffer a loss, or vice-versa, is inherent to a group based policy. This cannot be changed by re-rating. However, accurate information about county level yields is important to the performance of GRP and GRIP. Consequently, GRP and GRIP is limited to those counties with at least 30 years of NASS yield history and a minimum threshold for number of growers. NASS county yield estimates are likely to be the most accurate in these counties.

To ensure that the GRIP program is functioning as intended, an outside review will be conducted during this year.

Question. Should USDA or Congress consider revoking the authority to offer this type of insurance coverage?

Answer. No, the authority to offer group products should not be revoked. Group-based coverage offers a reasonable alternative to the individual-based policies. In some cases, such as for pasture and rangeland, group coverage is the only viable method for offering meaningful crop insurance. Many growers find that group-based products provide effective risk management protection at a significant cost savings relative to individual plans of insurance.

Question. In both 2005 and 2006, the President's budget proposed to cut funds for the Federal crop insurance program to the tune of $130 million annually, cutting both to the premium subsidies provided to farmers who buy crop insurance and payments to the private companies that deliver crop insurance to farmers.

Has USDA or any other government agency ever conducted an analysis of the effect on the crop insurance program were those cuts to be implemented?

Answer. Yes, the administration's 2007 budget proposal would link the purchase of crop insurance to the participation in farm programs, such as the direct and counter-cyclical payment programs. This proposal would require farm program participants to purchase crop insurance protection for 50 percent, or higher, of their expected market value or lose their farm program benefits. Currently participation in crop insurance is voluntary; however, producers are encouraged to participate through premium subsidies, which currently average about 59 percent of the total premium. By linking crop insurance to other farm programs, we anticipate that an estimated 20 million additional acres would be brought into the crop insurance program. We also anticipate that insurance companies would benefit from this feature via increased business and potential underwriting gains. I will provide additional details.

[The information follows:]

To offset the increased costs stemming from the increased crop insurance program participation, several proposals are made for garnering savings. One proposal is to reduce premium subsidies by 5 percentage points for coverage levels of 70 percent or below and 2 percentage points for coverage levels of 75 percent or higher. The primary impact of this feature falls on producers who would be required to pay a larger share of the premium. It is expected that a small number of producers would move to a lower level of coverage to offset the higher costs. Another change being proposed is to reduce the delivery expense reimbursement rate by 2 percentage points for all policies above the CAT level of coverage. The proposal would also adjust the administrative fees required to obtain CAT coverage to make the fee more equitable between small and large producers. Lastly, the proposal would increase net book quota share to 22 percent (from the current 5 percent). This proposal would require the participating companies to "reinsure" 22 percent of their retained premium with the Federal Government rather than with commercial reinsurers. As an offset, the companies would receive a 2 percent ceding commission. In recent years, the companies have been retaining about 80 percent of the premium, for which they received almost $3.6 billion in aggregate underwriting gains between 1996 and 2005. Over this period, the companies have sustained an underwriting loss in only 1 year (2002), and that underwriting loss was less than $45 million. In 2005 alone, the companies are expected to receive an underwriting gain of approximately $900 million. Conversely, the Federal Government has experienced underwriting losses of about $1.6 billion over this period on the remaining 20 percent of business the companies have ceded back to USDA.

Question. Has any outside consultant been hired to conduct such an analysis?

Answer. RMA has not contracted with any outside consultants for a study of the potential impacts of the proposed program changes.

Question. If there is such an analysis, I would like to be provided a copy of it. If no such analysis has been conducted, how does USDA know that these cuts would not be deleterious to the crop insurance program?

Answer. The proposed reductions in premium subsidies to producers and payments to companies are relatively small. The anticipated cost savings are shared equitably among producers and companies and are necessary to offset the additional costs of increased participation in an era of ever-tightening budgets. For purposes of the proposal, the linkage requirement was assumed to increase total acreage in the Federal crop insurance program by an estimated 20 million acres, for a participation rate of about 84 percent. This is essentially the same level of participation achieved in 1995. However, the structure of the current farm program is substantially different from that which existed in 1995, in particular because of the availability of direct payments. It is likely that the availability of direct payments could result in participation that is somewhat greater than that assumed and experienced with the previous linkage effort.

If enacted, the administration's proposal should result in a substantial increase in total premium volume due to (1) CAT policyholders moving to a buy-up level of coverage, and (2) the addition of an estimated 20 million currently uninsured acres to the program. With this increase in premium volume, companies should experience greater economies of scale, thereby lowering their per-policy costs of delivering the program. At the same time, delivery expense reimbursements on the larger premium volume will offset much of the impact of the reduction in the reimbursement rate. Similarly, larger overall underwriting gains (on the higher premium volume) will offset much of the increase in the net book quota share. Further, if more than 20 million acres are added to the program, it is possible that total payments to companies could in fact increase under this proposal.

TRADE

Question. Last year, the U.S. agricultural trade surplus (exports minus imports) was only $3.5 billion, the lowest figure since 1959. However, the President's fiscal 2007 budget proposes to cut the main USDA trade promotion program, the Market Access Program (MAP), by 50 percent from its Farm Bill level.

In light of the disappearing trade surplus, how can you justify such a cut?

Answer. The proposal to limit funding for the Market Access Program in 2007 reflects the administration's efforts to reduce the Federal deficit. Reducing the deficit is a key component of the President's economic plan and will help to strengthen the economy and create more jobs. Farmers, ranchers, and other residents of rural America understand the importance of a healthy economy, which raises incomes and increases demand for their products. This and other deficit reduction measures will contribute to a more prosperous future for our citizens.

It should be noted that, even if the program is limited to $100 million in 2007, that level is still higher than the $90 million program level that was authorized for MAP prior to the last Farm Bill. Also, limiting the program will result in better targeting of the assistance to those products and organizations that have the greatest need for it and can use it most effectively.

With regard to the balance of trade, U.S. agricultural exports are expected to reach a record high of $64.5 billion in 2006 and have grown 22 percent since 2001. During the same period, agricultural imports have also grown. However, import growth over the past decade has been in processed foods and beverages, not farm products. As such, a lower agricultural trade surplus does not signal reduced export competitiveness of the farm sector, but rather American consumer preference for a wide variety of foods and vegetables, including those from foreign suppliers.

Question. If that proposed cut to MAP were to be adopted by Congress, how would USDA plan to implement it by cutting equally from all U.S. cooperators in MAP, or by dropping some participants from the program?

Answer. USDA would not be required to implement any changes to the current funding allocation process if the proposed limitation on MAP funds were adopted by Congress. MAP funds are allocated to program applicants using a competitive process involving quantitative, performance-based criteria that are published in the Federal Register each year. Changes in program participation would reflect the results of that competitive process and cannot be predicted accurately in advance.

FOOD AID

Question. If the President's proposal to zero out funding for the Public Law 480 Title I concessional loan program were to be enacted, that would mean that a portion of those funds are no longer available to transfer to the Food for Progress program.

For each of the past 5 years, how much money has been transferred from Title I to the Food for Progress program?

Answer. We will submit for the record a table that provides the amount of annual Public Law 480 Title I funding that was allocated to Food for Progress programming during each of the past 5 years.

[The information follows:]

Fiscal year	Millions of dollars
2001	77.7
2002	....
2003	88.6
2004	86.3
2005	67.9

Question. What would the loss of those funds mean in terms of lost or cut-back programs on the ground in developing countries, particularly in terms of numbers of targeted recipients?

Answer. The impact of the reduction in Title I funding for Food for Progress programming would be mixed. USDA would need to reduce the number of Food for Progress programs by 5–10 projects. Up to 50,000 beneficiaries could lose the benefits of the agricultural development projects. However, the increase in funding proposed for Public Law 480 Title II would offset that reduction. The additional funding for Title II would increase the number of beneficiaries under that program, who suffer from critical food aid needs. The additional recipients under the Title II program would likely exceed 50,000 in number and thereby fully offset the reduced number under Title I-funded Food for Progress.

AVIAN INFLUENZA

Question. The Department of Agriculture (USDA) has requested a total of $82 million to prepare for and prevent outbreaks of avian influenza in the United States. These resources include various domestic activities, such as wildlife surveillance, diagnostics, and emergency preparedness. I am concerned about providing adequate support and resources to State and local entities, such as State departments of agriculture and animal health care workers, to be used to prepare for a potential large scale avian influenza outbreak.

What is the total amount of funds from USDA that will go to States to plan and prepare for an avian influenza outbreak?

Answer. Currently, APHIS is working with other Federal agencies, States, and industry to prevent and control H5 and H7 avian influenza (AI) in U.S. commercial broilers, layers and turkeys, their respective breeders, and the live bird marketing system. Of the amount requested in the low-pathogenicity avian influenza line item in the APHIS fiscal year 2007 budget, approximately $8.1 million has been set aside for cooperative agreements with the States to support H5 and H7 AI surveillance activities. Of the amount requested in the high-pathogenicity avian influenza line item in fiscal year 2007, APHIS has set aside approximately $9.2 million for cooperative agreements with the States to further enhance our AI surveillance activities.

