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Statement by Alexis Taylor
Deputy Under Secretary for
Farm and Foreign Agricultural Services
Before the House Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today in order to present the fiscal year (FY) 2017 Budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). I am accompanied by the Administrators of the three agencies that comprise our mission area: Brandon Willis, Administrator of the Risk Management Agency; Suzanne Palmieri, Associate Administrator of the Foreign Agricultural Service; and Val Dolcini, Administrator of the Farm Service Agency. We also are accompanied by Michael Young, Director of the Office of Budget and Program Analysis.

Statements by each of the Administrators providing details on the agencies' budget and program proposals for FY 2017 have been submitted for the record. My statement will summarize the agency proposals, after which we will be pleased to respond to your questions.

The FFAS mission area carries out a diverse array of programs and services that support a competitive agricultural system and provide the foundation for prosperity throughout rural America. Income support, farm credit assistance, disaster programs, conservation and environmental incentives, risk management tools, and trade expansion and export promotion– provide a critical safety net for our producers and have spurred record exports. Today, American agriculture remains strong but faces significant challenges. Falling commodity prices and natural disasters, such as drought conditions in California, have increased financial stress. This highlights the importance of our commodity, disaster, crop insurance, and farm credit programs, which provide an essential financial safety net to support farmers and ranchers. We continue to work hard to do more with less, to manage current and future budget challenges, and to ensure that critical investments in rural America continue. The FY 2017 Budget supports credit opportunities for an estimated 43,000 farmers and ranchers by financing operating cost expenses and providing opportunities to acquire a farm, or keep an existing one. The Budget includes funding to continue our support for beginning farmers and ranchers, including military veterans. Crop insurance continues to be the critical tool used to protect producers from natural disasters, as well as the risk of price fluctuations. We have expanded crop insurance to 547 crop types and have provided risk management opportunities to specialty crops and organic crops.

The FY 2017 Budget will continue our efforts to improve our capacity to help the producers and rural communities that we serve.

Farm Service Agency (FSA)

FSA provides producers with a broad range of services, such as farm ownership and operating loans, disaster assistance, price support payments, commodity marketing assistance loans, and enrollment in conservation programs. FSA administers discretionary programs as well as mandatory programs that are funded through the Commodity Credit Corporation (CCC).

FSA is implementing several new programs provided for by the 2014 Farm Bill, including the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs, and the Margin Protection Program for Dairy (MPP-Dairy). The ARC, PLC and MPP-Dairy programs are a critical part of the farm safety net and provide support for America's farmers and ranchers during times of year-to-year crop revenue or commodity downturns.

Salaries and Expenses: The FY 2017 Budget requests $1.5 billion for FSA salaries and expenses, including credit reform transfers. FSA delivers its programs through over 2,100 USDA Service Centers located in all 50 States as well as Puerto Rico, the Virgin Islands, and the Western Pacific Territories. Total Federal and non-Federal staff years totaled 12,324 in FY 2015. This included 1,149 temporary non-Federal staff years which were used in part to implement the new Title I Farm Bill programs, including the ARC and PLC programs. Congress authorized $100 million in the 2014 Farm Bill, to be available until expended, to implement these Title I programs. The number of temporary non-Federal staff years will drop to 200 in 2017, since the new Title I Farm Bill programs are expected to be fully implemented in 2016, and Federal and non-Federal staff years will total 11,653 in FY 2017.

New, Beginning and Veteran Farmers and Ranchers: To continue our commitment to support the next generation of farmers and ranchers, the Budget includes $3.9 million in funding to support 25 new regional coordinators for outreach at the local level, offer mentorship opportunities to beginning farmers and ranchers, support landowners who wish to sell or rent their land to beginning farmers and ranchers, increase local outreach and educational efforts, and support agricultural youth organizations. In addition, the Budget provides for guaranteed loan fee waivers and additional farm loan funding targeted to veteran farmers and ranchers.

