

MEETING MINUTES

ADVISORY COMMITTEE ON BEGINNING FARMERS AND RANCHERS

**GRAND HYATT HOTEL, 1000 H STREET, NW, WASHINGTON, DC
MARCH 24-25, 2004
8:30 a.m.**

WELCOME

Kathy Ruhf (New England Small Farm Institute, Massachusetts), Chairperson of the Advisory Committee on Beginning Farmers and Ranchers, called the meeting to order at 8:30 a.m., March 24, 2004 (Ms. Ruhf was the Chairperson for the last two-year term of the Committee, and it was determined that she would chair the meeting until elections were held later in the day). Chairperson Ruhf welcomed all Committee members and visitors in attendance.

Committee members in attendance included Terry Barta (Smith County State Bank and Trust Company, Kansas), Marian Beethe (The Beginning Farmer Program and Farm Mediation Service, Nebraska), Marion Bowlan (farmer, Pennsylvania), Valerie Diller (farmer, Texas), Henry English (University of Arkansas at Pine Bluff, Arkansas), Omar Garza, (farmer and rancher, Texas), Juan Guzman (Groves Operation Manager, Florida), John Hays (The Farm Credit Council, Washington, D.C.), J. Latrice Hill-Moore (Farm Service Agency (FSA), Mississippi), Ferdinand Hoefner (Sustainable Agriculture Coalition, Washington, D.C.), Todd Lang (Strasburg State Bank, North Dakota), Trenton McKnight (rancher and Future Farmers of America (FFA) past president), Texas), Ray Mobley (Florida A&M University, Florida), Nancy New (FSA, New York), Linda Prentiss (rancher, California), Hazell Reed (Delaware State University, Delaware), Wayne Soren (farmer, South Dakota), Kenneth Stokes (Texas Cooperative Extension, Texas), and David Wirth (Illinois Farm Development Authority, Illinois).

Department of Agriculture (USDA) employees from Washington, D.C. who were in attendance and provided support to the Committee included Mark Falcone, Designated Federal Official (DFO) for the Advisory Committee on Beginning Farmers and Ranchers (FSA, Deputy Director, Farm Loan Programs Loan Making Division (FLPLMD)), Charles Dodson (FSA, Economist, Economic and Policy Analysis Staff (EPAS)), Janet Downs (FSA, Senior Loan Officer, FLPLMD), and Jamarie Matthews (FSA, Deputy Director Secretary, FLPLMD).

OPENING REMARKS

Chairperson Ruhf briefly covered the planned agenda for the meeting. Mark Falcone, DFO, then welcomed the Committee members and acknowledged their hard work and

dedication, and also stated that several Committee issues tabled at the last meeting would be addressed in the afternoon session. He mentioned that he held an orientation session for new members the previous evening, and that the FSA Administrator and the Deputy Administrator for Farm Loan Programs would attend part of today's meeting. He then gave a brief overview of the proposed Beginning Farmer and Rancher Tax Relief Act (HR 2978).

Chairperson Ruhf then called for introductions of all other persons present at the meeting. Those introducing themselves were: Cliff Herron, Mike Hill, Jorge Comas, and Vi Buluyut (USDA FSA Outreach Staff); John Else (ISED Solutions); Reece Langley (Independent Community Bankers of America); Steve Roberts (USDA Office of the Inspector General); Sharon Hestvik (USDA Risk Management Agency (RMA)); Ross Sargent (Farm Credit Administration (FCA)); Doris Newton (USDA Economic Research Service (ERS)); Anne Dubey (USDA Natural Resources Conservation Service (NRCS)); Karl Hampton (USDA Foreign Agricultural Service); Dan O'Grady (Association of Small Business Development Centers(ASBDC)); Sibyl Wright (USDA Food Safety Inspection Service); and Steve Koenig (USDA FSA EPAS).

CSREES PRESENTATION

Chairperson Ruhf introduced Mark Bailey, National Program Leader for Cooperative State Research, Education and Extension Service (CSREES). Mr. Bailey thanked the Committee for the opportunity to speak. He began his presentation by stating the CSREES mission: "To advance knowledge for agriculture, the environment, human health and well being, and communities" and their vision: "Agriculture is a knowledge-based, global enterprise, sustained by the innovation of scientists and educators".

Mr. Bailey then discussed the functions that CSREES provides in support of agriculture. The first function of CSREES is to provide leadership in which to identify, develop, and manage programs to support university-based and other institutional research, education, and extension activities related to agriculture. The second function of CSREES is to provide fair, effective and efficient administration of Federal assistance implementing research, education, and extension awards and agreements.

Mr. Bailey then turned to a discussion of the Risk Management Education Program (RMEP) as established under Section 133 of the Agricultural Risk Protection Act of 2000. Commencing in Fiscal Year (FY) 2004 and operated primarily through the four regional Risk Management Education Centers, the objective of the program is to educate agricultural producers on the full range of risk management strategies and tactics, including futures, options, agricultural trade options, crop insurance, cash forward contracting, debt reduction, production diversification, farm resources risk reduction, and other risk management strategies.

Each Committee member was given a handout of the slide presentation given by Mr. Bailey which detailed the role of the Risk Management Advisory Committee in the

RMEP and what organizations are eligible for the program (**Attachment 1**). Some examples of the projects funded by RMEP are tactical and strategic marketing, market outlook programs, diversification in agriculture, financial record keeping, analysis and tax planning, risks and challenges in export markets, managing risk in the livestock business, and training on farm bills and new Federal and State agricultural programs. The handout also included RMEP points of contact by regional offices for additional information.

