

**STATEMENT OF ARLEN LANCASTER, CHIEF
NATURAL RESOURCES CONSERVATION SERVICE
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY**

January 17, 2007

Mr. Chairman, and Members of the Committee, thank you for the opportunity to appear here today to discuss working lands conservation activities and accomplishments of the U.S. Department of Agriculture's Natural Resources Conservation Service (NRCS). In my initial months as Chief of the NRCS, I have been fortunate to be able to get out to the field and experience firsthand, some of the amazing conservation work that farmers, ranchers, and other private landowners are performing by working hand-in-hand with local NRCS staff and our many partners. From seeing firsthand the water conservation and wildlife habitat practices in Texas; examining community watershed concerns in the Chesapeake Bay Watershed; discussing the nutrient management concerns of livestock producers in Indiana; and recently building and spending a night in a snow cave in California as part of the agency's water supply and forecasting safety efforts, I can attest that the conservation achievements taking place across the countryside are as important as they are diverse.

The conservation accomplishments on private lands for FY 2006, alone are incredible: In a single year farmers and ranchers along with NRCS and its partners:

- Planned conservation systems and practices that cover more than 50 million acres—a 60 percent increase over 2001.
- Reduced soil erosion by more than 75 million tons.
- Created, restored, or enhanced 318,000 acres of wetlands; and
- Improved irrigation water management on 1.1 million acres, conserving 15.8 million-acre inches of water.

And that's just a sample of the good things we and our partnership brought to people and natural resources across our Nation and territories. More specific accomplishments are as follows:

Conservation Planning

- Developed conservation system plans on 16.5 million acres of cropland.
- Applied conservation systems plans on more than 12.9 million acres of cropland;
- Developed conservation system plans on 30 million acres of grazing land;
- Applied conservation systems on 26.5 million acres of grazing land;

Erosion Reduction

- Reduced the acreage of cropland soils damaged by erosion by 5.9 million acres.
- Reduced soil erosion by 75 million tons.

Habitat

- Preserved habitat and aided in Sage Grouse recovery;
- Improved 15.4 million acres of non-federal land for fish and wildlife habitat;
- Managed 3.6 million acres of non-federal land for protection and enhancement of habitat of species with declining populations;

Irrigation

- Improved irrigation efficiency, 15.8 million acre-inches of water conserved.

Soil Surveys

- Mapped or updated soil surveys on 23.3 million acres;
- Released 136 new or updated soil surveys for public use and made 331 soil surveys available in digital format;

Energy Savings

- Released three energy-saving tools for agriculture producers proven to save agriculture producers money and energy;
- Increased the ratio of bio-diesel fueled vehicles in our fleet thus renewing the commitment to reduce air pollution and increase demand for agricultural crops;

Nutrient Management Planning

- Developed 5,050 comprehensive nutrient management plans;
- Applied 6,049 comprehensive nutrient management plans;
- Applied nutrient management on 4.6 million acres;
- Applied pest management on nearly 5 million acres;

Forest Land

- Applied forest stand improvement and tree and shrub establishment on over 318,000 acres;

Conservation Security Program

- Enrolled 15.5 million acres of land in the Conservation Security Program (CSP) (includes FY 2004, FY 2005 and FY 2006);

Working Lands and Conservation Planning

The actions listed above did not come about on their own. The focus of NRCS's conservation efforts is squarely centered upon working lands and ensuring that these lands continue to produce valuable agriculture commodities and contribute to local economies, while at the same time protecting our national treasure of soil, water, and other related natural resources. For NRCS, this has always meant voluntary, incentives-based conservation activities. For more than 70 years, this approach has proven time and again that when given sound information, guidance, and technical assistance, farmers and ranchers voluntarily adopt, install, and maintain conservation practices. Locally-led conservation that is developed cooperatively with farmers and ranchers produces more effective, long-lasting, and economically viable results than regulation and other compulsory approaches.

Mr. Chairman, if you visit any one of 3,077 counties in the United States, you would likely find that landowners have a relationship with NRCS local staff founded upon the technical knowledge and resources that are available through the field office. Beginning with the foundation of county soil surveys and interpretation of soils maps, farmers and ranchers depend upon sound scientific information to reach production and conservation decisions. Building upon this foundation, NRCS field conservationists provide a wealth of knowledge and expertise on a broad array of topics from viability of certain species of plants, appropriate levels of nutrients needed for cropping, potential grazing rotations, water conservation improvements, and wildlife habitat needs – to name just a few.