Strikeforce Initiative: The FY 2017 Budget includes $1.5 million to enhance program effectiveness and coordination through place-based activities. Funding will support a USDA Service Center Agency (SCA) coordination initiative to build upon the success of USDA's Strikeforce initiative. The SCA, which is comprised of FSA, Rural Development (RD) and Natural Resources Conservation Service (NRCS), will support field-based staff focused on improving access to USDA programs by persons and communities in persistent poverty areas.

Information Technology: FSA is striving to be an information technology (IT) gateway for their customers to access a broad range of agricultural resources, as they continue to deliver programs that strengthen the farm financial safety net. FSA's IT services are used every day by FSA employees, thousands of USDA partner agency employees, and over 8 million customers. In 2015, FSA made significant progress in IT modernization by moving the final business process reliant on the obsolete AS400 technology to a web-based system. With FSA programs retired from the AS400 technology and migrated to modern platforms, FSA is now delivering an integrated set of farm program delivery applications and services.

FSA continues to pursue streamlined and strategic use of IT resources to provide for sharing of farm and producer data, such as Acreage Crop Reporting Streamlining Initiative (ACRSI). The new FSAfarm+ portal within ACRSI allows producers to view, download and print electronic acreage reports including common land unit (CLU) information. With ongoing investments in the USDA nationwide telecommunication infrastructure as well as network, data center and application operational enhancements, FSA is continuing to improve the experience and performance for FSA users in more than 2,100 county-level USDA Service Centers.

The FY 2017 Budget request includes funding to provide IT resources and services required to ensure core organizational functions and operations, support improved management and internal controls, and provide for continued enhancements to improve program delivery, including continued support of having the FSA county office serve as a place to go for farmers and other customers looking for information through the bridges-to-opportunity initiative.

Commodity Credit Corporation: The CCC is a government corporation which provides funding for the commodity and disaster programs administered by FSA. CCC also provides funding for conservation programs, including the Conservation Reserve Program (CRP) and certain programs administered by the NRCS. In addition, CCC funds some export promotion and foreign food aid activities administered by the Foreign Agricultural Service (FAS).

FY 2017 CCC baseline expenditures are projected to be $13.5 billion, an increase of approximately $3.2 billion from FY 2016. In FY 2015, $6.7 billion was expended. The projected expenditure increases in FY 2016 and FY 2017 are primarily due to the shift from the direct and counter-cyclical payment programs repealed by the 2014 Farm Bill, to the new ARC and PLC programs which first started making payments in October 2015 (FY 2016).

Commodity Programs: FSA commodity programs are an important part of the farm safety net, providing assistance during times of adverse market fluctuations. The 2014 Farm Bill repealed the previous direct and counter-cyclical payment programs, but authorized two new commodity programs, ARC and PLC. Last year, FSA enrolled over 1.76 million farmers in ARC and PLC by conducting an unprecedented education campaign. To date, ARC and PLC have provided approximately $5.2 billion in financial assistance for crop year 2014, to more than 1,000,000 farms.

In addition, more than half of all dairy farms in the U.S. – over 23,000 – enrolled in the new MPP-Dairy program in 2015, and these producers were paid over $400,000 under this program. This voluntary program provides financial assistance to participating farmers when the margin – the difference between the price of milk and feed costs – falls below the coverage level selected by the producer.

Disaster Programs: The 2014 Farm Bill indefinitely extended four supplemental disaster programs, including the livestock disaster programs and the tree assistance program. Since the passage of the Farm Bill, these programs have paid producers over $5.8 billion to recover from natural disasters, including drought and wildfires.

Conservation Programs: CRP is a voluntary program that provides annual rental payments and cost-share assistance to agricultural producers in return for establishing long-term plant cover on highly erodible and other environmentally sensitive farmland. CRP is protecting more than 170,000 stream miles with riparian forest and grass buffers, enough to go around the world 7 times. Since 1985, the program has sequestered an annual average of 49 million tons of greenhouse gases, equal to taking 9 million cars off the road; prevented 9 billion tons of soil from erosion, enough to fill 600 million dump trucks; and reduced nitrogen and phosphorous runoff by 95 and 85 percent, respectively.