RMA PRESENTATION

Chairperson Ruhf introduced Craig Witt, Director, Risk Management Education, RMA. Mr. Witt thanked the Committee for the opportunity to speak. He began his presentation by stating that beginning farmers and ranchers (BFR) are the key focus of RMA's educational programs. A handout presented to each Committee member described the establishment of RMA in 1996, successor to the Federal Crop Insurance Corporation (FCIC), with the objective of operating the Federal Crop Insurance Program in partnership with private insurance companies (**Attachment 2**). The Agricultural Risk Protection Act of 2000 substantially changed the programs under RMA by authorizing innovative insurance programs, higher crop insurance subsidies, and stronger compliance tools to protect the integrity of the programs. One of the new crop insurance programs is known as AGR-Lite (Adjusted Gross Revenue) a program developed by the Pennsylvania Department of Agriculture to benefit small livestock and crop farmers and ranchers. It is a streamlined whole farm revenue protection package that uses a producer's historical Internal Revenue Service Schedule F tax form information and farm report as a base to provide a level of guaranteed revenue for the insurance period. It is available in 11 states.

Mr. Witt discussed the current RMEPs which RMA coordinates with the CSREES program and assists with local level program management. Education programs are cooperative agreements, not grants, and are awarded competitively through requests for applications (RFA). In FY 2003, RMA included the following language in the RFA specific to BFR: "RMA specifically encourages applicants to address the needs of beginning farmers and ranchers as an important element of the project" (this was incorporated as a result of a recommendation the Committee made to the Secretary in June 2002). Included in the handout given by Mr. Witt was a listing of the 2003-2004 Commodity Partnership Agreements and Targeted States Agreements and the funding levels received by each respective partner or State.

Mr. Witt closed his presentation by reiterating RMA's dedication to BFR and encouraged groups who assist BFR to submit applications to participate in the education programs. In addition, he highlighted BFR key issues that RMA continues to address, specifically affordability, types of coverage, and education, with focus on record keeping. RMA also takes a proactive team approach to developing insurance products and providing educational programs by allowing all members of the general public to recommend specific products or programs to RMA, which are taken under consideration by an RMA Board.

The floor was opened for comments and questions. The paraphrased questions/comments and the presenter's paraphrased response(s) follow:

1. Mr. Barta (**question**): Why is the extension service not promoting these programs more directly at the local level?

Mr. Bailey (**response**): RMA provides information to its four regional centers who then notify local organizations and people.

2. Ms. Bowlan (**comment**): She complimented RMA for the amount of attention given to farmers and ranchers' ideas in developing the current programs. She mentioned the AGR-Lite program as an example.

3. Ms. Diller (**question**): Why are RMA's educational programs not targeted to local agricultural lenders, as often time lenders require producers to carry specific insurance products that may not be necessary?

Mr. Barta (**response**): Due to lender liability issues, lenders should not be dictating specific coverage types but encouraging coverage in the producer's risk management plan.

Mr. Witt (**response**): Project leaders do partner with other organizations, including agribusiness professionals.

4. Mr. Guzman (**comment**): I have concerns that RMA programs are not directed toward citrus crops (trees) in Florida, and have had problems with the Valdosta, Georgia office.

Mr. Stokes (**response**): There is an amount of RMA funds set aside for new products.

Mr. Guzman (**comment**): The Valdosta office doesn't address tropical fruits.

5. Mr. Mobley (**question**): Are RFP's (requests for proposals) targeted to Extension Service agents as they are the program educators for producers?

Mr. Bailey (**response**): Extension professionals are the primary target.

There was some general discussion on funding and the number of RFA requests in FY 2003. The Committee also expressed interest in knowing how BFR perceive crop insurance.

Chairperson Ruhf thanked RMA and CSREES for acknowledging BFR.

Mr. Witt introduced David Hatch, Associate Administrator, RMA, who began his presentation to the Committee with a discussion of the incredible complexity of the Risk

Management Programs, as they are tailored to a wide-range of specific producer needs, and also emphasized the Agency's attempt to simplify the program as well as maintain accountability with funding initiatives. He stated that crop insurance products are the most effective risk management tools available to producers, and that producers are beginning to rely on these programs more so than on disaster payments.

Mr. Hatch stressed RMA's policy on the importance of equal access to all programs for all producers and discussed some of the limitations BFR encounter. As private insurance companies are in business for profit, they look for the largest profit making potential. Small farmers and beginning farmers are often at a disadvantage as they often do not generate the profit for the insurance company that larger, established farmers can. RMA has attempted to alleviate some of this burden by requiring that all participating insurance companies provide internet access to all producers so that all business transactions may be conducted on-line. This provides program access to all producers while enabling the insurance companies to cover larger territories for the lowest cost.

Mr. Hatch discussed the Standard Reinsurance Agreement (SRA), a document that governs profit making potential between insurance companies and the Government. A draft agreement should be in place by July 2004 for 2005 coverage. The first draft was made available on the RMA website and many individual insurance companies and trade associations made comments. All comments were considered by RMA. Mr. Hatch also mentioned that the second SRA draft would be released soon (it was posted on the RMA website on March 30, 2004). More attention has been given to socially disadvantaged (SDA) and limited resource (LR) producers by providing additional benefits such as educational programs and one-on-one time to assist these producers in overcoming specific obstacles that they face.

Mr. Hatch gave an overview of issues facing the crop insurance program. He stated that RMA attempts to maintain a loss ratio of 1.075 percent or less. Iowa, Illinois, Southern Minnesota, and Indiana are the most profitable crop insurance states. Texas generates the most crop insurance premiums but also generates the largest losses across the United States. Other states also continually lose money. RMA is considering options that will mitigate losses and at least break even, which includes looking at profitable states to offset a greater portion of the losses, having the government assume a greater portion of the losses, and/or having southern states pay higher premiums. There are currently 14 insurance companies participating in the program. RMA is also looking to develop additional business through marketing to producers in nursery, livestock, forage and rangeland, and specialty crop markets.

A comment was made by Mr. Soren that RMA needs flexibility in its programs to write policies for specialty crops as beginning farmers are increasingly entering niche markets in order to gain access into farming. Mr. Hatch recognized this issue and stated that RMA has to be able to rate and determine risk of specialty crops in areas where the crops have not been grown before. This is a difficult process to develop.