Question. Will some of the funding for avian flu be available for interstate coordination during an avian flu outbreak which would include State officials and poultry producers?

Answer. The high-pathogenicity avian influenza (HPAI) line item request does not include funding for an avian influenza outbreak. The HPAI program is for avian influenza preparedness. In the event of an outbreak, we would work closely with State officials.

FOOD SAFETY

Question. The Food Safety and Inspection Service (FSIS) recently announced an initiative to reduce Salmonella levels in poultry. However, USDA currently does not have the authority to enforce Salmonella performance standards nor does it have authority to require recalls of contaminated meat and poultry.

Will USDA implement deterrents or incentives for industry to make lowering Salmonella levels in poultry a priority? If not, how will USDA require industry to decrease Salmonella levels decrease?

Answer. USDA's Salmonella initiative does provide incentives to industry to improve Salmonella controls.

Under the initiative, FSIS will provide the results of its Salmonella performance standard testing to establishments on a sample-by-sample basis as soon as they become available. The more rapid disclosure of testing results under the initiative will allow establishments to identify promptly any need for improved process controls in slaughter or dressing operations and respond effectively.

In addition, FSIS will post quarterly nationwide data for Salmonella on its Web site, as compared to the current practice of posting annually; conduct follow-up sampling sets as needed; and provide new compliance guidelines for the poultry industry. If a facility does not meet the performance standards on two consecutive sets, a food safety assessment will be conducted. Categorization of establishments based on Salmonella positive samples will allow the Agency to pursue a comprehensive strategy for combating the pathogen and provide the industry incentives to control the prevalence of Salmonella.

After that year of review, FSIS will reassess its policy. FSIS will consider whether there are further actions that should be taken to ensure that establishments improve their control of Salmonella and further enhance public health protection. For example, FSIS would consider actions that would provide an incentive to industry to improve controls for Salmonella, such as posting on the Agency Web site the completed Salmonella sample sets for each establishment. FSIS would consider allowing establishments producing product classes with superior performance to conduct pilot studies testing whether line speeds could be increased above the current regulatory limits.

RESOURCE, CONSERVATION, AND DEVELOPMENT PROGRAM

Question. The President's budget would cut the Resource Conservation and Development Program budget in half to $26 million. This cut is done by eliminating over 225 coordinator positions and requiring the remaining 150 coordinators to serve multiple RC&D areas. In Iowa, this program has had widespread benefits in achieving such important activities as reducing erosion in the Loess Hills, installing dry hydrants for rural firefighters, and providing companies with seed money to start up rural companies that create jobs for rural communities.

Why did the President's budget target this program which involves local leaders at the grassroots to solve critical needs for rural communities and which has leveraged large additional investments beyond the modest investment from the Federal Government?

Answer. The administration recognizes that the RC&D coordinators and councils play an important role in protecting the environment in a way that improves the local economy and living standards. However, the Department of Agriculture, like every Federal agency, must share in the government-wide effort to control Federal spending. The RC&D program received a "Results Not Demonstrated" evaluation in the Administration's Program Assessment Rating Tool results last year and as a result, the administration is proposing program streamlining and cost-cutting measures. The President's fiscal year 2007 budget proposal will save $25 million by reducing the number of coordinator positions while maintaining the current number of authorized RC&D Areas nationwide.

Questions Submitted by Senator Byron L. Dorgan

RESEARCH BUDGET

Question. In your testimony this morning, you said "reducing the deficit is a critical part of the President's economic plan-Farmers, ranchers, and rural citizens know the deficit and burden of debt have a profound impact on the economy and the ability of future generations to participate in agriculture."

I agree with you. That's why I'm deeply disappointed that the administration has chosen to support tax cuts for the wealthiest of Americans over agricultural research and programs that benefit America's family farmers. The administration proposes to cut USDA discretionary spending by 6.5 percent over last year's funding levels. And last year's funding levels were themselves $500 million lower than the year before.

In the past few weeks, I have met with dozens of farmers, ranchers, researchers, and community leaders who depend on USDA's research and programs and who believe agricultural research is an investment in the future of our farm economy. They ask me: "How does the President expect us to get by without this research?"

So I would ask you that same question: how does USDA expect America's farm economy to remain competitive in the face of these deep cuts in vitally important agricultural research?

Answer. Research is necessary for the farm economy to remain competitive and a vital part of the American economy. The USDA recognizes that a strong economy based on sound Federal investments and reduced public debt is also vital to the American farm economy. In this light, the USDA has presented budget requests that focus on the highest priority issues and greatest opportunities. We are proposing new research to protect crops and livestock so that the United States will be a reliable trading partner and a competitive producer of food. We have proposed new animal protection research on the vexing problem of bovine spongiform encephalopathies and other transmissible spongiform encephalopathies. We are supporting new research to greatly enhance the production of bioenergy from cellulosic materials by modifying cell walls of plants. We propose to address the national crisis of obesity through new research. In these financially challenging times, we plan to pay for these initiatives by having focused and efficient research programs that address high priority needs.

DISASTER ASSISTANCE

Question. In your testimony today, you said that "USDA has made available $2.8 billion to assist those impacted by the hurricanes, of which $1.2 billion will be made available to agricultural producers through various programs . . . Total USDA aid to hurricane disaster victims comes to more than $4.5 billion."

I support emergency relief for those in the Gulf States who were hit by Hurricanes Katrina and Rita. When people fall on tough times, we have an obligation to help them. But what I do not support picking and choosing which producers who suffered a weather-related disaster will get help, and which will not.

North Dakota had over 1 million prevented plant acres last year, due to excessive moisture. Parts of Bottineau County along the Canadian border received one-third their annual rainfall in just 1 day. Every county in North Dakota has been named a Primary or Contiguous Disaster Area. But there has been no support from this administration for a disaster assistance package that would help those producers.

USDA's own prediction is that net farm income will drop nearly 25 percent this year because of record high energy costs. I think that is optimistic. North Dakota State University estimates that average farm income in my State will fall 88 percent in 2006.

Outside North Dakota, farmers and ranchers in the Midwest experienced one of their worst droughts in decades in 2005. Last year, Illinois experienced its third-driest year since records first started being kept in 1895. Parts of Missouri, Iowa, Wisconsin, Indiana, and Arkansas were nearly as bad. USDA's own estimate last summer was that agriculture losses from Hurricane Katrina would be $900 million, but that losses from drought will be over $2 billion.

My office gets phone calls every day from producers who are barely hanging on. They are meeting with their banker to see if they can squeeze out another year on the farm, or if they will have to abandon the farming lifestyle and the farm they grew up with. These farmers who call me do not understand why Congress has not acted to help them. I don't understand, either.

My question to you is, do you support an agricultural disaster package for farmers and ranchers outside of the Gulf Coast? If not, why not?

Answer. This administration has been, and continues to be, a strong supporter of the Federal crop insurance program. Crop insurance should be our first line of defense against the financial impact of natural disasters. Farmers and rancher should be encouraged to protect themselves through the purchase of crop insurance rather than expecting ad hoc disaster assistance from the Federal Government.

Nation-wide, 2005 crop losses were not as severe as originally expected. The loss ratio for crop insurance currently stands at about 0.54, meaning that producers have received 54 cents in indemnities for each dollar of premium. This is a historically low level which reflects stronger than expected yields and prices.

Furthermore, we would note that the hurricane damage in the Gulf Coast differs markedly from the modest production losses sustained nation-wide. Gulf Coast producers lost productive capacity through the destruction of poultry houses, nurseries, and green houses and environmental degradation of farm lands. The disaster assistance provided to the Gulf States reflects this and is largely intended to restore the productive capacity of this region.

VALUE-ADDED PRODUCER GRANTS

Question. The 2002 Farm Bill authorized the Value-Added Producer Grant Program to receive $40 million in mandatory spending annually for the life of the farm bill. In fiscal year 2004 and 2005, the program request and the final appropriations was $15 million, a cut of roughly 60 percent each year. The USDA request for fiscal year 2006 was again $15 million, but in the final appropriations bill we were able to increase that amount to $20 million, still just half of the mandated farm bill amount, but moving in the right direction.

What is USDA doing to ensure that this program is administered in a manner consistent with Congressional intent expressed in the manager's report language in the Farm Bill, which states that the program should: fund a broad diversity of projects, projects likely to increase the profitability and viability of small and medium-sized farms and ranches, project's likely to create self-employment opportunities in farming and ranching, and project likely to contribute to conserving and enhancing the quality of land, water and other natural resources?

Answer. USDA published regulations for the Value-Added Producer Grant program in 2004 and publishes an annual notice soliciting applications. These documents provide detailed information on how the program is administered, including how applications are processed and scored. Lists of grant recipients and brief descriptions of their projects are available on-line at the USDA Rural Development website. The descriptions demonstrate that the program has funded projects with a wide variety of agricultural commodities combined with innovative ways to add value. In 2004, USDA Rural Development put program performance measures into place, and preliminary data on these measures is now being reported and collected. This data indicates that many grant recipients have experienced increased revenue and an expanded customer base for their value-added products, which is consistent with the Congressional intent that is expressed in the Conference Report on the 2002 Farm Bill.

