

**FARM SERVICE AGENCY
Statement of Juan Garcia, Administrator
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations U.S. House of Representatives**

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to provide information on Farm Service Agency (FSA) programs and funding. Our Fiscal Year (FY) 2015 Budget emphasizes our commitment to implement the 2014 Farm Bill, customer service, efficiency and continued investments in modernizing our operations to the benefit of farmers and ranchers.

AGENCY OPERATIONS

FSA delivers its programs through 2,124 county-level USDA Service Centers of which 2,088 are full-time offices and 36 are part-time offices, 50 State offices, and an office in Puerto Rico. FSA has headquarters offices in Washington, DC, Kansas City, Salt Lake City, and St. Louis. At the end of FY 2013, FSA's Federal staff year usage was 4,249. FSA non-Federal staff year usage in USDA Service Centers was 7,693. Total FSA staff year usage was 11,942, of which 9,667 were in State and county offices. This represents a 5 percent reduction in FSA's staff levels from FY 2012.

Since 2003, a farm bill implementation year with comparable programmatic changes, staffing levels at FSA have declined over 35 percent, a reduction of 6,331 employees.

Business Processes and Information Technology (IT)

FSA continues to make progress toward replacing outdated technology by developing more modern functionality and re-engineering old business processes. Both of these efforts will provide more timely and reliable delivery of benefits to producers. In FY 2014, we will reach our performance target of having 80 percent of our programs with web-enabled applications fully

transitioned to the web. The Noninsured Crop Disaster Assistance Program (NAP) and Conservation Program processes were successfully transitioned in FY 2013. Two programs remain to be transitioned off the AS-400 platform – the Farm Storage Facility Loan Program (FSFL) and the Marketing Assistance Loan Program (MAL).

Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) was chartered to provide a sustainable long term solution that will provide farmers, ranchers, and FSA employees with convenient access to farm programs. These improvements will equip FSA employees to deliver the farm programs of today and tomorrow, while keeping pace with the changing needs of the agricultural community.

MIDAS deployed Release 1, Farm Records, in April 2013, which established foundational data and processes allowing field offices to update farm, producer, and Common Land Unit records and prepare for taking acreage reports. The deployment also included farm records with GIS integration, producer information, and common commodity data. FSA continues to work to optimize Release 1 capabilities. Future releases will include functionality for acreage and inventory reporting, customer self-service, streamlined creation and maintenance of producer information and maintenance of historical information and report capabilities.

FSA has also completed the consolidation of geospatial data into a centralized database, eliminating dependency on outmoded servers and extending the GIS functionality for FSA's service center personnel. Together, GIS modernization and MIDAS enable FSA to enhance program delivery and support, allow for timelier implementation of programs, and allow for the integration of geospatial data with business operations.

We are also continuing to upgrade and replace outdated components of our IT infrastructure, in coordination with USDA's Office of the Chief Information Officer. Efforts to

optimize the IT network began in FY 2012 and continue to streamline network traffic so that it can handle the increased activities of our new program applications. This optimization continues to help centralize County Office data, support the modernized systems, and ensure the integrity of information.

PROGRAM UPDATE

The Agricultural Act of 2014 (the 2014 Farm Bill) was signed on February 7, 2014, and we are moving forward as quickly as possible with implementation. The 2014 Farm Bill repeals certain FSA programs, continues others with modification, and authorizes several new programs. Most programs are authorized and funded through 2018.

On April 15, we will start sign-up for the four permanent disaster programs—the Livestock Forage Disaster Program (LFP), Livestock Indemnity Program (LIP), Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP), and the Tree Assistance Program (TAP). These programs are retroactive to October 1, 2011. We are expecting over \$1 billion in losses to be paid retroactively, largely due to significant Plains drought losses in 2012 (covered by LFP) and this past year’s Atlas blizzard in South Dakota (covered by LIP).

The 2014 Farm Bill also made significant changes to our safety net programs. The 2008 Farm Bill’s Direct and Counter-Cyclical Program and the Average Crop Revenue Election program were repealed and replaced by two new programs: Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC). PLC provides counter-cyclical price-based protection for covered crops, while ARC is a revenue-based program that offers producers, at their choice, either individual or county-level coverage. In addition to these new programs, a one-time opportunity is offered to reallocate a farm’s base acres using 2009-2012 plantings and to update the farm’s payment yields for covered commodities to their 2008-2012 average yields.