KELLOGG FOUNDATION PRESENTATION

Chairperson Ruhf introduced August Schumacher, Consultant, Kellogg Foundation. Mr. Schumacher stated that the Kellogg Foundation's purpose is to foster diversity in American agriculture by encouraging new immigrants and refugee farmers (beginning farmers) to establish farm operations through Kellogg's farmer mentoring program. He stated that the American work force has grown to 18 million people, 9 million of which were not born in America. In 1978 there were 17,500 Hispanic farmers whereas in 2002 there were 60,000. The number of African, Caribbean and Asian farmers in America has also grown significantly. Often times, these farmers have experience in growing specialty crops that can develop their operations into niche markets and can be very successful at American farmer markets and ethnic markets.

Mr. Schumacher gave a slide presentation (**Attachment 3**) that included several success stories and pictures of the new immigrant and refugee farmers assisted by the Kellogg Foundation. In this discussion, he cited that the main impediments to these farmers are access to credit, land, markets, and research/extension. He stated that a number of farmers he has been working with have been assisted by FSA's beginning farmer guaranteed and direct lending programs. In addition, he stated that the Department of Health and Human Services has a micro-enterprise grant program and other funding programs to assist immigrant and refugee farmers and ranchers.

NRCS PRESENTATION

Chairperson Ruhf introduced Adolfo Perez, Small Farm Program Manager, NRCS. Mr. Perez thanked the committee for the opportunity to speak. Mr. Perez began his presentation by providing the NRCS definition of a beginning farmer or rancher: "Beginning Farmer or Rancher has the meaning provided under section 343 (a) of the Consolidated Farm and Rural Development Act (CONACT) (7 U.S.C. 1991 (a))". This definition is tied to the definition used by FSA Farm Loan Programs and can be found in detail on the handout provided by Mr. Perez (**Attachment 4**). Mr. Perez stated that NRCS has funding of \$15 million to provide opportunities to BFR and that the Farm Security and Rural Development Act of 2002 (2002 Farm Bill) allows BFR to receive additional points if they qualify for certain NRCS programs.

Mr. Perez described how locally-led conservation efforts are the foundation of the USDA conservation program delivery process. The USDA local work group supports the locally-led conservation effort by coordinating USDA programs with other Federal, state, tribal, and local conservation programs, to provide an integrated solution for addressing natural resource concerns. Included in the handout was a detailed explanation of the roles and responsibilities of the USDA local work groups and the State Technical Committee.

Mr. Perez included a brief discussion of the Environmental Quality Incentives Program (EQIP). He stated that 5,274 applications were received from BFR in 2003, of which

2,259 were approved. Of those approved applications, 89 percent received greater than 50 percent cost share. The presentation closed with a brief summary of the Conservation Security Program (CSP). The proposed rule comment period for CSP closed on March 2, 2004. Over 11,500 comments were received, all of which are being reviewed and given consideration. As of this date, NRCS is still planning to have a program sign-up for FY 2004.

Mr. Perez introduced Willie Pittman, Outreach Program Manager, NRCS. Mr. Pittman discussed the 2002 Farm Bill, which requires NRCS to foster new farming and ranching opportunities and to enhance environmental stewardship over the long term. He then discussed obstacles that NRCS is facing:

- Is 10 years farming really considered a BFR?
- How should NRCS spot check that a producer really is a BFR?
- Should NRCS review Schedule F tax returns to see how many years a producer has filed as a farmer in order to prove BFR status?

The floor was opened for comments and questions. The paraphrased questions/comments and the presenter's paraphrased response(s) follow:

1. Mr. Hoefner discussed a paper titled "The 2002 Farm Bill's Beginning Farmer/Rancher Conservation Incentives Provision: Ideas for Implementation". He mentioned this was shared with the NRCS Chief last year and he was anxiously awaiting a response. He then asked if NRCS could provide the number of BFR who received the 15 percent EQIP cost-share differential by state to determine the states that are underserved.

Mr. Perez (**response**): Since it was a new program, the automated system was not designed to include a breakdown between BFR and LR farmers. It will be changed so that BFR information will be available in the future. Until then, the individual states could determine the number.

2. Chairperson Ruhf (**question**): Why were the remaining 2,963 EQIP applications not approved?

Mr. Perez (**response**): There is no data available, but one reason could be that they did not rank high enough.

3. Ms. Bowlan (**comment**): I want to compliment NRCS in Pennsylvania concerning implementation of the Farm and Ranchlands Protection Program and hope that it is adopted elsewhere.

PUBLIC COMMENTS

Chairperson Ruhf introduced Alvin Windy Boy Sr., Chairman, National Tribal Development Association, Box Elder, Montana. Mr. Windy Boy summarized some of

his comments outlined in his four-page letter to the Committee dated March 17, 2004 (**Attachment 5**). He also expressed his concern that there was no Indian representation on the Committee. A committee member indicated that she was half Cherokee. Mr. Falcone addressed Mr. Windy Boy's concern by explaining the Committee selection process. He mentioned that his office notified 31 Tribal Colleges and other American Indian groups in writing, encouraging them to submit nominations to serve on the committee. Copies of the Federal Register notice and USDA press release announcing the solicitation of nominations were included in the letter. Other than the Committee member mentioned above, no American Indian nominations were received. Mr. Falcone mentioned that additional efforts would be made in the future to solicit nominations from American Indians.

Chairperson Ruhf introduced Donald Wilson, President, Association of Small Business Development Centers (SBDC). Mr. Wilson summarized his comments as outlined in his two-page letter to the Committee dated March 18, 2004 (**Attachment 6**). The letter addressed FSA's borrower training program and his interest in becoming an approved vendor to provide training to FSA borrowers. In addition to those comments, Mr. Wilson mentioned that one-on-one counseling through SBDC is free to the student, with a reasonable fee for class materials, as applicable.

Chairperson Ruhf called for Richard Warner, Chairman, New York Grazing Lands Conservation Initiative. Mr. Warner was not in attendance. He submitted an email to Mr. Falcone on March 17, 2004, expressing an interest to provide comments to the Committee at the meeting (**Attachment 7**).

Chairperson Ruhf introduced Kathy Ozer, Executive Director, National Family Farm Coalition. Ms. Ozer summarized her comments as outlined in her one-page letter to the Committee received on March 23, 2004 (**Attachment 8**).