Question. Over the life of the existence of the VAPG program, how many total project proposals has USDA received?

Answer. The Value-Added Producer Grant program was initially authorized by the Agriculture Risk Protection Act of 2000. Since this authorization, there have been 2,919 applications between 2001 and 2005.

Question. What was the total value of requested funds? Of these, how many proposals were funded, and what were the actual funding amounts?

Answer. The total value of funds requested in the 2,919 applications is $363,439,756. A total of 756 applications received $116,272,496 in funding.

NATIONAL VETERINARY MEDICAL SERVICES ACT

Question. Many rural areas of this country face a severe shortage of veterinarians. I understand that there are one-half as many veterinarians available to respond in the event of an animal disease outbreak as there were 20 years ago. The National Veterinary Medical Service Act would help solve this shortage by providing loan repayments to veterinarians who agree to practice in areas with a serious veterinary shortage. Why is the National Veterinary Medical Services Act not a functioning program within your department despite the appropriation it received for fiscal year 2006?

What steps are necessary to begin this program?

Answer. USDA is exploring potential financial management strategies both within the Department and in collaboration with other Federal agencies in order to effectively run a loan repayment program. To evaluate these and other programmatic issues presented by the National Veterinary Medical Services Act, CSREES has constituted the National Veterinary Medical Services Act working group to develop potential program management strategies. The working group has met on four occasions and is exploring alternative strategies for managing National Veterinary Medical Services Act. We are working to ensure a well thought out program plan which includes collaborations with veterinary schools and other stakeholders to develop consensus regarding the candidate eligibility requirements, and metrics to support prioritized and weighted needs within the veterinary need areas identified within the Act. A draft program management proposal is presently being reviewed.

Question. How long do you anticipate it will take to begin this program?

Answer. CSREES anticipates that the processes required to begin this program will be completed in approximately 18 months.

APHIS BLACKBIRD CONTROL

Question. Various species of blackbirds cause an estimated $200 million in direct agricultural damage to a host of crops, including sunflower in my State of ND. Many urban areas and airports have serious problems as well.

Please describe efforts in the Department to deal with this increasingly serious problem of what appears to be an accelerating population.

Answer. We are undertaking a variety of actions to deal with blackbird damages. Scientists at APHIS' National Wildlife Research Center (NWRC) are studying ways to refine damage abatement methods and develop new methods to reduce blackbird damage to sunflower crops in the northern Great Plains. Of note, NWRC discovered two promising chemical compounds that might discourage blackbirds from feeding on sunflower. APHIS also conducts an annual cattail management program in North Dakota and South Dakota to disperse large concentrations of blackbirds from sunflower production areas. In addition, APHIS helps farmers, homeowners, and municipalities nationwide with blackbird-related problems. The agency develops site-specific management plans for airports to address several wildlife hazard issues, including those associated with blackbirds.

Question. Damage to ripening sunflower in the Dakotas and Minnesota is as high as $20 million annually. Through this Subcommittee, I have been successful in adding funding to enhance blackbird control efforts in North Dakota. Yet APHIS has confirmed to my office that the agency is spending less than 50 percent of what it did just 2 years ago on this problem despite my efforts to provide direct funding for this purpose.

What is the rationalization for diverting funds away from this important purpose?

Answer. In 2003, Congress earmarked $368,000 for blackbird control plus $240,000 to conduct an environmental impact study (EIS) and $100,000 for cattail management activities. In 2005, Congress earmarked $368,000 for blackbird control efforts. In addition, APHIS provided $77,000 net in 2005 to ensure the highest level of service to sunflower producers with blackbird problems. APHIS has not diverted earmarked funds from this program and will continue to work with the National Sunflower Association to address all concerns. Earmarked funding for the continuation of these efforts in 2006 is $377,000.

2007 FARM BILL

Question. A number of farm and commodity organizations have endorsed proposals to extend the 2002 Farm Bill until after the completion of the latest round of WTO trade negotiations.

Do you support extending the 2002 Farm Bill? If not, why not?

Answer. I believe the appropriate approach under current circumstances is to proceed to develop a new 2007 farm bill which addresses the best interests of our producers and taxpayers. An extension of the 2002 Farm Bill until after WTO negotiations are complete would put us in a more reactionary rather than proactive stance.

Question. I understand you have participated in a number of Farm Bill listening sessions all over the United States. When will you issue a final report on those listening sessions?

Answer. A series of issue papers that summarize information and comments received in the Farm Bill forums around the country have been completed and were made available on March 29, 2006. We did obtain a great deal of input and a diverse range of ideas and comments which will merit further study as we attempt to focus on what are the most critical concerns to address in fashioning a new Farm Bill. As part of that process, I have asked Dr. Keith Collins, our Chief Economist, to develop a number of documents based on various themes that will provide a straight forward, unbiased analysis. We will post these documents on the USDA website and share them with all stakeholders.

STATE MEAT INSPECTION PROGRAM

Question. The 2002 Farm Bill directed USDA to conduct a comprehensive review of State meat and poultry inspection programs and to report to Congress on these activities by the Food Safety and Inspection Service.

What is the status of this report?

Answer. USDA provided written interim updates on the Agency's review of State meat and poultry inspection programs to the House and Senate Agriculture Committees in September 2004, and again in July 2005.

On-site reviews of State Meat and Poultry Inspection programs have been completed for 20 of the 28 States. Fourteen of those States have been determined "at least equal to" the Federal inspection program, with Wyoming and Utah currently on deferred status. On February 7, 2006, FSIS completed on-site reviews of New Mexico, North Carolina, Oklahoma, and South Carolina, but final reports for these four States have not yet been completed. The 8 remaining on-site reviews will take place in 2006. In April, on-site reviews are scheduled for Indiana, Louisiana, Maine, and West Virginia.

Question. I understand that all 28 State programs have had annual record reviews and that the majority of them have had on-site reviews. Is there a preliminary assessment on, and recommendations for, Congress on State meat and poultry inspection programs?

Answer. At this time, we have not conducted on-site reviews in 8 States. USDA will not make recommendations to Congress on State meat and poultry inspection programs until all on-site reviews have been completed and evaluated.

BEEF IMPORTS AND BSE

Question. I have heard from cattle producers in North Dakota who are concerned about USDA's approval of beef imports from Japan. As you know, the prevalence of BSE in Japan is many times greater than that in the United States.

Many U.S. consumers believe that, because Japan requires testing for BSE of all meat intended for domestic consumption, meat exported from Japan to the United States will be also tested for BSE. However, the final rule adopted by USDA does not require such testing.

How much, if any, Japanese beef coming into the United States is being tested for BSE, either by Japan or by the United States?

Answer. The final rule, published in the Federal Register on December 14, 2005, established the conditions under which certain types of beef may be imported from Japan. The regulations do not require that the boneless beef be derived from animals that were tested for BSE. It is important to note that the available tests for BSE are not appropriate as food safety indicators.

Question. Based on USDA's actions relative to importing beef from Canada, there is a presumption by the American public that meat coming from a country with a BSE-infected herd will be from younger cattle. However, USDA's final rule governing the importation of Japanese beef appears to put no such age limits on the beef imported from Japan, despite the fact that Japan restricted U.S. beef imports to cattle 20 months of age and younger. This suggests that we should have more stringent rules regarding Japanese beef coming into the United States than we currently have.

Does USDA consider it necessary to impose an age restriction on imports of Japanese beef similar to the restrictions previously placed on American beef exports to Japan?

Answer. USDA did not include an age restriction in the import requirements for whole cuts of boneless beef from Japan. APHIS established the requirements for allowing the import of whole cuts of boneless beef from Japan based on a thorough risk analysis. BSE studies in cattle have not detected infectivity in boneless beef, which is what is eligible for import, regardless of the age of the animal. For these reasons, we consider whole cuts of boneless beef to be inherently low-risk for BSE and determined that they can be safely traded provided that measures are taken to prevent cross-contamination during processing.

Question. What is USDA's position on allowing private testing of beef for BSE by U.S. producers and processors?

Answer. Given the consequences and governmental actions that can result from BSE testing of animals, USDA believes that such testing is an inherently governmental function that must be conducted by Federal and State laboratories. We would also like to clarify that BSE tests are not conducted on cuts of beef. Rather, the tests are performed on brain tissue taken from dead or slaughtered cattle to diagnose the presence of BSE in that animal.

Question. Why are the BSE importation rules not being changed to better reflect the current status of nations the U.S. imports beef from?

Answer. The APHIS regulations concerning BSE-related restrictions have been changed over the past year to reflect both the status of certain countries regarding BSE and the currently accepted scientific guidelines for appropriate risk mitigations on various products. Further, APHIS regulations are consistent with international guidelines on BSE.

GIPSA

Question. There have been very disturbing reports about the failure of USDA's Grain Inspection, Packers, and Stockyards Administration to properly investigate claims of wrongdoing.

Please tell me the steps you are taking to restore rural America's confidence in GIPSA and how you intend to make sure this agency fulfills its proper oversight role.