Upland cotton is the only covered commodity that is not eligible to participate in ARC/PLC, but rather, becomes eligible for the new Stacked Income Protection Plan (STAX) offered by the Risk Management Agency (RMA). Until STAX becomes available in a county, upland cotton is eligible for transition payments made by FSA for 2014 and 2015 crops.

The Milk Income Loss Contract Program continues through September 1, 2014, unless it is replaced by the Dairy Margin Protection Program (DMPP) prior to that date. The new DMPP offers dairy producers: (1) catastrophic coverage, at no cost to the producer, other than an annual \$100 administrative fee; and (2) various levels of buy-up coverage. Catastrophic coverage provides payments to participating producers when the national dairy production margin is less than \$4 per hundredweight (cwt). Producers may purchase buy-up coverage, for a premium, that provides payments when margins are between \$4 and \$8 per cwt.

The Marketing Assistance Loan program and sugar loans continue mostly unchanged. NAP has been expanded to include protection at higher coverage levels, similar to buy-up provisions offered under the Federal Crop Insurance Program.

The Conservation Reserve Program (CRP), one of USDA's largest conservation programs, continues through 2018 with a decreasing annual enrolled acreage cap—from 32 million acres under the 2008 farm bill to 24 million acres beginning in FY 2017. The eligibility criteria are changed to allow enrollment of grasslands that had been eligible under the Grassland Reserve Program, which was repealed. Grassland enrollment is capped at 2 million acres. The 2014 Farm Bill also provides for up to \$33 million for Transition Incentive Payments which are designed to encourage the sale or lease of expiring CRP lands to beginning, socially-disadvantaged or veteran farmers and ranchers. Another 2014 Farm Bill feature is the

requirement that a penalty-free “early out” be provided in 2015 for certain eligible CRP contracts.

Currently, 25.6 million acres are under contract, including 19.8 million acres under general signup and 5.8 million acres under continuous signup. CRP contracts on 2 million acres are set to expire September 30, 2014. Given the reduced enrollment caps, we expect general signups to become much more competitive in the future, which will likely increase the environmental benefits on a per-acre basis. We will also continue to pursue continuous signup options to target the most environmentally sensitive acreage.

Regarding credit, almost all farm loan programs are authorized permanently through the Consolidated Farm and Rural Development Act. However, the 2014 Farm Bill makes several program changes and enhancements, provides some additional authorities, and reauthorizes the Mediation Program and the Individual Development Account (IDA) grant pilot program which supports a savings incentive program for low-income beginning farmers. Several of the changes were mandatory and were implemented by FSA on March 3. These changes provide more favorable interest rates for joint financing arrangements, provide a larger percent guarantee on guaranteed conservation loans, increase the loan limits for the down payment loan program, make youth loans available in urban areas, and eliminate the term limits for guaranteed operating loans. FSA is in the process of implementing additional mandatory changes which will enhance the microloan program for beginning and veteran farmers. The 2014 Farm Bill also expands the types of entities eligible for loan programs, authorizes a relending program to assist Native American producers purchase fractionated interests of land, and authorizes changes to the highly successful microloan program.

The 2014 Farm Bill also reauthorized the State Mediation Grant program, which provides grant assistance for State-approved programs that provide mediation assistance for farmers in matters involving credit, conservation, and some additional USDA-related transactions.

BUDGET REQUESTS

Commodity Credit Corporation (CCC)

CCC FY 2015 baseline expenditures are projected to be \$4.9 billion, a decrease from approximately \$9.7 billion forecast for FY 2014 which is primarily due to the repeal of Direct Payments. In FY 2013, \$9.2 billion was expended as compared to a record high of \$32.3 billion in FY 2000.

CCC is authorized to replenish its borrowing authority, as needed, through annual appropriations up to the amount of net realized losses recorded in CCC's financial statements at the end of the preceding Fiscal Year. In FY 2014, the CCC received \$9.6 billion for reimbursement of 2013 losses.

Appropriated Programs

The FY 2015 Budget proposes \$6.4 billion for farm loans, including \$2.9 billion for direct loans and \$3.5 billion for guaranteed loans. Only \$81.2 million in budget authority will be necessary for this level of assistance. Direct Farm Ownership Loans are proposed for an increased loan level of \$1.5 billion. A loan level of \$1.25 billion is proposed for Direct Farm Operating Loans. At least 85 percent of the amount appropriated for Direct Farm Ownership Loans and at least 60 percent of the amounts appropriated for Direct Farm Operating Loans will be reserved for qualified beginning and socially disadvantaged farmers and ranchers for the fiscal year.