Chairperson Ruhf introduced Mr. Falcone to read to the Committee a one-page public comment he received on March 18, 2004, from Sonny Kinsey, an individual who requested that his comments be read at the meeting, as he could not be present. Mr. Falcone also indicated that they exchanged several emails (**all included in Attachment 9**).

Mr. Falcone mentioned that he received a public comment letter with a program brochure, dated March 19, 2004, from Jay Mar, Coordinator, USDA Resource Conservation and Development Center (**both included as Attachment 10**).

FCA PRESENTATION

Chairperson Ruhf introduced John Moore, Chief Economist, and Robert Coleman, Director, Regulation and Policy Division, FCA. Mr. Moore thanked the committee for the opportunity to speak. Mr. Moore stated that he would discuss the emphasis being placed on Young, Beginning, and Small Farmers (YBS) and provided a handout to the Committee (**Attachment 11**).

Mr. Moore stated that young farmers are a decreasing segment of the farm population. In 1997, the “under 35” age segment of farmers was the lowest it has been since census data was tracked. The average age of farmers in 1997 was 55.3 years and continues to rise. The percentage of new loans that the Farm Credit System (FCS) made to young farmers and to beginning farmers in 2002 was 15.7 percent and 19.4 percent, respectively. New loan volume in 2002 was 11.6 percent and 16.6 percent respectively. Overall, all 12 YBS performance factors improved on a system-wide basis in 2002 over 2001 and again in 2003 over 2002. Mr. Moore concluded his presentation by stating that FCA’s annual report can be obtained from FCA’s website: www.fca.gov.

Mr. Coleman mentioned that the FCA board recently adopted a final rule designed to enhance FCS’s service to YBS (**Attachment 12**). This action was taken to be responsive to a Government Accounting Office (GAO) report issued several years ago concerning FCA oversight of FCS, related to YBS performance. He briefed the group on the history of the System’s YBS program.

FSA PRESENTATION

Mark Falcone acknowledged and introduced James Little, FSA Administrator, and Carolyn Cooksie, FSA Deputy Administrator for Farm Loan Programs, who arrived during the FCA presentation. Mr. Falcone then mentioned how FSA has been criticized in the past for slow loan application processing timeframes and voluminous paperwork and regulations. This criticism came from numerous organizations, including members of Congress, advocacy groups, auditors, and the 1997 Civil Rights Action Team (CRAT). The CRAT members were a team of USDA leaders appointed by former Secretary Glickman to review the civil rights problems at USDA and make strong recommendations for change. Mr. Falcone stated that in September 2002, Secretary Veneman issued a press release announcing additional measures to assist black farmers. An FSA Action Plan included in the release invited the Beginning Farmers and Ranchers Advisory Committee to comment on the impact of current forms and regulations, including electronic technologies, on beginning farmers and ranchers. Mr. Falcone then presented a brief overview of some of the projects FSA’s Farm Loan Programs (FLP) staff is working on to provide more efficient service to its customers.

He mentioned that FLP staff is undergoing a massive effort to streamline its direct loan making regulations, which was published in the Federal Register on February 9, 2004, for a 60-day public comment period. He also said that FSA forms were in the process of being translated into Spanish, and briefly discussed FLP’s electronic (e-gov) initiative, (part of a Government-wide initiative) to reduce burden on all FSA loan applicants and borrowers.

Mr. Falcone then introduced Mike Hinton, FLPLMD Branch Chief, FSA, who gave an overview of the new Farm Business Planning software that the Agency will begin using in April 2004 (**Attachment 13**). Mr. Hinton stated that the new software will allow FSA to work more effectively and efficiently with its borrowers and lenders, and will also

improve program management and data sharing. He mentioned that FSA is training 2,100 field employees from April through September 2004 at a training site in Omaha, Nebraska.

Mr. Hinton discussed FSA's borrower training requirements (**Attachment 14**). He explained the statutory history of the training requirement through the 2002 Farm Bill. He then discussed vendor eligibility and curriculum requirements. Lastly, Mr. Hinton stated the proposed changes to the borrower training requirement that are included in the streamlining project. These proposed changes include: training is no longer "once waived, always waived", borrowers requesting loan servicing are no longer required to take training, and a stronger emphasis placed on training at the beginning of FSA loan assistance. He mentioned the new Business Planning software will also allow comparisons of a borrower's financial status prior to and after completion of a borrower training course.

Mr. Barta applauded FSA's efforts on moving to the new software, as it will be a tremendous tool for farmers and ranchers. He raised a concern that switching to the new software might force some FSA officials, who do not like change, to retire. He asked if FSA would be able to fill those vacant positions. Ms. Cooksie acknowledged that for most employees this would be the biggest change of their career, but if they chose to leave the Agency, FSA would be able to fill the positions.

A general discussion ensued concerning borrower training. Mr. Hoefner was concerned over the wide range of waivers between states. Ms. Diller commented that she and her husband had a Farmers Home Administration loan 13 years ago, and training was waived for her. She had a college degree and still thought she could have benefited from the training. Ms. Cooksie mentioned that a big problem facing FSA was the lack of approved vendors to give training.

MARK FALCONE (DFO) PRESENTATION

Mr. Falcone provided members with a series of handouts related to BFR loan activity (**Attachment 15**). He also discussed FY 2004 funding, including the backlog of approved applications waiting for funding. He then gave an overview of the Committee's previous recommendations and provided an update on the status of each (**Attachment 16**). There was a brief discussion between some members on several of the recommendations.

OTHER ISSUES

Chairperson Ruhf introduced Doris Newton, Agricultural Economist, ERS. Ms. Newton explained that ERS collects demographics on farmers and ranchers, and was soliciting information from the Committee on what information she could provide. She mentioned the Agricultural Resource Management Survey, which collects information on agricultural production practices, costs of production, farm income and finances, and other farm business and household characteristics. She also addressed ERS's farm

typology research. Ms. Newton stated the Committee could obtain more information about what ERS does by accessing the website at www.ers.usda.gov.