As of February 2016, about 23.7 million acres were enrolled in CRP, 13.1 million acres below peak enrollment in 2007. Because CRP is currently near the Farm Bill imposed 24-million acre cap, any new enrollments will be limited to the number of acres expiring each year. These limited enrollment opportunities make it imperative that we only enroll the most environmentally sensitive acreage in CRP, to maximize environmental benefits on a per-acre basis. We are pursuing continuous signup options to achieve this targeting, including enrolling grasslands now eligible for enrollment in CRP. In FY 2015, continuous signup enrollment topped 800,000 acres, the largest enrollment ever, and FSA is currently evaluating the offers received under a general CRP sign-up period which ended on February 26, 2016.

Farm Loan Programs: FSA plays a critical role for our Nation's agricultural producers by providing direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations. A substantial portion of the direct and guaranteed loan funds are reserved each year to assist beginning farmers and socially disadvantaged farmers and ranchers. In FY 2015, about 45 percent of direct and guaranteed loan funds went to beginning farmers. Microloans provide up to $50,000 to farmers to assist with operating costs – seventy percent of microloans have gone to new and beginning farmers.
The FY 2017 Budget proposes a total program level of about $6.7 billion. Of this total, almost $3.1 billion is requested for direct loans and about $3.6 billion for guaranteed loans offered in cooperation with private lenders. We will be able to provide this level of assistance with $81 million in budget authority. With this funding, we will serve about 43,000 farmers and ranchers.

Risk Management Agency

The Federal crop insurance program is a vital risk-mitigation tool available to our Nation's agricultural producers. It provides risk management solutions that are market driven and reflect the diversity of the agricultural sector, including specialty crops, organic agriculture, forage and rangeland, as well as staple row crops.

Over its history, the value of the Federal crop insurance program to American agriculture has grown. In 2015, the crop insurance program provided coverage on more than 298 million acres of farm and ranch land and protected over $102 billion of agricultural production. As of

February 2016, indemnity payments to producers on their 2015 crops total just over $5.6 billion on a premium volume of just under $10 billion. Our current projection for the 2016 crop year shows the value of protection will be slightly less than $100 billion.

Farm Bill Implementation: In addition to maintaining and building upon existing programs, RMA continued to expand on initiatives set forth in the 2014 Farm Bill. The Supplemental Coverage Option (SCO) is now available for over 60 crops and Actual Production History Yield Exclusion is available for over 50 crops. The Stacked Income Protection Plan for Producers of Upland Cotton (STAX) is currently available for every county that has a crop insurance policy for cotton. RMA continues to make the beginning farmers and ranchers incentives available by providing a 10 percent premium discount and fee waivers on catastrophic and buy-up coverage. Peanut Revenue Protection is now available in every county with peanut coverage; Margin Protection Insurance is available for wheat, corn, rice, and soybeans in select counties. Coverage levels and Enterprise Units by practice are now available; RMA offers organic price elections on 56 different crops; and, for 2016 Whole Farm Insurance will be available in every county in the nation.

Program Integrity: RMA has also been working on a process to reduce improper payments. I am proud to report that the improper payment rate for FY 2015 is 2.2 percent, down from 5.5 percent in FY 2014. Beginning in FY 2017, RMA will also determine an improper payment rate for each approved insurance provider in addition to the overall program rate.

Mandatory Costs: The RMA FY 2017 Budget requests an appropriation of "such sums as are necessary" as mandatory spending for all costs associated with the program, except for Federal Salaries and Expenses. This level of funding will provide the Federal crop insurance fund with the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase, and will provide sufficient resources in the unlikely event that 2017 is a high loss year due to drought or other atypical weather.

In addition, the 2017 Budget proposes legislation for two Federal crop insurance policy changes that will result in a savings of $1.2 billion in mandatory costs in 2017 and $18 billion over 10 years. The proposals provide a balanced approach by reducing premium subsidies paid on behalf of producers as well as reforming the prevented planting coverage. The changes will allow RMA to maintain crop insurance as a significant part of the safety net for producers while operating the program at less cost to the taxpayers.