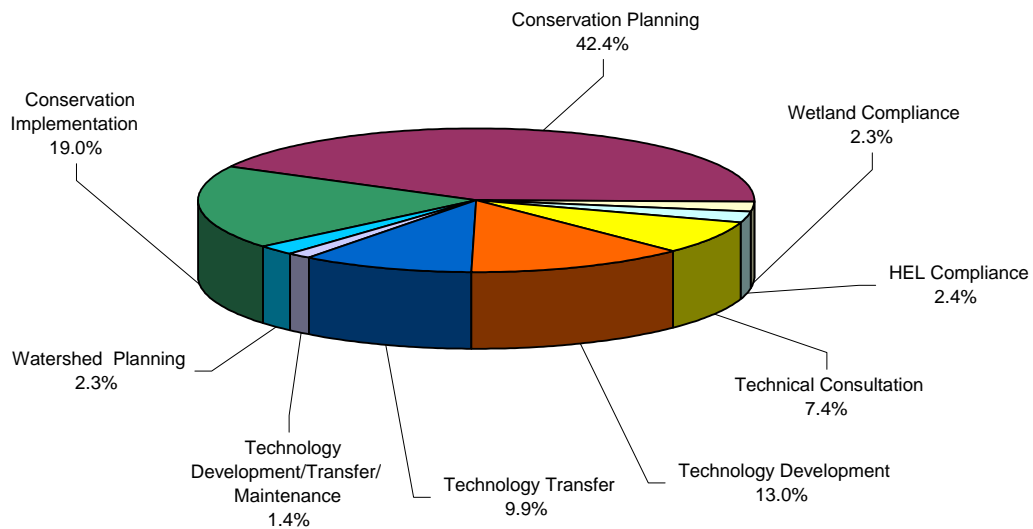
With the unique goals that a producer has for his/her operation as a starting point, NRCS conservationists assist producers to develop a plan that will match these goals with natural resource conservation goals. This conservation plan is the foundation of locally-led cooperative conservation. In essence, a producer's conservation plan is a roadmap for the future management of their operation. Specific actions are prescribed, but not mandated. And over time, producers select from options and choose to implement certain provisions of the conservation plan, which can also be modified as conditions change, or as the producers establish new production or conservation priorities. As individual farmers or ranchers decide to adopt specific conservation practices or systems, they may utilize assistance from the suite of cost-share, conservation use, or stewardship programs that NRCS offers through Farm Bill authorities. But everything that happens begins with the Conservation Technical Assistance (CTA) Program.

Conservation Technical Assistance and the Allocation of Resources

Mr. Chairman, a theme that you will see carried throughout NRCS conservation programs is a look toward conditions to guide the allocation of funding resources. The allocation of NRCS program resources is based upon a science-based, quantitative natural resource formula that accounts for natural resource conditions and trends. For Conservation Technical Assistance, NRCS instituted a resource-based allocation process for the CTA Program to ensure that dollars and efforts go where the conservation needs are greatest. This new methodology provides a more transparent allocation that addresses

the natural resource issues of greatest priority. The new allocation formula also aligns the new CTA Program policy with national priorities, and correlates with program performance measures that were developed in the Administration's Program Assessment Rating Tool (PART) evaluation process.

**FY 2005 Conservation Technical Assistance (CTA)
Time Allocation By Activity
(Source: NRCS Conservation Information System)**