There was also discussion that the 2002 Ag Census data will be available on June 3, 2004. The Census defines a family farm as any farm with sales or potential sales of \$1,000 or greater. Those interested in reviewing this information should go to: www.ers.usda.gov and click on “briefing room”.

OPERATING PROCEDURES AND ELECTIONS

The Committee discussed the minutes of the May 2002 meeting. **Mr. Guzman made a motion to approve the minutes as presented. Mr. Wirth seconded the motion. The motion passed with all in favor.**

Chairperson Ruhf stated that elections of the Chair and Vice-Chair for the Committee were to be held every two years and called for new elections of both positions. Ms. Prentiss nominated Terry Barta as Chair. Mr. Barta graciously declined the nomination. **Mr. Barta nominated David Wirth as Chair. Mr. Wirth accepted the nomination. Mr. Reed moved to close the nomination. Mr. Hays seconded the motion. The nomination passed with all in favor.**

Mr. Guzman expressed his appreciation to Chairperson Ruhf for her tremendous work as Chairperson for the last two-year term. The Committee agreed with the comment.

Chairperson Ruhf then passed the Committee meeting to the new Chairperson, Mr. Wirth, who presided over the remainder of the meeting.

Chairperson Wirth called for nominations of Vice-Chair. **Ms. Diller nominated Ms. Prentiss as Vice-Chair. Ms. Prentiss accepted the nomination. Ms. Ruhf moved to close the nomination. Mr. Stokes seconded the motion. The nomination passed with all in favor.**

COMMITTEE DISCUSSION

Mr. Falcone mentioned that Bryan King, an Arkansas farmer and a member of the Farm Bureau, made public comments at the last Committee meeting. He was in Washington last month and met with Under Secretary Penn and Mr. Falcone to address several issues. He discussed his appointment to the Arkansas Beginning Farmer Board by the Governor and the Speaker of the House. He also discussed the proposed “Beginning Farmers and Ranchers Tax Incentive Act” (H.R. 2978), which would provide capital gain tax reductions to retiring farmers if they sell their real estate to a BFR. Ms. Beethe mentioned she had a handout concerning the Bill and provided one to each Committee member (**Attachment 17**). She requested that each member individually write their congressperson in support of this bill. Further discussion on this issue was tabled for discussion tomorrow.

Mr. Hoefner discussed a handout which outlined ideas for implementing some of the conservation issues in 2002 Farm Bill, which would provide specific incentives to BFR (**Attachment 18**). This was discussed earlier in the day when NRCS representatives gave their presentation. Mr. Hoefner asked members to provide feedback on this issue when they meet tomorrow.

Mr. Reed made a motion to adjourn the meeting. Ms. Diller seconded the motion. The motion passed with one opposed.

The session adjourned at 5:04 p.m.

Thursday, March 25, 2004
8:00 a.m.

Chairperson Wirth called the meeting to order.

COMMITTEE DISCUSSION CONTINUED

Mr. Hays stated that the Secretary should create a special mission area under USDA to address the specific needs of BFR that would provide more efficient services, research, etc. He gave an example of the Office of Small Farms. Ms. Bowlan commented that the Small Farm Commission (appointed by former Secretary Glickman) recommended a USDA mission area to establish an Office of Small Farms. She mentioned it took some time; however, USDA did create one. She agreed that creating a BFR mission area would be helpful. Mr. Hays suggested that a senior advisor position be created in the Office of the Secretary. Mr. Falcone mentioned that due to budget constraints creating such a position was questionable.

Mr. Reed stated that BFR initiatives are currently implemented across agency lines, i.e., NRCS, FSA, RMA, ERS, CSREES. Mr. Hays responded that having one office representing BFR would bring better representation and focus to specific BFR issues. Ms. New asked Ms. Bowlan if the advisor to the Office of Small Farms included BFR issues. Ms. Bowlan responded that the advisor is accountable for small farm issues, including small BFR, and thought that the Committee may consider raising the bar for BFR efforts, rather than develop a new mission area. Mr. Guzman agreed.

Ms. Ruhf commented that BFR and small farm issues are separate issues and should be handled separately. Mr. Reed and Mr. Soren both agreed that BFR need separate attention by the Secretary and USDA. Mr. Garza agreed that the Secretary should appoint a BFR representative and appropriate funding to assist BFR in establishing operations.

Ms. New commented that each Agency has done more since the inception of the BFR Committee for the progress of BFR and stated that having a representative in each Agency (coordinator) would be beneficial in advancing the specific issues faced by BFR. Ms. Bowlan agreed. Mr. Wirth summarized the discussion by stating that the USDA, through the Secretary, should heighten awareness within existing Agencies by establishing a specific mission area for BFR and appointing a coordinator in order to elevate the issues faced by BFR. Mr. Falcone again commented that, due to budgetary constraints, the funding of a separate mission area is unlikely, but agreed that a coordinator within each Agency may be a possibility.

Mr. Hoefner mentioned that the Sustainable Agriculture Group and the Office of Small Farms meet monthly with a coordinator from each Agency. Establishing a council for BFR may be one possibility for addressing BFR issues within USDA. Mr. English stated that he would like to see more accomplished at the local level as he didn't even know

about these groups. Mr. Stokes stated that the BFR coordinator should be a separate person from the other groups. Mr. Falcone mentioned that some of the Small Farm Coordinators would be good for that position as they are very knowledgeable on BFR issues.

Mr. Hays made the motion to recommend that the Secretary develop and implement a mission focus to heighten awareness and coordinate beginning farmer and rancher opportunities, including a departmental policy statement that establishes measurable goals and objectives for USDA and each of its mission areas. To ensure follow through and coordination, an interagency council should be established similar to the Sustainable Development Council or the Small Farm Council. Mr. Reed seconded the motion. The motion passed with none opposed.

