**Testimony of**

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**Of the Committee on Natural Resource**
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Madam Chairwoman and members of the subcommittee, on behalf of United States Department of Agriculture, thank you for the opportunity to present our programs for mitigating the effects of drought, especially as it impacts our state. As most of you know, California is the nation's leading producer of agricultural goods. California's farmers and ranchers generate more than $30 billion of revenue. While we have only four percent of the nation's farms, they produce 13 percent of the national gross cash receipts. Furthermore, nine of the top 10 revenue-producing counties in the nation are in California, including Fresno, Tulare and Monterey among the leaders, averaging $4 billion each. Fresno, the leader, would rank higher than half the states in the U.S. California is also the nation's leader in agricultural exports, annually shipping more than $10 billion in food and commodities around the world. Our top exports are vegetables, tree nuts, fruit and dairy products. There are 350 different crops grown commercially in the state. Many of these commodities are specialty crops and some are produced exclusively in the state.

California is rich in natural resources with ideal growing conditions. The one resource that can adversely affect our agricultural production when it is in short supply is water.

Farmers everywhere are at the mercy of nature. With such a potent economic influence on our state, when water becomes a commodity itself rather than a welcomed natural resource, the California economy suffers greatly. Farmers and ranchers especially are hurt. Their financial challenges threaten their businesses and put their families at serious economic risk.

**The Goal of Today's Testimony**

Our goal today is to explain how USDA helps producers when drought conditions prevail, like they are doing now in California. I will limit this written testimony to the actions managed by the Farm Service Agency (FSA), my employer and the agency with many of the responsibilities for handling disaster recovery. Another key agency in this combat with nature is the Risk Management Agency (RMA). RMA provides agricultural producers help in managing their business risks through effective, market-based risk management solutions, namely, insurance contracts. RMA operates and manages the Federal Crop Insurance Corporation (FCIC), which was founded in 1938. Through the FCIC, RMA provides insurance coverage to America's producers and coordinates with 16 private-sector insurance companies that sell and service the policies. RMA also develops and/or approves the premium rate, administers the premium and expense subsidies, approves and supports products, and reinsures the companies.

When I complete the testimony, I hope you will have a better understanding of how FSA and RMA cooperate and create a balance of protection for America's agricultural producers. Further, you will see how FSA has adapted to program changes introduced by the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill).

**General Background**

Drought is the most frequent disaster addressed by USDA. In 2007 the Secretary of Agriculture declared 1,900 counties nationwide as primary disaster areas. Of those, nearly 1,500 in 37 states were for drought and drought-related problems. In the prior calendar year, about 90 percent of the requests for disaster assistance were for drought and affected 47 states.

There are four types of disaster designations that immediately trigger the availability of low-interest FSA Emergency (EM) loans to eligible producers in all primary and contiguous counties: A Presidential major disaster declaration; USDA Secretarial disaster designation; an FSA Administrator's Physical Loss Notification; and a quarantine designation *(Detailed descriptions are provided in Exhibit 9.)*

Producers can qualify for EM loans if they have suffered at least a 30 percent loss in crop production or a physical loss to livestock, or real estate. They must be U.S. citizens, have an acceptable credit history and be unable to receive credit from commercial sources. I will go into more detail about EM loans and the Emergency Conservation Program, which provides funding and technical assistance for farmers and ranchers when drought strikes later in my testimony.

In 2007, 56 of California's 58 counties were declared primary or contiguous disaster areas because of drought (*see Exhibit 1; California drought map*). That drought continues today. So far in 2008, 31 counties have been declared primary or contiguous disaster areas because of drought (*see Exhibit 2; Governor's Requests for Disaster Designations for Drought*).

In response to these disasters, USDA has distributed more than $400 million to California producers over the past three crop years through insurance payments and FSA's disaster assistance programs.

While USDA provides California farmers and ranchers the means to recover from the economic consequences of disasters such as drought, the state is currently straddling two mending fences. One foot is planted in the 2007 Act, which is enabling us to repair the damages caused by disasters from 2005 through 2007. The other foot is standing on the 2008 Farm Bill, which offers us programs for recovering from disasters occurring this crop year, including the drought we are currently experiencing. The transition between the two acts is providing us with some challenges, but our employees are up to the challenge and our leadership is guiding the implementation effectively.