The first proposal would reduce the premium subsidy by 10 percentage points to farmers purchasing revenue policies providing protection for upward price movements at harvest. The harvest price protection compensates producers for their lost bushels of production based on the price at harvest if it is higher than the price guarantee they locked in at the time they purchased the policy. The second proposal came about, in part, as a response to an OIG audit. The proposal reforms the prevented planting program by eliminating optional add-on coverage, and requiring that 60 percent of the county transitional yield be applied to the producer's actual production history even if a second crop is not planted. Current prevented planting rules do not apply the 60 percent county transitional yield if a producer does not plant a second crop, creating a disincentive for producers to plant a second crop.

Salaries and Expenses: For RMA Salaries and Expenses (S&E), $67 million in discretionary spending is requested, $8 million below FY 2016, with the ability to transfer up to $20 million of the fees currently collected by the Federal crop insurance program into the S&E account, if authorized by Congress. The fees are already available for the operation of the crop insurance program; however, by allowing these funds to be transferred into the S&E account, RMA will be able to use these funds more efficiently and flexibly to maintain operations.

Foreign Agricultural Service

Agricultural trade significantly contributes to the prosperity of local and regional economies across rural America through increased sales and higher commodity prices. USDA estimates that every $1 billion of agricultural exports generates $1.27 billion in economic activity and supports 7,550 American jobs throughout the economy. The Department plays an important role to remove agricultural trade barriers, develop new markets, and enhance the competitive position of U.S. agriculture in the world marketplace.

U.S. farm exports reached $139.7 billion in FY 2015, the third highest total on record, and the agricultural trade surplus reached $25.7 billion. The FY 2016 forecast for U.S. agricultural exports was recently revised to $125 billion. In 2016, agricultural exports are expected to contribute a positive trade balance of $6.5 billion to the Nation's economy. For U.S. agriculture to continue to thrive, we must continue to open, expand, and maintain access to foreign markets, where 95 percent of the world's consumers live.

Fiscal years 2009 through 2015 represent the strongest seven years in history for agricultural trade. To achieve this, USDA worked with the Office of the U.S. Trade Representative (USTR), the Department of Commerce, the White House, Congress and industry stakeholders to gain approval for new trade agreements with Panama, Colombia, and South Korea. U.S. agricultural exports to these three countries grew by nearly 28 percent, from $7.6 billion in FY 2012, when the trade agreements were first going into effect, to $9.7 billion in FY 2015, supporting approximately 73,000 American jobs.

FAS assisted with the recently concluded negotiations on the Trans-Pacific Partnership (TPP), an agreement that will create new opportunities for trade in a dynamic region that represents nearly 40 percent of global GDP and where populations and purchasing power are increasing, enhancing the demand for American agricultural products. Under TPP, a multitude of farm products will receive duty free treatment or preferential access to this growing market, including grapes, strawberries, walnuts, lactose, barley, wheat products, dairy products, poultry, eggs, and many others. Today, FAS trade negotiators are involved in negotiations with the European Union, our fourth largest agricultural export market, on the Transatlantic Trade and Investment Partnership (TTIP). Key objectives in the TTIP negotiations are to eliminate duties on agricultural goods and eliminate or reduce trade distorting non-tariff barriers between the United States and the European Union. TPP and TTIP will expand trade to drive higher commodity prices, additional farm income, and agribusiness jobs that ultimately generate more cash flow in rural economies.

As we work to open new and maintain existing markets overseas, we face many challenges and barriers that must be addressed. In the past year, FAS has been instrumental in resolving numerous sanitary, phytosanitary and technical barriers to trade. USDA efforts to remove trade barriers led to billions of dollars in additional U.S. exports around the world in FY 2015. USDA broke down barriers to the acceptance of U.S. biotech exports in foreign markets, opening or helping to preserve U.S. exports valued at $22.5 billion. A successful USDA communications plan was instrumental in minimizing the trade impact of highly pathogenic avian influenza on U.S. poultry exports. USDA reached agreement with Chinese officials to allow all U.S. grown apples access to the Chinese market. The U.S. apple industry estimates that exports of fresh apples to China will reach a value of nearly $100 million annually. In early FY 2016, USDA and USTR's efforts to overcome unwarranted sanitary requirements resulted in an agreement to allow most U.S. poultry, pork and beef exports to regain access to the South African Market. The renewed access could generate $75 million in shipments annually.