Mr. Hoefner proposed that the Committee respond to the Family Farm Coalition request to extend the public comment period on FSA's proposed rule for Regulatory Streamlining of its Direct Farm Loan Programs by 30 days. He stated that the Committee could prepare a letter to the Secretary under separate cover due to the time constraint, as the comment period ends April 9, 2004. Mr. Hoefner stated that he had already made the request on behalf of the Sustainable Agriculture Coalition and that if any members of the Committee wanted to respond individually, he would provide them a copy of his letter (by email) for use as an example. There was general discussion as to how many days the Committee should recommend the comment period be extended. It was decided that 30 days would be appropriate.

Mr. Hoefner made the motion to recommend that the Secretary extend the public comment period on FSA's proposed rule for Regulatory Streamlining of its Direct Farm Loan Programs by 30 days. Ms. Prentiss seconded the motion. The motion passed with none opposed (this recommendation was faxed to the Secretary on March 31, 2004. On April 19, 2004, FSA reopened the comment period for 15 days)

Ms. Prentiss stated that FSA should change its lending regulations to allow chattels to be considered for the 10 percent down payment requirement under FSA's beginning farmer down payment farm ownership program. Mr. Hays broadened this statement to suggest that the Secretary should pass legislation that would allow more flexibility in the FSA lending program to include micro-loans and a re-lending program similar to the Rural Business Cooperative Program. This flexibility would allow for more innovative credit options to allow for changing market conditions and for flexibility in farm and ranch operations. Mr. Lang commented that USDA's Rural Development has a re-lending program but it discourages agricultural loans. He also stated that there is a serious gap in the transition from a youth loan to a beginning farmer loan. A general discussion ensued on these issues.

Mr. Lang made the motion to recommend that the Secretary seek short-term administrative and long-term legislative changes to grant FSA the flexibility to develop and implement non-traditional lending programs to benefit beginning farmers and ranchers. For example, a program similar to FSA's Youth Loan

Program could be used to assist beginning farmers and ranchers with small, direct loans. Other possible programs include micro-loans and intermediary re-lending. Further, some innovative credit concepts such as accepting chattel property as equity for FSA's Down Payment Farm Ownership (FO) Loan Program for beginning farmers and ranchers might serve some needs that are unmet today. Mr. Guzman seconded the motion. The motion passed with none opposed.

Mr. Soren complimented NRCS in doing a better job in designing and promoting BFR programs such as allotting extra points for BFR nationwide. Mr. Barta recommended that NRCS design a program specifically for BFR which includes a separate funding base, rather than use a point system, as often times the point system is not enough for a BFR to qualify for a program and it also seems to vary greatly by state. Mr. Hays agreed. Mr. Hoefner liked the idea but was concerned that it would be less likely that NRCS would agree to do this.

Mr. Wirth made the motion to recommend that the Secretary direct NRCS to assign bonus ranking points or target funds to beginning farmers and ranchers in conservation programs to increase beginning farmer and rancher participation in such programs. Mr. Barta seconded the motion. The motion passed with none opposed.

Discussion ensued regarding the Section 2501 program. **Mr. Reed made the motion to recommend that the Secretary support full funding of the Small Farmer Outreach, Training, and Technical Assistance (Section 2501) Program (\$25 million) in its Fiscal Year (FY) 2006 budget proposal. This is the amount authorized in the 2002 Farm Bill. Ms. Hill-Moore seconded the motion. The motion passed with none opposed.**

Mr. Hoefner stated that through FY 2007, the Farm Bill authorizes \$205 million for FSA's direct FO loan program and \$565 million for the direct OL program. He also stated that the funding level is too heavily weighted on the credit subsidy score; therefore the programs have not received full funding in the past. Funding should be based on need, not the subsidy level.

Mr. Hoefner made the motion to recommend that the Secretary support not less than the authorized funding levels for FSA's direct loan programs in USDA's future budget proposals. Through FY 2007, the 2002 Farm Bill authorizes funding levels of \$205 million for FSA's direct farm ownership loans and \$565 million for direct operating loans. Due to the demand for these programs by family farmers and ranchers, including beginning farmers and ranchers, the Committee should recommend that USDA support no less than these levels through FY 2007. In particular, the Committee urges the Secretary to work with the Office of Management and Budget to ensure that budget requests are established based on estimated needed program levels rather than allowing changes in credit subsidy levels to result in wide year-to-year swings in the USDA budget request for direct

loan programs. Mr. Reed seconded the motion. The motion passed with none opposed.

Mr. McKnight discussed the FFA New Horizons Magazine and stated that he would like to see more exposure of USDA BFR programs published in the magazine. He was not aware of FSA's loan programs. Also he would like to see more USDA representation at FFA career fairs and at FFA educational programs in order to bring awareness and education to BFR. Ms. Hill-Moore mentioned she could do publicity in FSA, as she attends the state FFA convention. She also mentioned the Food, Land, and People Program, which is an educational program promoted by NRCS to school age children grades K-12. Ms. Prentiss mentioned booklets and CDs concerning the Ag in the Classroom Program which promotes Ag education. Ms. Diller mentioned that the Texas Farm Bureau is involved with Ag in the Classroom.

Mr. Guzman stated that it is his understanding that the educational items discussed should already be implemented by each FSA County Executive Director (CED). The CED should also be providing program information and education to Farm Bureau offices and other farm associations. Mr. Reed recommended that the Committee urge the Secretary to require that all USDA agencies provide BFR information to the public. Mr. Guzman suggested that USDA promote a National BFR month to bring awareness to BFR issues and USDA programs. Ms. Ruhf inquired if there was any BFR information on the USDA website. Mr. Hays provided the website address that the Farm Credit Foundation provides on BFR issues (www.agriculture.com/future).

Ms. Diller made the motion to recommend that the Secretary request that the Office of Outreach in each Agency of USDA, along with the USDA Office of Public Affairs, actively market beginning farmer and rancher opportunities and programs, emphasizing both youth and adults. Examples of this could include presenting information in FFA's New Horizons Magazine, agricultural related publications, and other appropriate media; provide exhibit booths at the National FFA Convention, trade shows, etc.; and develop a USDA website on BFR issues. Mr. Reed seconded the motion. The motion passed with none opposed.