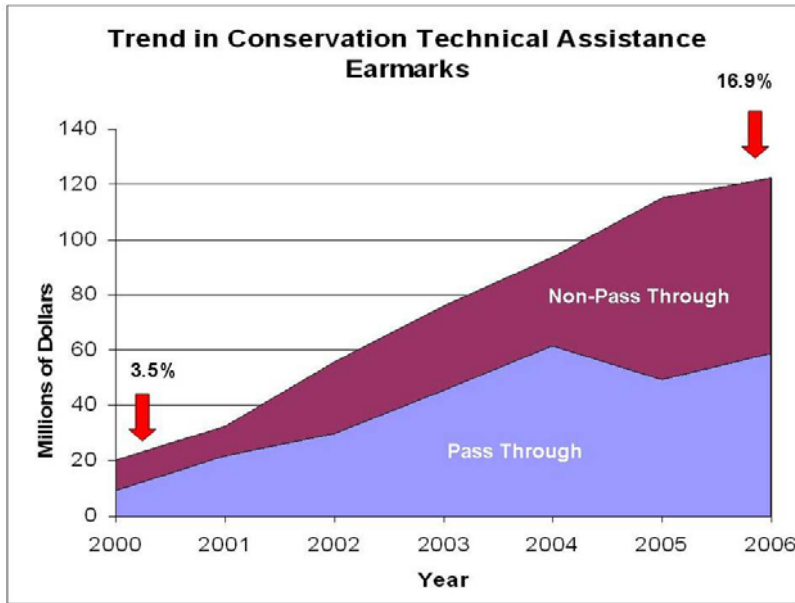


In order to ensure that the methodology utilized for each of our programs is as sound and equitable as possible, NRCS has recently commissioned an independent analysis of formulas used for allocating its conservation program funds. This evaluation is being conducted to continue improving Agency allocation formulas and data for more effective and efficient implementation of conservation programs. This analysis will provide a comprehensive evaluation of each program's allocation formula and will assess how allocation formulas relate to programmatic efficiency and annual/long-term performance measures. These improvements will ensure that the most pressing conservation needs on America's private lands are addressed and will help NRCS meet its Strategic Plan objectives and improve accountability.

The Challenge of Earmarks

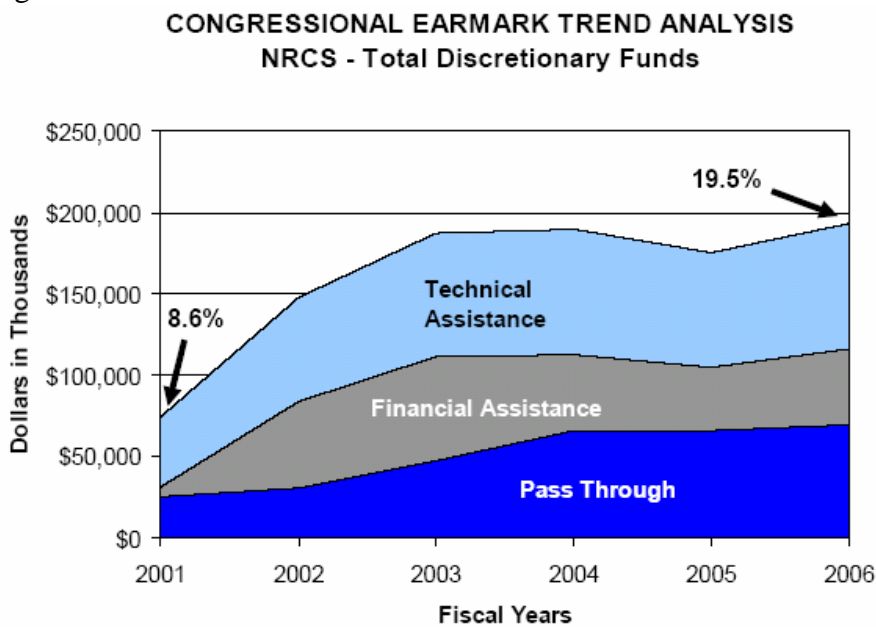
Mr. Chairman, another common theme throughout USDA conservation programs is that, even though merit-based allocation methodologies have been established, other factors sometimes come to bear that complicate this process. A prime example of this lies within the earmarking of technical assistance through the Congressional appropriations process. For example, in the past six years alone, NRCS has seen a nearly five-fold increase in

earmarks. As the graphic below (Figure 2) displays, earmarks have been on a steady upward trend.



Most troubling, the amount of pass-through earmarks that go toward outside institutions toward projects and activities that may be less aligned with program statutory purposes (i.e., businesses, research entities, non-governmental organizations) has also increased steadily.

Figure 3.



As figure 3 displays, the total amount of earmarks from discretionary programs reaches nearly 20 percent of the NRCS budget. As a result, these funds are not going to places where our natural resource-based formula would otherwise identify as a priority, and many of the funds are not going to support NRCS field staff and operations.

Working Lands Cost-share Programs

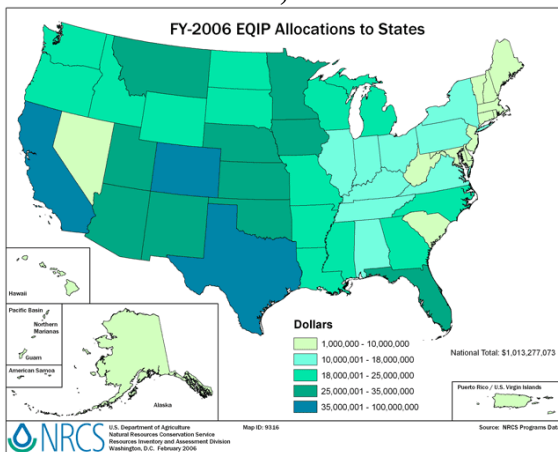
Environmental Quality Incentives Program

The Environmental Quality Incentives Program (EQIP) is the flagship of the working lands conservation program portfolio. EQIP provides flexible technical and financial assistance to landowners that face serious natural resource challenges on working lands that impact soil, water, and other natural resource concerns related to cropland, grazing lands, wetlands, and wildlife habitat. In addition, energy conservation as an element of a conservation practice or system for natural resources conservation is considered an appropriate use of EQIP funds.