Answer. GIPSA intends to implement all recommendations in the OIG report. GIPSA has already issued policy directives in response to several of the recommendations and is initiating a review process to ensure that the directives are being followed and implemented properly.

However, GIPSA has gone further than just the OIG recommendations. For example, the agency has requested a full scale organizational review to provide recommendations on how to improve the agency's operational effectiveness. Also, the new GIPSA Administrator recently ordered an Office of Personnel Management-administered Organizational Assessment Survey. The survey gives employees an anonymous opportunity to let the Administrator know what they think about the organization on a range of topics. Results will be used to make decisions about work environment improvements in the program and enhance its organizational effectiveness. The Administrator is also working to develop an organizational culture to ensure at all levels a recommitment to OIG and GAO recommendations and to redirect resources to achieve mission-critical activities.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

DISASTER ASSISTANCE

Question. My first question pertains to the budget's assumption that there will be no ad hoc disaster relief spending for farmers this year. On January 26, 2006, your office announced that it would distribute $1.2 billion to producers that sustained losses due to Hurricane Katrina. This spending will go to producers in Mississippi, Florida, Louisiana, and other Gulf Coast States. However, as you know, there were natural disasters in many parts of the country that hurt producers significantly. In my home State of Illinois and many other parts of the Corn Belt, producers experienced one of the worst droughts since modern records have been kept. Almost every county in Illinois was declared a primary disaster area. According to crop indemnity statistics, Illinois yields were down significantly and indemnities rose.

I would like an answer as to why emergency funds have not been directed to producers in my State, and I would like the relevant branch of the USDA to provide an estimate of the amount of losses sustained State-by-State due to natural disasters this past year.

Answer. Yields in Illinois were down in 2005 when compared to the record production of 2004. However, when compared to historical averages, crop losses in Illinois were not as severe as expected. Current crop insurance data indicates that the loss ratio for Illinois is about 0.50. By contrast, the loss ratio in Florida stands at nearly 3.0, the highest in the Nation. The difference in losses becomes even more apparent when you consider that nearly 85 percent of Illinois crops are insured at a 70 percent or higher coverage level meaning that the majority of producers needed a loss of just 10 to 30 percent to qualify for an indemnity. By contrast, less than 18 percent of Florida crops are insured at such high coverage levels. In fact, over 63 percent of Florida crops are insured at the catastrophic level meaning they needed to sustain losses in excess of 50 percent to qualify for an indemnity.

At the present time we do not have a break-down of losses sustained State-by-State due to natural disasters. However, the Risk Management Agency does have a break-down of losses sustained State-by-State due to all causes of loss; which may include losses stemming from price declines.

[The information follows:]

FEDERAL CROP INSURANCE CORPORATION CROP YEAR STATISTICS FOR 2005 AS OF 3/20/2006

[Nationwide Summary—By State]

State	Policies Sold	Policies Earning Premium	Policies Indemnified	Net Acres Insured	Liabilities	Total Premium	Premium Subsidy	Indemnity	Loss Ratio
ALABAMA	13,358	6,175	1,275	1,037,905	266,638,428	30,294,966	18,286,761	14,719,917	.49
ALASKA	37	22	....	5,864	419,584	53,432	45,525	....	....
ARIZONA	2,109	973	72	381,969	150,917,945	8,497,319	5,256,239	1,877,860	.22
ARKANSAS	33,456	17,706	3,730	4,564,203	489,344,042	45,621,410	33,525,853	27,975,089	.61
CALIFORNIA	32,945	24,939	3,140	3,817,389	3,322,510,070	169,072,162	120,901,931	79,763,804	.47
COLORADO	36,022	17,140	10,117	3,928,423	579,414,985	84,784,549	48,770,711	96,305,825	1.14
CONNECTICUT	411	296	40	22,152	70,382,422	3,517,559	2,376,180	622,699	.18
DELAWARE	1,629	1,170	426	263,145	45,150,127	4,576,175	2,967,234	2,695,938	.59
FLORIDA	17,886	14,491	3,612	1,373,469	2,978,645,459	106,546,097	77,499,714	310,683,797	2.92
GEORGIA	34,796	14,321	3,467	2,449,745	727,871,287	78,312,292	48,135,009	56,789,355	.73
HAWAII	140	138	5	26,506	77,903,217	913,243	625,013	387,341	.42
IDAHO	11,150	6,321	1,426	1,849,657	536,046,499	42,134,361	24,522,855	23,595,390	.56
ILLINOIS	135,200	110,759	23,902	15,916,643	3,939,276,514	277,222,446	149,641,601	137,614,012	.50
INDIANA	51,866	41,996	6,900	7,703,368	2,002,619,812	163,300,587	87,078,250	25,001,170	.15
IOWA	151,329	127,408	12,734	19,909,552	4,513,906,738	310,561,169	166,880,925	67,947,493	.22
KANSAS	237,020	123,906	33,215	16,403,797	1,894,187,392	261,253,464	150,721,768	117,836,089	.45
KENTUCKY	21,908	12,410	2,242	1,848,103	399,460,535	34,702,791	20,523,436	16,478,773	.47
LOUISIANA	24,268	9,471	1,739	2,645,190	386,339,172	33,641,733	23,162,354	16,250,621	.48
MAINE	670	518	160	100,357	60,150,179	5,087,398	3,530,434	5,573,387	1.10
MARYLAND	5,563	4,179	804	750,124	175,680,023	15,024,802	9,883,561	4,266,926	.28
MASSACHUSETTS	800	604	104	26,829	47,248,511	2,454,178	1,715,709	2,239,041	.91
MICHIGAN	28,560	20,759	2,815	3,571,061	923,476,088	74,022,000	44,997,976	15,860,243	.21
MINNESOTA	123,856	82,367	14,838	16,248,086	3,137,522,415	284,883,602	159,009,913	131,820,332	.46
MISSISSIPPI	16,405	7,265	1,194	3,200,937	423,650,399	37,416,582	24,606,293	16,611,379	.44
MISSOURI	76,164	46,459	13,414	7,039,822	970,677,140	111,472,976	69,187,614	74,237,351	.67
MONTANA	39,785	22,567	3,326	33,915,723	672,585,090	96,239,181	56,274,382	24,573,063	.26
NEBRASKA	159,011	95,153	21,766	14,121,474	2,726,193,994	253,899,361	141,880,921	79,564,839	.31
NEVADA	152	115	32	38,102	13,967,262	1,023,211	595,975	763,228	.75
NEW HAMPSHIRE	118	98	17	8,121	9,515,182	381,105	275,311	490,792	1.29
NEW JERSEY	1,521	1,067	129	156,939	87,457,732	3,486,846	2,854,527	1,413,404	.41
NEW MEXICO	3,615	1,763	229	551,108	80,983,767	10,635,155	6,990,003	2,430,038	.23
NEW YORK	6,329	4,340	658	714,682	233,205,271	17,854,230	12,421,731	12,031,267	.67
NORTH CAROLINA	35,045	19,037	4,783	3,101,172	906,615,258	77,458,243	46,861,372	63,726,912	.82
NORTH DAKOTA	170,987	74,758	26,596	20,393,248	2,032,938,321	308,384,516	178,545,676	222,427,856	.72

FEDERAL CROP INSURANCE CORPORATION CROP YEAR STATISTICS FOR 2005 AS OF 3/20/2006—Continued

[Nationwide Summary—By State]

State	Policies Sold	Policies Earning Premium	Policies Indemnified	Net Acres Insured	Liabilities	Total Premium	Premium Subsidy	Indemnity	Loss Ratio
OHIO	51,177	40,288	11,083	5,742,109	1,336,152,625	109,260,601	59,310,152	44,364,624	.41
OKLAHOMA	36,002	19,698	6,453	4,668,500	408,355,429	60,183,880	36,530,873	26,770,647	.44
OREGON	6,082	3,506	1,080	878,217	544,055,132	18,199,764	11,366,471	25,330,774	1.39
PENNSYLVANIA	15,281	11,410	2,383	1,117,322	249,867,340	29,841,007	19,260,202	14,811,482	.50
RHODE ISLAND	57	36	6	1,529	840,333	60,232	45,452	55,859	.93
SOUTH CAROLINA	10,142	5,404	1,312	1,057,078	273,512,449	28,391,120	17,924,781	18,181,566	.64
SOUTH DAKOTA	112,973	62,641	19,023	13,583,329	1,618,226,090	230,818,186	134,592,001	116,288,325	.50
TENNESSEE	16,646	9,217	1,179	1,865,720	651,254,289	32,535,870	22,291,662	12,693,138	.39
TEXAS	172,730	74,337	16,955	13,604,810	1,988,774,231	315,743,910	198,748,630	146,587,572	.46
UTAH	1,172	847	173	173,209	21,421,230	2,625,837	1,650,607	2,846,260	1.08
VERMONT	596	509	43	72,085	16,753,118	1,201,826	837,124	329,444	.27
VIRGINIA	12,238	6,745	2,008	970,105	271,737,055	23,357,692	14,259,115	14,251,573	.61
WASHINGTON	16,260	11,823	2,072	2,403,707	1,050,845,453	48,835,523	31,421,700	21,611,628	.44
WEST VIRGINIA	942	494	84	45,381	11,247,813	1,285,520	870,190	641,063	.50
WISCONSIN	37,485	28,708	5,471	4,053,136	857,353,335	80,504,835	47,060,824	35,885,299	.45
WYOMING	6,371	3,968	869	7,490,239	93,006,210	10,534,970	6,466,884	6,034,049	.57
Grand Total	1,970,265	1,190,322	269,101	245,811,341	44,276,302,992	3,948,109,914	2,343,189,425	2,141,258,534	.54

The issue of rural development is of serious concern to me. I just don't see how this budget demonstrates a commitment to the needs of rural America. Here's one item that jumps out at me: consolidation of Farm Service Agency (FSA) offices. I continue to be concerned that there are signals going out to State FSA directors that they will be able to shutter FSA offices.