Ms. Bowlan discussed the Farm and Ranch Land Protection Program (FPP) and how it has been successfully implemented in Pennsylvania. She suggested that the Secretary should be encouraged to direct all states that have FPP's on file with USDA to participate in the program. **Ms. Bowlan motioned to recommend that the Secretary direct NRCS to contact all of their states that have implemented or are considering implementing the FPP program and encourage them to consider adopting or adapting the program guidelines used in Pennsylvania to encourage effective farm transition and transfer strategy. Mr. Hoefner seconded the motion. The motion passed with none opposed.**

Ms. Diller discussed the issues pertinent to RMA's drafted Standard Reinsurance Agreement (SRA). She explained that the draft includes a 25 percent gain or loss that individual insurance companies will be forced to pay back to RMA. This proposed

language should be eliminated as it could bring higher insurance premiums to BFR. She added that “rate smoothing”, the process that spreads costs associated with insurance losses over a larger coverage area, is in place now and should be retained, as this helps make insurance affordable for BFR. Mr. Lang added that the Committee should be concerned with these issues as it is important to keep insurance affordable for BFR. Mr. Stokes stated that it is not the Committee’s purpose to get involved in insurance issues and that the SRA is negotiated between RMA and private insurance companies. **Ms. Diller motioned to recommend that the Secretary direct RMA leave in place the current SRA. RMA has drafted a proposed SRA, which may cause unintended harm to beginning farmers and ranchers. The Committee recommends that the SRA not be changed until adequate research is done assuring the changes won’t adversely affect beginning farmers and ranchers. Ms. Prentiss seconded the motion. The motion passed with three members opposed.**

Mr. English discussed the need for cost share for BFR on all conservation programs and recommended that the rule requiring producers to have irrigation in two of the last five years be removed for BFR. A discussion ensued as to what the actual NRCS policy is toward BFR with several members concurring that it is not the farmer that needs the irrigated years in but the land. There was some discussion that NRCS should review all of its programs to remove any barriers to BFR, and list Mr. English’s concern as an example.

Mr. Hoefner motioned to recommend that the Secretary direct NRCS to review all program rules and remove barriers that may prevent beginning farmers and ranchers from participating in available programs. For instance, a rule in the EQIP program requires participant’s land to have been irrigated in two of the previous five years to be eligible for cost share to improve irrigation efficiency. These and similar program barriers should be removed. Mr. Hays seconded the motion. The motion passed with none opposed.

Mr. Soren discussed the Conservation Security Program (CSP) and stated that this program allows cost-share on conservation projects that a producer completes on a farm. He stated that NRCS should take this program back to the national level as currently it covers only three to four watershed areas across the entire 50 states. He also recommended that NRCS enhance the benefits provided to BFR such as preferential payments to BFR, larger cost-share to BFR or more points for BFR. He mentioned that the 90 percent reduction factor be eliminated, and the 90 percent cost-share funding to BFR enforced.

Mr. Soren made the motion to recommend that the Secretary direct NRCS to make the following changes to the CSP: (1) revert it from the proposed watershed approach back to a full-scale national program and eliminate the 90 percent base payment reduction factor and the proposed cost-share restrictions; (2) abide by the 90 percent cost-share provision for beginning farmers and ranchers; and (3) provide for special enhanced payments for beginning farmers and ranchers. Mr. Mobley seconded the motion. The motion passed with none opposed.

Mr. Hoefner made the motion to recommend that the Secretary direct NRCS to issue national guidance requiring a 15 percent differential for cost-share payments under the EQIP program be provided to BFR and LR nationwide, as authorized in the 2002 Farm Bill. For example, if the standard 75 percent rate is in use, beginning and limited resource producers should receive 90 percent, but if a state has set the maximum cost-share payment rate at 40-50 percent of the projected cost of the project, for instance, beginning and limited resource farmers and ranchers would receive 55-70 percent. Mr. Guzman seconded the motion. The motion passed with none opposed.

Ms. New made a motion to recommend that the Secretary direct NRCS to revise the definition of beginning farmer and rancher to include other applicable components of the statutory definition used by FSA, with appropriate adaptations for use in conservation program implementation. For example, NRCS could adopt a cap on farm land ownership, but use a much higher percentage of median farm size than the one FSA uses for the purposes of first time real estate credit. Discussion ensued on whether or not to incorporate size limits (i.e.; must not own more than 30 percent of the median sized farm acreage or producer must show proof that the project could not be completed without the financial assistance). It was decided that the motion should not be amended as such. Mr. Hoefner seconded the motion. The motion passed with none opposed.

Mr. Hoefner stated that 30 million acres of Conservation Reserve Program (CRP) ground will be coming out of the program in FY 2006-2008. It was his opinion that a large majority of these acres will be put back into production and that the USDA should be looking at issues related to this now. Specifically he would like to see programs developed to assist BFR in obtaining access to these acres. Landowners should also be planning now to decide how land should be used and how the conservation benefits can be preserved.

Mr. Hoefner made a motion to recommend that the Secretary direct ERS, FSA, and NRCS to research policy options for the CRP program to enhance BFR opportunities as the next big wave of CRP contract expirations begin in FY 2006-2008. Encouraging sale to new farmers will not only help the neighboring rural communities, but can also be accomplished in ways to promote strong conservation. Transition strategies could include incentives for sales to BFR with a special transition period several years prior to the end of the 10-year CRP contract during which the beginner could start making conservation improvements or make limited economic use of the property, consistent with an approved conservation plan. Ms. Diller seconded the motion. The motion passed with none opposed.

Mr. Hoefner made a motion to recommend that the Secretary include funding in the FY 2005 budget request for the Beginning Farmer and Rancher Development Program, as authorized by the "Research and Related Matters" title of the 2002

Farm Bill. Ms. Prentiss seconded the motion. The motion passed with none opposed.

Mr. Hoefner made the motion to recommend that the Secretary direct CSREES to include a specific request for BFR projects in the FY 2004 Supplemental Request for Applications (RFA) for farm profitability and rural economic development projects under the National Research Initiative Competitive Grants Program. This emphasis should be continued in future fiscal year RFA's. Mr. Guzman seconded the motion. The motion passed with none opposed.