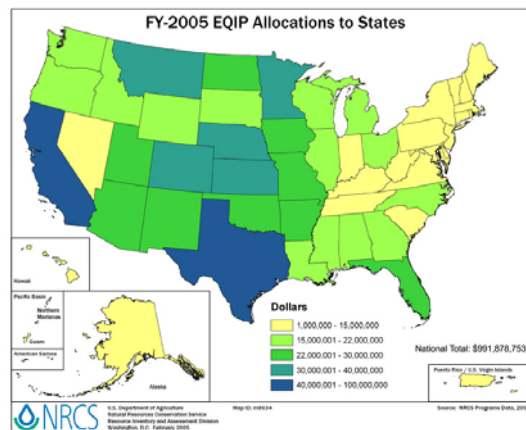
Benefits

The increased funding for EQIP in the 2002 Farm Bill greatly expanded program availability. Including funding obligated in FY 2002 through FY 2006, totaling almost \$3.1 billion, EQIP will benefit close to 185,000 participants. In addition, EQIP leverages additional funding from landowner match requirements on individual practices (ranging from up to 90 percent for limited resource farmers, to up to 75 percent for others) and State and local cost-share programs.

FY 2006 Allocations, Dollars



FY 2005, Allocations

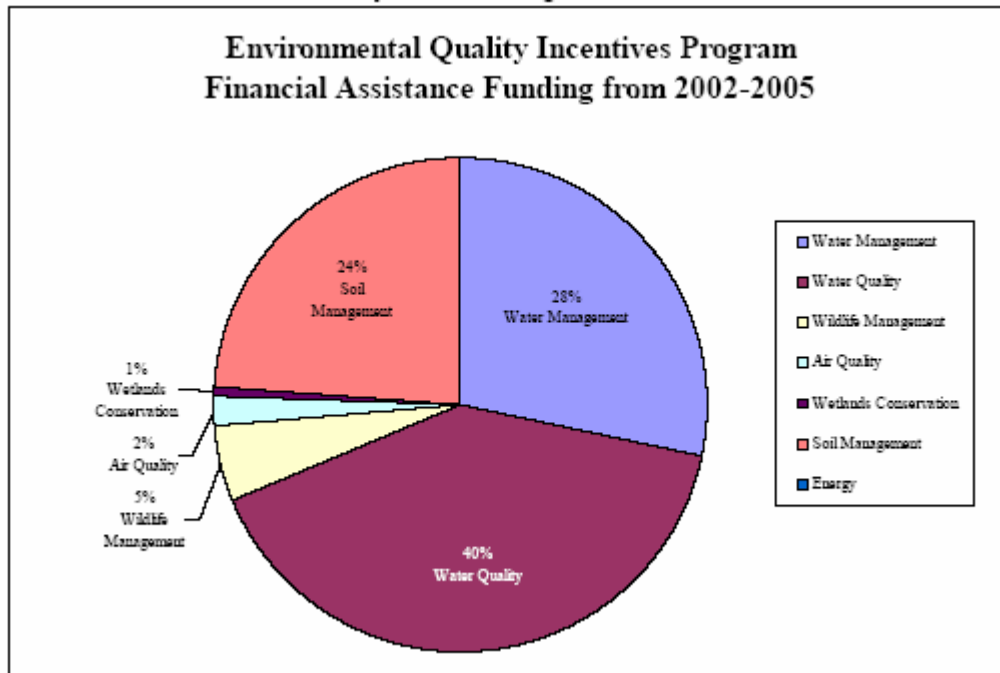


EQIP participation among American Indians, Alaska Natives and Indian tribes has increased from \$6.8 million in FY 2002 to almost \$20 million in FY 2005.

Producer demand continues to be high for EQIP assistance. NRCS has been able to address significantly more producers requesting assistance through EQIP since the passage of the 2002 Farm Bill. In FY 2002, the Agency was able to fund one in every five requests; in FY 2005, we funded one in every two requests for a total of 49,406 producers receiving a contract through this program.