Consolidating these offices would mean that farmers have to spend more time driving around to access the essential services provided by FSA offices, and would result in a direct decrease in these services.

FSA OFFICE CLOSURES

Question. The issue of rural development is of serious concern to me. I just don't see how this budget demonstrates a commitment to the needs of rural America. Here's one item that jumps out at me: consolidation of Farm Service Agency (FSA) offices. I continue to be concerned that there are signals going out to State FSA directors that they will be able to shutter FSA offices.

Consolidating these offices would mean that farmers have to spend more time driving around to access the essential services provided by FSA offices, and would result in a direct decrease in these services.

First, I would like to know what mechanism the Secretary proposes for State authorities to be given discretion to close FSA offices. Also, I would like the Secretary to respond in unequivocal terms that should State or Federal authorities choose to consolidate FSA offices, that Members of Congress be consulted. I would like to know what plans the Secretary has for keeping Members in the loop fully through the process.

Answer. The Department and the Farm Service Agency (FSA) is committed to meeting the needs of farmers and ranchers in the 21st Century, and wisely investing in our employees, technology and equipment will only improve customer service delivery. We are also committed to coordinating with Congress, stakeholders, local groups and customers to ensure the Agency offers the best service possible.

FSA is working with the State Executive Directors (SEDS) for each State. FSA is asking each SED to conduct an independent local-level review of the efficiency and effectiveness of FSA offices in their State. SEDs and State Committees will form a review committee to identify what the optimum network of FSA facilities, staffing, training and technology should be for your State within existing budgetary and staffing resources. Further, SEDs will explore potential joint-effort opportunities with the Natural Resources Conservation Service and other USDA agencies.

There is no comprehensive national plan or formula for identifying the optimum network of FSA offices. Each State will review its own county office system before submitting recommendations for technology upgrades, staffing, training and facilities.

As recommendations are received from each State, FSA will hold public hearings and coordinate communications efforts with area farmers, ranchers, and stakeholders. If the office closure or consolidation moves forward, FSA will notify the appropriate members of Congress, including those on the Appropriations Subcommittees.

The Department is committed to a continued dialogue with State and congressional leaders to discuss how best to modernize the FSA county office system and the necessary steps required to improve its information technology (IT) infrastructure. The ultimate goal of this process is to increase the effectiveness of FSA's local offices by upgrading equipment, investing in technology and providing personnel with critical training. Optimizing the county office structure consistent with IT modernization is absolutely essential if the Agency's tradition of excellent customer service is to be maintained.

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

IMPORTS OF JAPANESE BEEF

Question. When Japan opened its market to U.S. exports of beef from animals under 20 months of age, the U.S. simultaneously opened up its market to a broad range of beef from Japan, including beef from animals over 30 months of age. Japan implemented its ruminant-to-ruminant feed ban in 2001, and has had more than 20 cases of Bovine Spongiform Encephalopathy (BSE).

Can you explain how the U.S. import standard for beef from Japan meets the standards of the World Organization for Animal Health (OIE) for mitigating the risk of spread of BSE?

Answer. The OIE guidelines provide for three possible BSE classifications for an exporting country: negligible risk, controlled risk, and undetermined risk, with export conditions increasingly stringent as the status of a region moves from negligible risk through controlled risk to undetermined risk. The import conditions for whole cuts of boneless beef from Japan, including the requirements for specified risk material removal and restrictions on stunning and pithing, are consistent with OIE's criteria for meat exported from controlled-risk regions.

Question. How does this import standard take into account the fact that science is still evolving regarding the question of whether or not the prions responsible for BSE infection may be found in sciatic nerve tissue and muscle cuts of meat?

Answer. APHIS recognizes that ongoing research with increasingly sensitive detection measures may find the presence of abnormal prions in different tissues. This does not negate the previous research studies nor the years of epidemiological evidence that demonstrate the lack of infectivity in muscle meat. The incidence of BSE worldwide continues to decrease, providing evidence that the established control measures are working. These control measures are based on previous research and epidemiological evidence, and demonstrate that this research has identified those tissues that contain essentially all of the relevant infectivity in cattle tissues.

Question. Does this opening to beef from a country with a feed ban since 2001 comply with USDA's earlier position that risk mitigation required the existence of a feed ban for a minimum of 7 years?

Answer. A feed ban in relation to the definition of a BSE-minimal risk region—which is not relevant to the import of boneless beef from Japan—requires that a minimal-risk region should maintain risk mitigation measures adequate to prevent widespread exposure and/or establishment of disease, including the fact that a ruminant-to-ruminant feed ban is in place and is effectively enforced. There is no time frame specified.

Question. Why did the United States agree to impose less stringent import standards for meat from a country with BSE problems than that country agreed to impose on our exports?

Answer. Japan requested that the USDA consider allowing the resumption of beef imports from Japan based on the safeguards they had implemented to prevent and control BSE. APHIS conducted a thorough risk analysis to evaluate this request, and determined that the importation of whole cuts of boneless beef could be allowed while continuing to protect the United States against the introduction of BSE.

IMPORTS FROM CANADA

Question. In January of this year, Canada confirmed the detection of another animal infected with BSE in Alberta. The animal in question was born 3 years after Canada imposed its ruminant-to-ruminant feed ban. In addition, in December of last year, USDA's Inspector General confirmed that Canadian beef inspection officials were still not enforcing certain measures required of them in order to qualify for equivalence to the U.S. inspection system, despite the fact that USDA originally identified these problems in the Canadian system as early as 2003. Yet FSIS is only now developing and implementing protocols to evaluate deficiencies in the Canadian system.

In light of these developments, is USDA considering re-evaluating its Canadian import policy?

Answer. USDA remains confident in the animal and public health measures that Canada has in place to prevent BSE, combined with existing U.S. domestic safeguards and additional safeguards outlined in the final rule recognizing Canada as a minimal-risk region for BSE.

Question. Do you feel there are any additional safeguards that may be needed in our import regulations to account for the discovery of an infected animal Canadian born after the feed ban, and the continued deficiencies in Canada's meat inspection system?

Answer. USDA feels that the safeguards currently in place are sufficient to protect public health against BSE. USDA requires that all foreign countries that export meat and poultry to the United States must have an inspection system equivalent to the one in this country. This means that all of our trading partners must meet our domestic regulatory standards, including the ban on specified risk materials (SRMs) and the prohibition of non-ambulatory disabled cattle from the human food supply.

Canada has SRM removal requirements that are virtually identical to the current U.S. regulations. The only difference is that Canada does not consider tonsils to be SRMs in cattle less than 30 months of age. However, all meat exported from Canada to the United States must have the tonsils removed, pursuant to U.S. regulations.

Question. If you don't believe any modifications in our import regulations are needed, why not?

Answer. USDA remains confident in the animal and public health measures in place in both Canada and the United States. With respect to BSE, risk mitigation is not tied to the success or failure of one individual measure. It relies on an interlocking sequence of risk mitigation measures that provide an overall measure of risk protection. The Canadian BSE risk assessment evaluated the total effect of all of these measures, and was not based on one individual measure.

COUNTRY OF ORIGIN LABELING

Question. American cattle producers often argue that one of the most important steps that could boost their competitiveness at home and abroad would be to differentiate their product to consumers as meat exclusively from animals born and raised in the United States. In fact, customers in some of our most important export markets are also demanding source verification of U.S. meat exports. Yet country of origin labeling is still not mandatory for U.S. meat products, and there is no way for consumers to distinguish whether meat packed in the United States is from U.S. animals or foreign animals.

Does USDA see mandatory country of origin labeling for meat, including information on animal origin, as a competitive advantage for U.S. producers?

Answer. Evidence from the marketplace suggests that the willingness of consumers to pay for information about the origin of their food is not high. If market premiums for country of origin information were available, there would be strong incentives for the industry supply chain to provide that information voluntarily to consumers. Since the level of voluntary labeling for country of origin of U.S. foods is minimal, the willingness of consumers to pay for the information appears to be small. That being the case, there most likely would be minimal competitive advantage for U.S. producers under a mandatory program.

Question. If export customers are demanding such information, shouldn't U.S. consumers have access to the same information about the food they eat?