For Guaranteed Farm Ownership Loans, the FY 2015 Budget proposes a loan level of \$2 billion. The requested loan level is expected to meet the increased demand for this program. For Guaranteed Farm Operating Loans approximately \$1.4 billion in loan level is proposed for FY 2015.

A portion of both direct and guaranteed farm operating and ownership loan funds is targeted to socially-disadvantaged borrowers, based on county level demographic data. The statutory targets vary by loan program.

For Emergency Disaster Loans, FSA is requesting \$856,000 to support a \$34.7 million loan level. In addition, the Budget proposes loan levels of \$2 million for Indian Tribal Land Acquisition Loans and \$60 million for Boll Weevil Eradication Loans.

FSA also requests \$2.5 million for the IDA grant program and funding for two farm loan programs – Guaranteed Conservation Loans and the Indian Highly Fractionated Land Program. The FY 2015 budget requests \$150 million for Guaranteed Conservation Loans and \$10 million for the Indian Highly Fractionated Land Program which is a direct loan program that provides authority to make and insure loans to eligible purchasers of highly fractionated land under the Indian Land Consolidation Act.

For State Mediation Grants, the FY 2015 Budget requests \$3.404 million for 38 States to assist in continuing cost-effective alternative dispute resolution programs that deal with disputes involving a variety of agricultural issues.

FSA Salaries and Expenses

The FY 2015 Salaries and Expenses Budget requests \$1.449 billion from appropriated sources, including credit reform transfers.

This request for administrative support within FSA reflects our continued commitment to achieving cost-savings and increased efficiencies, while providing farmers and ranchers with the highest levels of customer service. Over the coming years, FSA will be challenged by the need to implement new Farm Bill policies under tight timeframes while concurrently beginning to take steps towards reshaping and restructuring its workforce and county office footprint. This latter effort will be achieved through implementation of the new Model Service Center concept that the agency is developing. The goal of this concept is to modernize and consolidate the way service is delivered in order to achieve efficiencies and costs savings that will allow us to more effectively manage future budget challenges with limited to no impact to customer service levels.

We believe that through the implementation of the Model Service Center concept, we will have the opportunity to achieve cost savings through the consolidation of County Offices which will enhance customer service. During preparation of the FY2015 budget, we conducted a “point-in-time” review of current county offices and staffing levels, and found the potential to consolidate 250 field offices. The FY 2015 Budget request assumes \$5 million in savings from this consolidation. We also believe there are steps that need to be taken to reshape and restructure our county offices and workforce before we can begin preparing any office consolidation plan. The agency has not yet identified specific offices for closure and there is no list of offices that have been considered. Any savings from potential consolidations would be reinvested to ensure that all of the agency’s employees have the equipment, training, and resources necessary to provide the highest levels of customer service.

Implementation of these internal operations and changes will carry over into FY 2015 as FSA concludes many efforts and begins to benefit from the realignments. FSA is proposing to reduce non-federal staff by 815 FTEs, saving \$61.6 million, and realigning approximately 300

federal headquarters and state office oversight staff to the county offices, saving \$6.8 million, in an effort to ensure support for the anticipated higher farm loan program activity. The salary savings are slightly offset by the proposed increase for the pay adjustment of \$10.0 million. FSA's FY 2015 Budget proposal includes an increase of \$27.1 million for the decentralization of GSA rental payments and Department of Homeland Security (DHS) payments based on FSA current space occupancy. The IT request includes base funding to continue contract services that support modernization, development and maintenance of applications systems, and deployment support (e.g. data and database administration, testing and certification, and security). These funds will enable FSA to maintain essential program delivery and operations in the field, as well as provide support for improvements. This funding includes \$65.0 million for MIDAS.

The IT request includes an overall decrease of \$4.9 million to IT infrastructure operations and support services, FSA will manage this decrease by reassessing priorities of FSA IT investments, balancing reductions and schedule impacts to achieve an optimal mix of IT resources to support program delivery and sustain the operations and maintenance of non-MIDAS IT modernization efforts.

Mr. Chairman, this concludes my statement. I will be happy to answer your questions and those of the other Subcommittee Members.

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