We believe that the increased program flexibility and improved program features will continue to make EQIP one of the most popular and effective conservation efforts in the Federal Government. The Figure below demonstrates the broad range of natural resource issues that EQIP addresses.

Figure 4.



Cost Share Program Allocation Methodology

EQIP was one of the first programs to base the State allocation of funding upon a comprehensive natural resource formula. Under the EQIP process, financial assistance is allocated to the States and territories based on 31 factors which are relevant to addressing the EQIP statutory purpose, rule requirements, and national priorities. The source of the data is generally the National Resources Inventory (NRI) data, although some data are based on Environmental Protection Agency (EPA), Ag Census, Bureau of Indian Affairs (BIA), National Oceanic and Atmospheric Administration (NOAA) and the American Plant Food Control Officials reports.

Technical assistance (TA) needs are estimated by the Agency's costs of servicing program applications and contracts as calculated by the NRCS Cost-of-Programs Model. Throughout our working lands conservation cost-share programs, similar formulae are utilized for the allocation of funding and technical assistance. With the high demand for NRCS assistance, we feel this process is appropriately directing resources where they are needed most.

Mr. Chairman, I think it is important to note that the EQIP formula was never intended to be static, and continuous improvement of it is an Agency priority. EQIP's national priorities, established in the regulation, are integrated into the program in four key ways:

- The allocation of financial resources to the States.
- The use of financial resources within the States.
- The selection of conservation practices and the establishment of cost-share and incentive payment levels.
- The evaluation and ranking of individual applications for EQIP assistance.

As described earlier with respect to Conservation Technical Assistance Program, the EQIP allocation formula is under review and potential update. Factor weights, current accuracy of some data, and data sources are some aspects of the formula that are also under review. As part of its review process, NRCS has:

- Awarded a competitive contract for an independent review of all NRCS conservation program formulas, including the EQIP formula.
- Planned a reassessment of the EQIP financial assistance formula to take place after the results of the independent review are established.

Regional Equity Concerns

Section 1241 (D) of the Food Security Act of 1985 as amended by The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) requires that “*Before April 1 of each fiscal year, the Secretary shall give priority for funding under the conservation programs under subtitle D (excluding the conservation reserve program under subchapter B of chapter 1, the wetlands reserve program under subchapter C of chapter 1, and the conservation security program under subchapter A of chapter 2) to approved applications in any State that has not received, for the fiscal year, an aggregate amount of at least \$12,000,000 for those conservation programs.*”

As a result of this language, more than \$120 million in EQIP funding has been diverted from the natural resource state allocation formula process and directed to certain States. This movement of funds has occurred regardless of the relative natural resource need, producer interest and demand in programs, or local agency staff capacity. As figure 6 below demonstrates, a total of more than \$215 million have been redirected since this language was enacted.

Section 1241(D) Financial and Technical Assistance Diverted by Program, FY 2004-2007*								
Program	FA 04	TA 04	FA 05	TA 05	FA 06	TA 06	FA 07 *	TA 07 *
FRPP	\$8,640,000	\$360,000	\$12,041,091	\$458,909	\$17,460,000	\$540,000	\$12,120,108	\$368,691
EQIP	\$31,476,600	\$9,190,900	\$25,500,000	\$8,500,000	\$18,744,000	\$5,256,000	\$17,201,485	\$4,628,968
WHIP	\$0	\$0	\$6,244,265	\$2,255,735	\$10,270,000	\$2,730,000	\$9,872,853	\$2,509,554
GRP	\$4,489,700	\$1,510,300	\$0	\$2,712,500	\$0	\$0	\$0	\$0
Total	\$44,606,300	\$11,061,200	\$43,785,356	\$13,927,144	\$46,474,000	\$8,526,000	\$39,194,446	\$7,507,213

Mr. Chairman, in closing on this topic, I would like to reiterate that if states are experiencing a reduction in EQIP funding as compared to past years, they should look closely at the diversion of funds taking place as required by Section 1241(D).

Wildlife Habitat Incentives Program (WHIP). WHIP was re-authorized by Section 2502 of the 2002 Farm Bill. The program continues to develop habitat for upland wildlife, wetlands wildlife, threatened and endangered species, fish, and other wildlife.

Under WHIP, NRCS provides technical and financial assistance to landowners to improve wildlife habitat conditions on their property. NRCS enters into five- to 10-year cost-share agreements with landowners, providing up to 75 percent of the funds needed to implement wildlife habitat development practices. NRCS also can enter into less than 1-year wildlife emergency agreements in cases where a wildlife habitat is modified as a result of a catastrophic, natural, or man-made event to help landowners address the potential for dramatic declines in one or more wildlife populations.