Answer. Many groups, including consumers and industry associations, have expressed an interest in country of origin labeling. In general, providing more information to consumers to make informed purchase decisions is better than less or no information. If the costs of providing the additional information exceed the benefits, however, then there is no economic rationale for providing it.

Question. What can USDA do to help ensure that U.S. producers can differentiate their product in the market?

Answer. There are existing user-fee programs administered by USDA that address this issue, such as the Process Verified Program. Under this program, individuals can request that USDA verify live animal or product attributes, including the source of their animals. USDA's voluntary marketing programs are currently assisting U.S. producers in differentiating their products in domestic and international marketplaces.

RESOURCE, CONSERVATION, AND DEVELOPMENT PROGRAM

Question. I am concerned for the President's budget request for the Resource, Conservation, & Development program. RC&D leverages $8 in my community for every $1 the Federal Government invests. What other programs in your agency budget bring this type of return on investment to rural areas?

Answer. USDA delivers a variety of rural economic development, farm support, research, conservation, and forestry programs that collaborate closely with local communities and landowners to address their locally identified priorities. Many of these programs cost share the financial and technical assistance costs with State and local governments, and the private sector, to more cost effectively deliver benefits for local communities.

Question. It is my understanding that while we level funded RC&D that the following States lost funds in your new resource based allocations. Can you tell us what factors you used to determine the resource allocations? I note that States served by Members of this Subcommittee like Missouri, Kentucky, Kansas, California, Iowa, Illinois, and North Dakota lost funding under this process.

Answer. State RC&D allocations are now based on 19 resource concern factors which reflect the four program statute purposes of Land Conservation, Land Management, Water Management, and Community Development; and State specific factors which reflect the cost of doing business within the State. In fiscal year 2006 the resource concern factors reflected 90 percent of the allocation and State specific factors reflected 10 percent. The new approach was designed so that no State received a reduction in allocation greater than 5 percent. Additional information, including a list of fiscal year 2006 allocation factors and weights used is provided for the record.

[The information follows:]

	RC&D PROGRAM DOLLARS AVAILABLE FOR STATE ALLOCATIONS (Maximum change in allocation 5%)			
		Category Weight (%)	Factor Weight(%) in the Category	Factor Weight (%) Overall
	Resource Concern Factors			
	Factors that relate to natural resource concerns or emerging issues across the landscape that track the NRCS approach to Soil, Water, Air, Plant, Animal, and Human (SWAPA & H)			
	Land Conservation	22.5%		
1	Soil Erosion Water (Crop) (ac.)		5.0%	4.5%
2	Soil Erosion Water (Grazing) - Rangeland (ac.)		5.0%	4.5%
3	Soil Erosion Water (Grazing) - Pastureland (ac.)		5.0%	4.5%
4	Soil Erosion Water (non-ag) (ac.)		5.0%	4.5%
5	Soil Erosion Wind (ac.)		5.0%	4.5%
	Water Management	22.5%		
6	Non-Attainment Water Bodies (no.)		8.3%	7.5%
7	Non-Attainment Water Bodies - Lake (ac.)		8.3%	7.5%
8	Non-Attainment Water Bodies - Rivers (miles)		8.3%	7.5%
	Land Management	22.5%		
9	Land Conversion Pressure (%)		5.0%	4.5%
10	Wildlife Habitat (ac.)		5.0%	4.5%
11	Wetland (ac.)		5.0%	4.5%
12	Tidal Shoreline (miles)		5.0%	4.5%
13	Resource Needs Magnitude [non-Federal land] (ac.)		5.0%	4.5%
	Community Development	22.5%		
14	Poverty (%)		4.2%	3.75%
15	Target Populations (ac.)		4.2%	3.75%
16	Federally Recognized Tribes (no.)		4.2%	3.75%
17	Out Migration (%)		4.2%	3.75%
18	Unemployment (%)		4.2%	3.75%
19	Limited Resource Farmers and Ranchers (%)		4.2%	3.75%
	Total	90.0%	100.0%	90.0%
	State Specific Factors			
	Criteria unique to each state that affects the cost of business and implementation of national objectives			
	Costs of doing business	10.0%		
20	a) Average Office Rental Costs (dollars)		33.3%	3.3%
21	b) Average Travel Costs (dollars)		33.3%	3.3%
22	c) FY 06 RC&D Salary and Personnel Benefit Cost (dollars)		33.4%	3.4%
	Total	100.0%	100.0%	10.0%

This new targeted allocation approach addresses Program Assessment Rating Tool (PART) concerns about the need for targeting resources to address the highest priority needs. It uses weighted state and local-level data elements collected through the Natural Resources Inventory (NRI), National Agricultural Statistics Service (NASS), U.S. Census Bureau, Economic Research Service and other reliable and statistically sound sources to highlight the resource needs in the States. The targeted allocations reflect national NRCS priorities and tie to long-term program goals.

Question. Can you give us an update on management issues within the RC&D program including long term program goals and the status of the new POINTS database?

Answer. There are a number of improvements underway for the program that address operating deficiencies highlighted through the PART results and through the national evaluation conducted in conjunction with RC&D councils in fiscal year 2004–2005.

By the end of April, NRCS will have a new RC&D program performance reporting system, POINTS, in place that will enable more effective management of program performance and more closely link performance with budget requests. In addition, NRCS has recently developed new national long-term, outcome-oriented program performance measures and goals that meaningfully reflect the program's purpose. The new long-term performance measures, reflecting the core of activities undertaken by RC&D Councils, were developed using information provided by the National Association of RC&D Councils (NARC&DC).

NRCS is working with RC&D Councils to develop Area Plans and annual plans of work that tie more closely to the new targeted approach to addressing the highest priority needs and be more accountable for showing program performance.

NRCS is also taking steps with the National Association of RC&D Councils (NARC&DC) to increase program participation with Indian Tribes, an item of concern reported in the national program evaluation. Hands-on training is being provided to RC&D councils and coordinators on working more effectively with Tribes. In addition, a useful handbook has been developed to aid local councils in their daily interaction and outreach activities with Tribes.

Question. RC&D was originally intended to be administered by NRCS yet bring to bear the resources of all USDA programs in a community. We hear from constituents that conservation and implementation of Farm Bill programs are the priority for NRCS employees associated with the program.

What are you doing to maintain the integrity of the RC&D area planning process and ensure that in areas where rural development is a priority that council can still receive assistance from the Federal coordinator?

Answer. All program improvements being implemented for the RC&D program are designed to maintain the integrity and authorities of the program. Under long-standing NRCS policy, the RC&D Area Plan developed by each council must address all four statutory components of the program: land conservation, water management, community development and land management. Rural development activities fall within these components. The technical assistance provided through RC&D coordinators and other NRCS employees address the high priority concerns outlined in the RC&D area plans to the extent that RC&D appropriations are available.

Question. We hear that States no longer have full time coordinators and that part time program assistant positions have been eliminated in most States.

The program was level funded. How has this happened?

Answer. Despite continued increased costs relating to salaries, rent, equipment, supplies, fuel, etc., program efficiencies and more effective leveraging of Federal funds allow the program to deliver the high level of service in 2006 as in prior years.

Question. Can you detail the level of support provided to each State?

Answer. In fiscal year 2006 the following funds were provided to each State:

State	Total fiscal year 2006 allocation
Alabama	$1,095,450
Alaska	984,616
Arizona	801,550
Arkansas	856,767
California	1,465,350
Colorado	973,733
Connecticut	274,083
Delaware	134,417
Florida	940,917
Georgia	1,343,633
Hawaii	549,694
Idaho	1,075,333
Illinois	1,221,917
Indiana	1,095,450
Iowa	1,947,467
Kansas	1,096,716
Kentucky	1,704,033
Louisiana	940,917
Maine	672,083
Maryland	403,250
Massachusetts	403,250
Michigan	940,917
Minnesota	1,075,333

State	Total fiscal year 2006 allocation
Mississippi	940,917
Missouri	1,009,897
Montana	1,075,333
Nebraska	1,460,600
Nevada	403,250
New Hampshire	268,833
New Jersey	268,833
New Mexico	979,469
New York	1,023,728
North Carolina	1,217,167
North Dakota	998,832
Ohio	1,095,450
Oklahoma	1,095,450
Oregon	672,083
Pennsylvania	1,095,450
Rhode Island	134,417
South Carolina	940,917
South Dakota	940,917
Tennessee	1,217,167
Texas	2,677,767
Utah	940,917
Vermont	268,833
Virginia	940,917
Washington	940,917
West Virginia	735,050
Wisconsin	940,917
Wyoming	672,083
Pacific Basin	280,863
Puerto Rico	403,250
Total Allocated to States	47,637,100

Question. RC&D coordinators are being pulled from their program responsibilities to implement Farm bill programs. What is the average amount of time a coordinator spends on RC&D program activities nationally?

Answer. RC&D coordinators are spending at least 75 percent of their time on RC&D program activities.

Question. Is this time charged to the TA portion of Farm bill programs?