The FFAS mission area also makes a significant contribution to the Department's strategic goal of enhancing global food security. Through foreign food assistance, technical assistance, training, and capacity building activities, we are working closely with other U.S. departments and agencies to address global food insecurity. USDA is well positioned to encourage the adoption of new technologies and production practices that can help increase the availability of food and improve its marketing and distribution.

Salaries and Expenses: FAS is the lead agency for the Department's international activities and is at the forefront of our efforts to expand and preserve overseas markets and foster global food security. FAS carries out its activities through a network of 93 overseas offices and its headquarters staff here in Washington. FAS overseas staff represents American agricultural interests world-wide.

The FY 2017 Budget is designed to ensure that FAS has the resources needed to continue to represent and advocate on behalf of American agriculture on a global basis and to create new market opportunities overseas. The Budget provides a program level of $197 million – a $5 million increase over FY 2016. This level of funding will maintain the agency's overseas presence near current levels, while implementing measures to increase efficiency.

The FY 2017 Budget provides an increase for higher operating costs at the agency's overseas posts, including increased payments to the State Department for administrative services provided at overseas posts and pay costs for locally employed staff. The Budget also provides for an overseas post in Cuba to help build the customer base for American farmers and ranchers and expand choices for Cuban shoppers at the grocery store.

International Food Assistance: For the McGovern-Dole International Food for Education and Child Nutrition Program, the 2017 Budget provides funding of $182 million. The requested level is expected to assist 3.4 million women and children during 2017. As in 2016, $5 million of McGovern-Dole funding will be used for Local and Regional Food Aid Procurement in 2017.

The FY 2017 Budget proposes $1.35 billion for P.L. 480 Title II international food assistance. The request includes authority to use up to 25 percent ($338 million) of the P.L. 480 Title II appropriation in emergencies for interventions such as local or regional procurement of agricultural commodities near crises, food vouchers, or cash transfers that have proven to be so critical to effective responses in the growing number of complex and logistically difficult emergencies. This flexibility will allow food aid to reach those in dire need more quickly and efficiently. About two million more people annually will be assisted with the same level of resources due to cost savings.

Food assistance will also be provided through the Food for Progress program that FAS administers. The 2017 Budget includes an estimated program level of $175 million for this CCC-funded program, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries.

The FY 2017 Budget also includes $15 million, with an additional $5 million from McGovern-Dole, to support the Local and Regional Food Aid Procurement (LRP) program, authorized in the 2014 Farm Bill. LRP provides for local and regional procurement of food aid commodities for distribution overseas to complement existing food aid programs – especially McGovern-Dole – and fill nutritional gaps for targeted populations or food availability gaps generated by unexpected emergencies.

Export Promotion and Market Development Activities: The CCC Export Credit Guarantee programs (GSM-102 and Facilities Guarantee) provide payment guarantees for the commercial financing of U.S. agricultural exports. The guarantees facilitate sales to buyers in countries where credit is necessary to maintain or increase U.S. sales. For FY 2017, the Budget includes a program level of $5.5 billion for the CCC export credit guarantee programs.

For the foreign market development programs, the CCC budget includes a program level of $200 million for the Market Access Program, $34.5 million for the Foreign Market Development Program, $10 million for the Emerging Markets Program, and $9 million for the Technical Assistance for Specialty Crops Program. These programs, in partnership with private sector cooperator organizations, support the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products.

Mr. Chairman, this concludes my statement. Thank you for the opportunity to present our 2017 Budget and program proposals. The Administrators and I would be pleased to answer any questions you and other members of the Subcommittee may have.