REMARKS BY DEPUTY UNDER SECRETARY

Chairperson Wirth introduced Floyd Gaibler, Deputy Under Secretary, USDA Farm and Foreign Agricultural Services. Mr. Gaibler thanked the Committee for the opportunity to speak. Mr. Gaibler began his remarks by acknowledging that Mr. Witt spoke yesterday on RMA issues. Mr. Gaibler said that RMA has come a long way in focusing on BFR issues. He also stated that FSA has incorporated many of the Committee's past recommendations into their programs and that FSA has done well at targeting funds to BFR.

Mr. Gaibler stated that the economy is looking favorable with 2004 cash farm income of \$56 billion, down from 2003 at \$63 billion. This decrease is mainly attributable to concerns related to Bovine-Spongiform Encephalopathy and the cutoff of exports. USDA continues working on its export relations and has since reopened trading with Mexico and is working on expansion with Canada. On the overseas markets, USDA continues negotiating meat exports to Japan, Hong Kong and Korea. China has issues with the avian flu outbreak that are being addressed. Overall most U.S. domestic and global prices and sectors are looking good, with the exception of fruits and vegetables.

Mr. Gaibler stated that over the last four years grain consumption has exceeded production. This allows for competition of farm acreage but also presents some challenges to BFR.

There were several questions concerning the North Atlantic Free Trade Agreement, which Mr. Gaibler addressed. He then discussed U.S. job growth and its relation to exports. U.S. demand for goods has only been increasing with inflation but our ability to produce goods is ten-fold. Therefore, for successful long-term growth, the U.S. must remain competitive in the global market by looking to improve market access and to provide value-added opportunities in the middle class markets of foreign countries.

There was a brief discussion on RMA's SRA. Mr. Gaibler stated that this is a very complex agreement between RMA and 14 private insurance companies. A significant amount of time was spent by RMA to develop an agreement that RMA and the private insurers could both use as efficiently and as effectively as possible to assist America's agricultural producers.

Mr. Gaibler concluded his remarks by mentioning that the Department sees the need to keep qualified staff for FSA's farm loan programs and has recently requested that 100 additional staff years be added.

ERS PRESENTATION

Chairman Wirth introduced Charles Dodson, Economist, ERS. Mr. Dodson discussed two study's pertaining to FSA programs that are currently being conducted by the Department. The first is the FSA Direct Loan Effectiveness study which will, among other things, analyze the effectiveness of targeted assistance to BFR and SDAs. The second study is one which will compare the direct and guaranteed loan programs.

COMMITTEE DISCUSSIONS CONTINUED

Ms. Prentiss resumed the Committee discussions by presenting information on the FSA Beginning Farmer and Rancher Land Contract Sale Pilot Program, which was authorized by the 2002 Farm Bill. FSA implemented it on September 4, 2003. It provides FSA guarantees of loans made by private sellers of a farm or ranch on a contract land sales basis to qualified BFR. She questioned if more states could be added to the program if they wanted to participate, as California has an interest. Ms. Beethe also stated that Nebraska would like to participate.

Ms. Prentiss made the motion to recommend that the Secretary direct FSA to expand the Land Contract Sale Pilot Program to all interested states. The Committee appreciates that FSA has established this pilot program in six states but is aware that several other states would like to participate. Given the small number of land contract guarantees per state, having these willing states participate will allow for a more robust pilot without a large increase in the total number of guarantees. Ms. Beethe seconded the motion. The motion passed with none opposed.

A discussion then ensued on the coordination of efforts between RMA and CSREES on research and extension issues. Mr. Stokes stated that there needs to be more oversight on how funding is administered and that more effort should be made to work together on tailoring educational and training opportunities to BFR. There was a comment that the two agencies have a different mission focus and it was decided to table the discussion.

Mr. Soren then focused the Committee on a discussion of Aggie Bonds. He thought that even though the Department was unsuccessful in convincing the Treasury department to provide tax-exempt status on USDA loan guarantees, it would be worth submitting again. Chairperson Wirth suggested that the Aggie Bond discussion be tabled until the next meeting.

Ms. New motioned to recommend that the Secretary support FSA's efforts to obtain 100 additional staff years to conduct FSA's Farm Loan Programs. Mr. Soren seconded the motion. The motion passed with none opposed.

Ms. Beethe discussed her handout from yesterday explaining the proposed Beginning Farmers and Ranchers Tax Incentive Act (H.R. 2978) and requested the Committee's support. Under Section 121A(a)(1) of the proposed bill, land owners who sell their land to a qualified BFR, who is a first-time buyer, would pay no capital gains taxes.

Mr. Hoefner made the motion to recommend that the Secretary support the beginning farmer and rancher portion of H.R. 2978, "The Beginning Farmers and Ranchers Tax Incentives Act". Under Section 121A(a)(1) of the proposed bill, land owners who sell their land to a qualified beginning farmer or rancher, who is a first-time buyer, would pay no capital gains tax. Ms. Bowlan seconded the motion. The motion passed with none opposed.

Ms. Ruhf suggested that the Committee commend the Secretary for the USDA's efforts in acting on the Committee's last recommendations. It was decided that this commendation would be included in the beginning of the letter to the Secretary and not as a separate recommendation.

Ms. New stated that FSA should develop some method to encourage and assist BFR in their Commodity Programs. This would enhance income to BFR which would in turn, assist them in repaying loans. At present, there are no incentives for BFR within the program.

Ms. New motioned to recommend that the Secretary direct the FSA to review its various commodity programs and implement incentives for BFR. Mr. Guzman seconded the motion. The motion passed with none opposed.

MISCELLANEOUS ITEMS

Mr. Stokes asked about responses to the public comments. Mr. Falcone stated that he has responded or would respond to all public comments in writing.

There was a question concerning the next meeting. Mr. Falcone will provide information to members once funding is available in the FY 2005 budget.

Mr. Hays made the motion to adjourn. Mr. Guzman seconded the motion. The motion passed with none opposed.

Chairperson Wirth thanked everyone for their participation.

The meeting adjourned at 3:35p.m.