Answer. NRCS time charges are directly connected to the benefiting program. If an RC&D Coordinator works on a Farm Bill related program their time is charged directly to those programs on a case-by-case basis. Only RC&D work is charged to the RC&D program.

Question. Anecdotal evidence indicates that RC&D councils are taking on more and more of NRCS overhead and administrative costs.

Can you provide a comparison by State of the administrative costs assessed to RC&D in proportion to other Federal programs in your agencies jurisdiction?

Answer. The comparison by State for fiscal year 2006 is provided for the record.

[The information follows:]

FY 2006 Administrative Support Comparison as of March 31, 2006

	NRCS Programs*													
STATE	CO	Soils	Plann ing	WS Rehab	WS Ops	RC&D	CRP	FRPP	WHIP	EQIP	WRP	EQIP GSWC	CSP	GRP
Alabama	49.7%	9.9%	0.0%	0.4%	0.8%	5.6%	0.4%	0.1%	0.4%	20.8%	0.2%	0.2%	0.7%	0.0%
Alaska	32.8%	13.4%	4.6%		2.7%	13.0%	0.2%	0.7%	5.0%	20.6%	0.2%			
Arkansas	49.9%	5.6%			2.2%	4.3%	2.8%			20.7%	2.2%	3.5%	7.2%	
California	40.4%	7.8%	1.3%	0.0%	0.7%	3.2%		0.1%	0.5%	22.0%	2.0%	7.3%	1.5%	0.0%
Colorado	46.2%	6.2%	0.4%	0.7%	1.7%	3.1%	0.9%	0.2%	0.8%	25.8%	0.7%	4.1%	1.5%	0.1%
Connecticut	49.9%	4.9%	1.5%			5.0%		2.1%	7.6%	29.0%				
Delaware	53.0%	7.0%				2.0%	4.0%	1.0%	3.0%	30.0%				
Florida	47.1%	5.1%	0.6%		1.4%	4.6%	0.6%	0.2%	0.4%	28.6%	3.7%	1.6%	0.3%	
Georgia	58.9%	6.3%	0.5%	4.4%	0.6%	5.2%	0.4%	0.1%	0.3%	17.9%	0.7%	0.7%	1.8%	0.0%
Hawaii	42.1%	5.9%	1.1%		13.1%	6.0%	0.6%	0.7%	4.3%	16.7%	0.6%	3.3%	0.1%	0.1%
Idaho	49.5%	6.5%	0.3%		0.4%	6.4%		0.1%	0.7%	21.7%	0.5%	5.6%	2.0%	0.0%
Illinois	60.7%	5.1%			0.4%	4.9%	12.1%	0.1%	0.3%	8.9%	4.0%		3.4%	
Indiana	56.0%	7.6%		0.6%		5.8%	16.2%			7.2%	2.6%		3.0%	
Iowa	60.5%	3.8%	2.2%	0.3%	6.1%	5.5%		0.0%	0.6%	14.3%		0.1%	5.5%	0.0%
Kansas	57.3%	4.3%	0.4%		1.4%	3.1%	8.5%		0.4%	16.8%	0.5%	3.0%	3.1%	
Kentucky	60.2%	8.9%		1.2%	0.5%	7.8%	7.4%	0.2%	0.4%	12.9%	0.2%		0.2%	
Louisiana	48.2%	4.6%	0.4%	0.1%	1.8%	5.0%	2.3%		0.5%	20.1%	5.3%	0.6%		
Maine	49.6%	11.2%	0.3%		0.8%	7.6%	2.7%	0.4%	1.8%	24.9%		0.8%		
Maryland	65.0%	12.0%				3.0%		2.0%		16.0%			2.0%	
Massachusetts	38.7%	17.4%	2.5%	0.3%	1.4%	7.8%	0.2%	1.0%	6.5%	23.2%	0.5%	0.2%	0.1%	0.1%
Michigan	52.5%	7.7%				5.1%	3.6%	0.4%	0.6%	22.1%	4.1%		3.9%	
Minnesota	45.2%	7.8%	1.0%		0.9%	3.8%	14.1%		0.8%	19.8%	3.9%		2.8%	
Mississippi	43.7%	3.9%		2.0%	0.7%	3.1%	6.2%		0.8%	10.4%	1.2%	2.3%	0.3%	0.0%
Missouri	48.4%	5.0%			15.0%	2.5%	7.8%			12.9%	2.7%		5.5%	
Montana	55.8%	8.5%	0.3%		0.7%	3.3%	0.8%	0.1%	0.3%	20.8%	0.8%	2.1%	2.5%	
Nebraska	55.0%	3.5%	0.6%	2.1%		5.0%	8.0%	0.0%	0.7%	16.3%	2.4%	4.3%	2.0%	0.1%
New Hampshire	47.0%	7.5%		0.9%		5.3%		1.7%	10.0%	26.1%	1.0%			
New Jersey	60.7%	5.7%				3.5%	2.3%	2.1%	3.7%	18.6%				
New Mexico	50.0%	6.0%				8.0%				36.0%				
New York	59.4%	6.2%	0.1%	0.9%		6.0%		0.5%	0.3%	19.5%	4.6%		0.4%	
North Carolina	54.8%	9.3%			2.8%	4.3%	6.5%	0.3%	0.3%	17.9%	2.4%	0.5%	0.9%	
North Dakota	37.1%	4.1%		1.0%	2.3%	2.9%	12.3%			12.1%	0.8%		1.2%	
Ohio	53.4%	4.0%		0.2%	1.7%	4.5%	15.5%	0.3%	0.3%	15.1%	1.5%		3.5%	
Oklahoma	54.7%	4.4%		9.3%	0.7%	3.7%	2.0%	0.1%	0.4%	19.3%	1.1%	0.6%	0.5%	0.0%
Oregon	43.4%	9.5%	2.3%			2.8%	0.6%		0.5%	14.4%	2.1%	2.6%	9.0%	
Pacific Basin	70.6%	4.7%	3.7%		3.6%	9.4%				7.6%				
Pennsylvania	51.7%	4.3%		0.9%	4.3%	4.7%	18.5%	0.7%		14.2%			0.6%	
Puerto Rico	59.0%	6.0%				7.0%				27.0%		1.0%		
Rhode Island	41.6%	4.7%	0.4%			5.1%	0.4%	3.2%	14.5%	28.9%	0.6%		0.2%	0.3%
South Carolina	56.2%	4.5%	1.0%	0.6%	1.4%	7.1%	6.2%		0.7%	14.9%	4.4%		1.6%	
South Dakota	55.5%	4.6%	0.1%	0.1%	0.3%	3.4%	13.0%	0.0%	0.6%	19.9%	0.8%	0.8%	0.4%	0.1%
Tennessee	63.3%	7.0%	0.3%	1.0%	0.2%	6.5%	2.3%	0.1%	0.3%	14.6%	0.9%		0.3%	0.0%
Texas	56.5%	4.8%	0.1%	2.8%	1.1%	3.5%	1.7%	0.0%	0.3%	24.7%	0.2%	2.3%	0.5%	0.1%
Utah	25.4%	5.5%		1.5%	0.1%	4.4%		0.1%	0.4%	28.9%	0.1%	1.9%	0.8%	0.0%
Vermont	46.7%	6.7%			6.3%	4.5%	2.8%	1.3%	6.3%	24.9%			0.6%	
Virginia	59.1%	8.2%	0.6%	2.6%	3.1%	5.7%	0.8%	0.2%	0.5%	17.1%	0.3%		1.0%	0.0%
Washington	59.5%	6.3%	0.2%			4.8%		0.2%	0.7%	17.4%	2.9%	1.9%	3.0%	0.1%
West Virginia	54.0%	12.0%	1.0%	2.0%	6.0%	5.0%				14.0%				
Wisconsin	56.6%	7.7%	0.1%	0.6%		3.6%	10.2%	0.3%	0.5%	15.8%	3.0%	0.2%	1.5%	0.0%
Wyoming	40.5%	24.0%	4.3%	1.3%	2.1%	11.6%			1.7%	4.0%	0.8%	5.5%	0.2%	

*Does not include reimbursable program funds that are state specific or programs funds that affect only a small umber of states; therefore, totals will not equal 100%.

Percentages represent amounts States charge to indirect costs such as rent, communications, and utilities, supplies, vehicle fuel and maintenance, etc.

Question. The House bill included report language that the Committee expects the NRCS to promptly fill RC&D coordinator vacancies. The Committee expects support provided under this act to be allocated equitably among the 375 existing councils and that priority be given to providing every council a full-time coordinator.

What States returned funds to headquarters at the end of the fiscal year?

Answer. Eight States, Alaska, Arizona, Florida, Illinois, Nevada, North Carolina, Utah, and Washington had unused funds at the end of fiscal year 2005 in amounts ranging from $10,000 to $101,000. There were 20 other States that had unused funds of less than $10,000; they were Alabama, Arkansas, Georgia, Hawaii, Indiana, Maine, Massachusetts, Michigan, Mississippi, Montana, New Jersey, New York, North Dakota, Oregon, Rhode Island, Tennessee, Texas, Virginia, Wisconsin, and Wyoming. The Funds were then redistributed using the allocation formula.