The 2002 Act also authorizes NRCS to provide additional cost-share assistance to landowners who enter into 15-year agreements to develop essential plant and animal habitat.

Since passage of the 2002 Farm Bill, NRCS has utilized more than \$165 million in financial and technical assistance to enter into nearly 9,500 agreements on over 1.4 million acres. NRCS reimbursed participants approximately \$8,800 for each long-term agreement. The average agreement covers 148 acres. WHIP was originally authorized by Section 387 of the 1996 Farm Bill. Since launching the program in 1998, a total of 23,100 agreements have been signed covering more than 3.3 million acres. In FY 2006, NRCS allocated \$43 million in financial and technical assistance to WHIP contracts with landowners.

WHIP is effective in serving landowners who want to help provide habitat for species in decline. Of all the cost-share programs, WHIP has the lowest backlog numbers. NRCS is working with landowners and partners to assist with habitat development projects for the Ivory-billed woodpecker, sage grouse, salmon, bog turtle, red-cockaded woodpecker, Klamath Basin Lost-River sucker, pacific salmon, and northern bobwhite quail.

Agricultural Management Assistance (AMA) Program. AMA provides financial assistance to producers to construct or improve water management or irrigation structures, plant trees for windbreaks, or improve water quality. The program also offers

financial assistance to mitigate crop failure risks through diversification or resource conservation practices.

The 2002 Farm Bill provides \$20 million annually through 2007 for financial assistance in 15 States, in which participation in the Federal Crop Insurance Program is historically low as determined by the Secretary. The 15 States designated by the Farm Bill to participate in the program are Connecticut, Delaware, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming.

NRCS developed 2,682 contracts on 466,800 acres with \$33.2 million obligated for implementing conservation practices during FY 2001 through FY 2006. In FY 2006, \$5 million was provided through AMA.

Grassland Reserve Program (GRP). New in the 2002 Farm Bill, GRP assists landowners in restoring and protecting grassland by enrolling up to 2 million acres under easement or long-term rental agreements. Program participants can also enroll in restoration agreements to restore the functions and values of grassland. The 2002 Farm Bill authorized \$254 million for implementation of this program during the period 2003 through 2007. This program is administered in cooperation with the Farm Service Agency (FSA).

In fiscal years 2003 through 2005, \$178.5 million in financial assistance was allocated. Through fiscal year 2005, 3,003 landowners enrolled 909,000 acres in both rental and easement agreements. Approximately 380,000 acres were enrolled in easement projects, and 529,000 acres were enrolled as rental agreements. The program has now reached its funding cap.

In fiscal year 2004, NRCS provided \$2 million in GRP financial assistance to four western States for Greater Sage Grouse conservation and recovery on lands identified by State wildlife agencies as containing critical sage grouse habitat. The funds supported GRP easements on private lands in Colorado, Idaho, Utah and Washington, with technical assistance and additional financial assistance provided by State and local partnerships. For example, in St. Anthony, Idaho, ranchers have learned ways to improve grazing operations while balancing wildlife habitat, and in Olympia, Washington, more than 200 acres of historic prairie land is being preserved. In FY 2005 and FY 2006, NRCS devoted \$1 million in GRP funds each year for continued support of the sage grouse's recovery.

Farm and Ranch Lands Protection Program (FRPP). Section 2503 of the 2002 Farm Bill re-authorized the Farm and Ranch Lands Protection Program.

Through the FRPP, the Federal Government establishes partnerships with State, local or tribal government entities or nonprofit organizations to share the costs of acquiring

conservation easements or other interests to limit conversion of agricultural lands to non-agricultural uses. FRPP acquires perpetual conservation easements on a voluntary basis on lands with prime, unique, or other productive soil or that contains historical or archaeological resources. FRPP provides matching funds of no more than 50 percent of the purchase price for the acquired easements.

Prior to the 2002 Farm Bill, NRCS protected 540 farms covering 113,700 acres with \$53 million. Since the 2002 Farm Bill, FRPP has enrolled nearly 449,177 acres.

Healthy Forests Reserve Program (HFRP). While not authorized in the Farm Bill, the HFRP was created by Congress with the enactment of the Healthy Forests Restoration Act of 2003, and has the potential to become an integral part of conservation efforts on private forest lands. HFRP is a voluntary program established to restore and enhance forest ecosystems to: 1) promote the recovery of threatened and endangered species; 2) improve biodiversity; and 3) enhance carbon sequestration.