Question. Please provide a chart of coordinator vacancies that took place in fiscal year 2006 and the length of time it took to fill the position with a permanent employee?

Answer. Since the beginning of fiscal year 2006 there are 10 vacancies.

State	Number of vancancies	Vacant since est.	Length vacant
Florida	1	10/05	6 months
Georgia	1	2/06	2 months
Kentucky	1	1/06	3 months
Louisiana	1	2/06	2 months
Massachusetts	1	1/06	3 months
Michigan	1	1/06	3 months
North Carolina	1	1/06	3 months
Ohio	1	1/06	3 months
Oklahoma	1	1/06	3 months
South Dakota	1	3/06	1 month

Question. Include an explanation of how appropriated funds were used while there were extended vacancies. Will vacancies that occur in fiscal year 2006 be promptly filled?

Answer. Funds are allocated to the States to support RC&D activities within the State. In most cases when there is a vacancy, appropriated funds are used for another NRCS employee to serve in an acting capacity for the Coordinator. If that is not possible, the funds are not used until the position is filled. When the positions are filled, the funds are used to cover salary and relocation costs incurred in filling the position. In some cases relocation costs can exceed $100,000. In situations where funds are limited, filling vacancies is deferred until the employee relocation costs and salary can be absorbed. Vacancies that occur in fiscal year 2006 are being filled as funding permits.

Question. Why has no input been asked for or taken from local RC&D councils in regard to the fiscal year 2006 Goaled Performance Measures in accordance with Public Law 107–171 and NRCS's own Programs Manual part 513 on RC&D program (May, 2002) section a, b, and c?

Answer. In fiscal year 2005, NRCS established goaled performance measures for all programs covering a two-year period, fiscal year 2005 and fiscal year 2006. However, information provided by the NARC&DC, representing the 375 councils nationwide, was used in the development of the new annual, long-term and efficiency measures for the program being implemented for fiscal year 2006 and 2007. The NARC&DC, through a cooperative agreement with NRCS, provided eight long term program performance measures, and four program priorities based on their research of local RC&D council area plans.

Question. Why should local RC&D Council Members who are volunteers continue to spend their time on RC&D goals which are decided at the Washington DC level, rather than at the local, grassroots community level which was the intent of the RC&D legislation?

Answer. Performance goals established for the RC&D program are required by the Government Performance and Results Act of 1993. The goaled performance measures established for the RC&D program relate to the statutory elements outlined in the authorizing legislation and reflect program benefits that RC&D councils have been reporting for many years. Participation in the RC&D program is voluntary and not limited to goaled performance measures. However, the goaled performance measures are tied to program budget requests and the types of activities for the Federal coordinator.

Question. How can the Office of Management and Budget ignore the statutory mission established for the RC&D program?

Answer. The Office of Management and Budget does not ignore the statutory mission established for the RC&D program. Performance goals relate to the four statutory elements in the authorizing legislation of the program.

Question. Are there any other programs that have the ability to bring together grassroots community vision and mission based on local needs and leverage the dollars to local communities at 6:1–10:1?

Answer. USDA delivers a variety of rural economic development, farm support, research, conservation, and forestry programs that provide technical and financial assistance to address local needs.

Question. Why has the NRCS abandoned grassroots priority-setting for the RC&D program in response to the PART review conducted by OMB?

Answer. NRCS has not abandoned grassroots priority setting for the RC&D program. RC&D Councils can set their priorities as they relate to the four statutory elements in the authorizing legislation.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question. In relation to the Commodity Supplemental Food Program, why would you eliminate a Federal program that provides a $50 retail value of food each month, at a cost of just $16 a month to the tax payers, with $20 worth of food stamps? This would equate to a loss of $30 in benefits to our Nation's elderly at a time of rising medical and utility costs. Isn't this an example of a judicious use of the tax payer's dollars being discarded?

Answer. The CSFP is a relatively small program that operates in limited areas of 32 States, two Indian reservations, and the District of Columbia. Its benefits are to a great extent redundant of those available through other nutrition assistance programs. In an era of fiscal constraint, we must ensure that limited resources are targeted to those programs that are available to needy individuals and families, regardless of the communities in which they reside. The populations served by CSFP are eligible to receive similar benefits through other Federal nutrition assistance programs that offer them flexibility to meet their individual nutritional needs and preferences. The administration has proposed this change to better target limited resources to those major programs that are available nationwide, promoting equity and effectiveness. If Congress adopts the budget request, we will work closely with CSFP State agencies to ensure that any negative effects on program participants are minimized and that they are transitioned as rapidly as possible to other nutrition assistance programs for which they are eligible.

Elderly participants who are leaving the CSFP upon the termination of its funding and who are not already receiving FSP benefits will be eligible to receive a transitional benefit worth $20 per month ending in the first month following enrollment in the FSP under normal program rules, or 6 months, whichever occurs first. The average food stamp benefit for an elderly person living alone was $65 per month in 2004. The percentage of food stamp households with elderly that received the maximum benefit (14 percent) was nearly as large as the percentage that received the minimum benefit of $10 (17 percent). Thus, most elderly food stamp participants receive more than $10 per month, and we expect that this pattern would extend to new FSP participants leaving CSFP as well.

Question. Why would you consider eliminating the CSFP, unlike any other, that receives donations of goods, services and volunteer hours with a value nearly equal to the administrative reimbursement by USDA? Besides providing a critical food supplement to our low income seniors, CSFP also provides a $1 donation for every $1 of administrative costs.

Answer. We greatly appreciate our CSFP partners at the State and local level who have worked on behalf of this program and hope that their efforts can be directed toward volunteer opportunities in other USDA commodity programs, including the Emergency Food Assistance Program (TEFAP). Under TEFAP, local nonprofit organizations that are staffed mainly by volunteers, including many faith-based and community organizations, provide USDA commodities to the needy, either as prepared meals in soup kitchens, or through food pantries as commodities to be used by households. In addition, many TEFAP local organizations actively seek donations of commodities from other sources, including local grocery stores.

Question. What will you do for the 25 percent of the CSFP participants who are already enrolled in the food stamp program and would be losing a critical benefit?

Answer. CSFP recipients who are already enrolled in the FSP will continue to receive monthly food assistance benefits and have access to nutrition education services.

Question. Isn't it true that the FSP and CSFP are supplemental programs that are meant to work with each other to ease the burden upon our low income seniors?

Answer. The Food Stamp Program is the cornerstone of the national nutrition safety net, and the largest elderly nutrition assistance program, serving nearly 2 million seniors in an average month. Because the CSFP operates in limited areas, some low-income elderly have access to nutrition assistance through commodities and/or Food Stamps, while most others must rely exclusively on Food Stamps for such help. In the administration's view, ensuring adequate funding for programs that have the scope and reach necessary to provide access to eligible people wherever they may reside is a better and more equitable use of scarce resources than to allocate them to programs that cannot provide access to many areas of the country. For this reason, the administration has placed a priority on funding Food Stamps, WIC, and other nationally-available programs that provide benefits to eligible people wherever they may live, including communities currently served by CSFP. Many elderly CSFP participants are expected to be eligible for, and to make use of the FSP, from which they may receive benefits that can be more flexibly used to avoid conflicts with their individual dietary needs and preferences.

Question. Why would you consider eliminating a program that has grown by 15 States since 2000, has 5 States on a waiting list and has current participating States asking for thousands of additional caseload slots?

Answer. We face difficult challenges and decisions with regard to discretionary budget resources and have chosen to not request funding for this program for several reasons. Resources are not available to permit CSFP to operate nationwide. In an era of fiscal constraint, we must ensure that limited resources are targeted to those programs that are available to needy individuals and families, regardless of the communities in which they reside. The priority of the administration is to ensure the continued integrity of the national nutrition assistance safety net, including the Food Stamp Program and WIC.

Question. Some seniors have spoken that they prefer commodities to food stamps as was shown during your pilot program, of commodities in lieu of food stamps, in Connecticut and North Carolina. What do you say to those seniors?

Answer. We recognize that some seniors prefer commodity packages to food stamps. However, the Food Stamp Program is the Nation's primary domestic nutrition assistance program for low-income households. Because the CSFP operates in limited areas, some low-income elderly have access to nutrition assistance through commodities and/or FSP, while most others must rely exclusively on Food Stamps for such help.

In the administration's view, ensuring adequate funding for programs that have the scope and reach necessary to provide access to eligible people wherever they may reside is a better and more equitable use of scarce resources than to allocate them to programs that cannot provide access to many areas of the country. For this reason, the administration has placed a priority on funding the Food Stamp, WIC, and other nationally-available programs that provide benefits to eligible people wherever they may live and offer flexibility in benefits to meet their individual nutritional needs and preferences.

SUBCOMMITTEE RECESS

Senator BENNETT. We thank you for your testimony, sir, and for the expertise that you bring here. The next hearing of the subcommittee will be with the Food and Drug Administration on Tuesday, March 14 at 10 a.m., and the subcommittee is recessed.

[Whereupon, at 9:54 a.m., Thursday, March 9, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, March 14.]