The program is authorized through 2008. Restoring and protecting forests contributes positively to the economy of our Nation, provides biodiversity of plant and animal populations, and improves environmental quality. HFRP includes a safe harbor provision for landowners who enroll and agree, for a specified period, to restore or improve their land for threatened or endangered species habitat. In exchange, they avoid future regulatory restrictions on the use of that land protected under the Endangered Species Act.

On May 18, 2006, NRCS announced the availability of \$2.3 million for the HFRP in selected forest ecosystems. In FY 2006, HFRP focused on habitat recovery for the endangered red-cockaded woodpecker in the Lower Ouachita River Flatwood region of Arkansas, the Canada lynx in the northern boreal forest of Maine, and the gopher tortoise in the longleaf pine ecosystem along the Gulf Coast in Mississippi. The work in the Lower Ouachita River area will also benefit the rare Ivory-billed woodpecker. In FY 2006, landowners enrolled 495,652 acres in 30 and 99-year HFRP easements and 10-year HFRP restoration agreements.

Conservation Stewardship

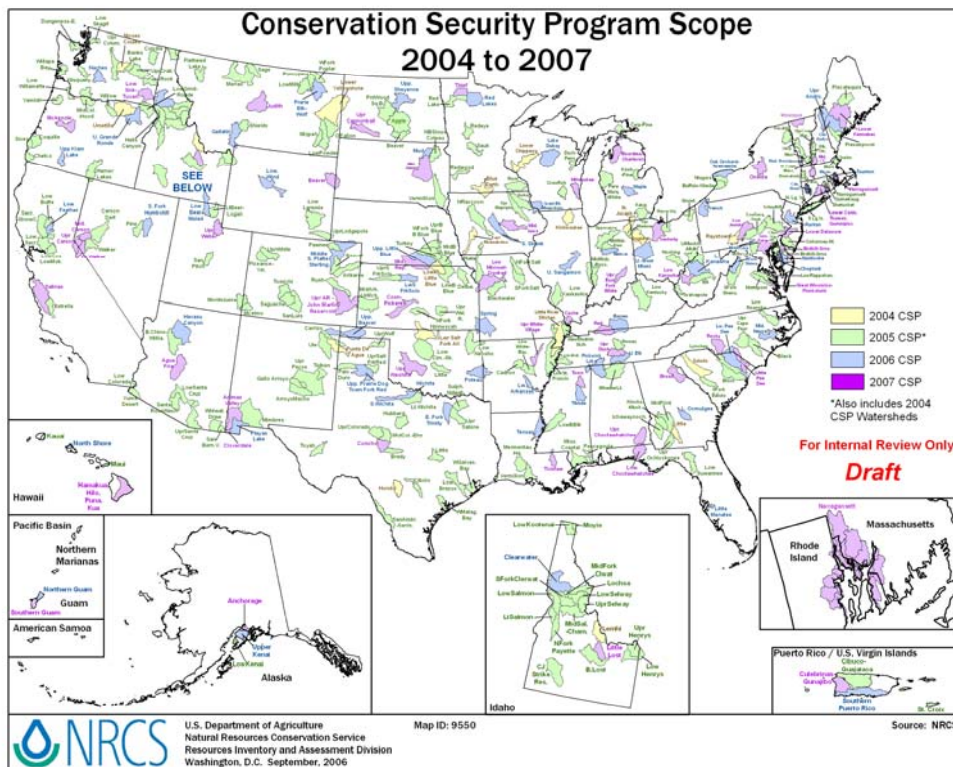
Conservation Security Program

The Conservation Security Program, authorized by the 2002 Farm Bill, provides payments to producers who practice good stewardship on their agricultural lands and incentives for those who want to do more. The program is voluntary and provides financial and technical assistance for the conservation, protection, and improvement of natural resources on tribal and private working lands.

In its first 3 years, CSP has generated much interest with our Nation’s producers. The first CSP sign-up was held in July 2004, in 18 priority watersheds within 22 States. In 2005 and 2006, CSP was expanded and implemented in a total of 280 watersheds nationwide, including watersheds in every State, Puerto Rico and Guam. Including the most recent sign-up, CSP has invested in the operations of nearly 19,400 stewards on 15.5 million acres of working agricultural land with annual payments that average about \$11,000, but range from less than \$500 to \$45,000.

Through the CSP enhancement provisions and the application of intensive management measures, producers are achieving even greater environmental performance and additional benefits for society. Several new conservation activities will enable producers to further enhance their operation and natural resources. For example, the energy component of CSP is rewarding farmers and ranchers for using renewable energy fuels, such as soy bio-diesel and ethanol. Because CSP enhancements go beyond the minimum requirements, innovative producers are pushing conservation technology to produce even greater conservation benefits.

The President’s 2007 budget requests \$342.2 million for CSP, an increase of \$2 million over 2006 to continue expanding the program and rewarding excellent conservation stewards.



Most working agricultural land is eligible for CSP. Producers with cropland, orchards, vineyards, pasture and range may apply for the program, regardless of size, type of

operation, or crops produced. Our data show that CSP touches all sectors of agriculture from livestock operations to cropland, from orchards, vineyards and truck crops to sugar beets and cranberries.

The CSP sign-up offered in fiscal year 2006 ran from February 13th to March 31st in 60 priority watersheds. During the sign-up, over 8,570 CSP applicants completed their interviews resulting in 7,548 eligible applicants for about \$99.2 million. Enrollment data show that approximately 24 percent of the land in those 60 watersheds signed up for CSP. This response indicates that some of the best conservationists are willing to do even more conservation through CSP. Environmental enhancement activities offered by applicants include improving soil quality, water quality, wildlife habitat management, nutrient and pest management, air quality management and on-farm energy management.

Over 4,400 applications were approved based on the available funding. These contracts, mostly in Tier III, the highest level of conservation stewardship, represent more than 3.75 million acres of cropland and grazing lands.

The CSP self-assessment and the new water quality tool helped producers identify whether their agricultural operation met sign-up requirements. Producers who were not eligible learned of other programs available to assist in achieving the high level of conservation necessary to qualify for CSP in the future.

CSP has provided opportunities to test new ideas in conservation technology and broken many barriers for conservation on working lands. One major contribution has been in the emerging area of energy conservation as a resource issue. CSP currently provides enhancements for energy management, energy conservation, energy creation and even recycling of oil products. It also provides cost-share payments for people who are interested in energy audits and in establishing a carbon baseline for credit trading through 1605b.

Regarding program financial management, NRCS has implemented a number of CSP measures to prioritize program spending primarily by delivering the program in priority watersheds, targeting enrollment to include good conservation stewards, and concentrating payments on conservation enhancement activities that generate additional resource benefits. Additionally, NRCS has instituted several internal control mechanisms since the audit was complete. Automation of producer eligibility and checking for potentially duplicative payments was completed and tested in the FY 2006 sign-up. NRCS has added staff to our data warehouse in Ft. Collins to assist States with quality control and technical questions. Direction to field employees regarding compliance reviews has been transmitted and those reviews are currently underway. The CSP manual has been updated to streamline the process of contract administration to conform to the other financial assistance programs and to clarify the State Conservationist's authority to make decisions regarding wildlife habitat criteria for CSP.

We feel we have made significant improvements to CSP, and are pleased with the results of the program thus far.

Conclusion

Mr. Chairman, in closing, I want to state that I am very proud of the accomplishments of NRCS and its partners on working lands conservation. While we have focused today on just a few of the working lands programs that NRCS offers, there is a broad portfolio of work happening out in the field everyday to benefit all natural resources. Under tight time constraints and given a multitude of demands and pressures, I believe our Agency's implementation record is very impressive. Since 2002, NRCS has provided assistance to one million farmers and ranchers. Together, we have applied conservation on more than 130 million acres of working farm and ranch land. We have also invested \$6.6 billion of the taxpayers' funds directly with farmers and ranchers to produce environmental improvements that will benefit us all. In addition, since enactment of the 2002 Farm Bill, our conservation partner organizations (local Soil and Water Conservation Districts, Resource Conservation and Development Councils, State and local governments and other conservation organizations) have contributed over \$2.8 billion to conservation programs, making the total investment under the 2002 Farm Bill through last year more than \$9.4 billion.

I believe we have developed and are implementing conservation in the right order of priority—beginning with sound conservation planning, allocating resources based upon sound natural resource factors, enabling local leadership to set priorities, and recognizing that everything comes back to the voluntary decisions of farmers, ranchers, and other landowners. If this process is allowed to work, and our resources can be allocated based upon the principles of locally-led cooperative conservation, I believe there is no limit to what can be achieved in the conservation of America's natural resources.

Mr. Chairman, thank you again for the opportunity to appear today, and I look forward to responding to any questions that Members of the Committee might have.