As we look to the future and the implementation of a new, permanent disaster program for 2008-2012 crops, it is appropriate to look at specific programs Congress enacted in the past to help producers recover from disasters. Specifically the U.S. Troop Readiness, Veteran's Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (2007 Act), created an agricultural disaster program for crop years 2005-2007. FSA has successfully implemented the law, enabling producers to receive up to $3 billion in agricultural disaster aid across the country. Most significant for farmers and ranchers in the enacted programs were the Crop Disaster Program (CDP), Livestock Compensation Program (LCP) and the Livestock Indemnity Program (LIP).

**Crop Disaster Program**

CDP provides benefits to farmers who suffered losses to 2005-2007 crops from natural disasters and related conditions. Producers who incurred qualifying losses in 2005, 2006 or 2007 are able to choose only one year for which to receive benefits. To date, $54 million in program benefits has been paid to producers under this program.

Producers are entitled to receive benefits for multiple crop losses if all were in the same crop year. However, only producers who obtained crop insurance or coverage under the Noninsured Crop Disaster Assistance Program (NAP) for the year of their loss are eligible for CDP benefits. Furthermore, participants must have been in compliance with Highly Erodible Land Conservation provisions for the applicable crop year. A producer is eligible if the crop loss resulted from damaging weather, such as drought, an adverse natural occurrence, such as an earthquake or flood, or a condition related to damaging weather or an adverse natural occurrence, such as excessive wind, excessive heat, saltwater intrusion, irrigation water rationing, disease or insect infestation.

A farmer growing crops can suffer a loss of quantity or a loss of quality, both affecting his/her economic opportunities. To qualify for quantity loss, the producer must have been prevented from planting a crop, sustained a loss in excess of 35 percent of the expected production of a crop, or sustained a loss in excess of 35 percent of the value for the value-loss crops. To receive CDP benefits for quality losses, the same rules apply for insurance or NAP and the years in which the loss occurred. Likewise, the farmer must be in compliance with Erodible Land Conservation and Wetland Conservation provisions for those years. Greater detail about eligibility may be found in Exhibits3 and 4; CDP fact sheets.

**Livestock Compensation Program**

LCP provides benefits to livestock and catfish producers who suffered feed losses or incurred additional feed costs directly resulting from natural disasters occurring between Jan.1, 2005, and Dec. 31, 2007. To be eligible under LCP, livestock must be dairy cattle, beef cattle, buffalo, beefalo, equine, poultry, elk, reindeer, sheep, goats, swine or deer that have been physically located in an eligible county on the beginning date of the applicable disaster period and have been maintained for commercial use as part of a farming operation on the beginning date of the disaster period and not used for recreational purposes such as pleasure, hunting, pets, roping or for show. To be eligible for LCP, producers must have either owned or cash-leased eligible livestock on the beginning date of the applicable disaster period and suffered an eligible feed loss from produced or purchased forage or feedstuffs, or incurred additional feed costs as a result of an eligible disaster during the applicable disaster period. In 2007, livestock producers in California received $6.5 million in benefits from the Livestock Compensation Program. Further detail about the program is found in Exhibit 5; LCP fact sheet.

**Livestock Indemnity Program**

LIP provides benefits to livestock producers for livestock deaths caused by natural disasters that occurred between Jan. 1, 2005, and Dec. 31, 2007. To be eligible for LIP, an owner or contract grower's livestock must have been located in a county or contiguous county designated a natural disaster area between Jan. 1, 2005, and Dec. 31, 2007. Livestock producers incurring livestock losses in more than one of the 2005, 2006 and 2007 calendar years may only select one year in which to receive assistance. To be eligible for LIP, a livestock producer must have legally owned the eligible livestock on the day the livestock died and must have also met the following conditions: The livestock must have died in an eligible county as a direct result of an eligible disaster and in the calendar year for which benefits are requested. Additionally, the livestock must have been maintained for a commercial farming operation on the day they died and not have been produced for reasons other than commercial farming. California producers received $19.5 million in LIP payments in 2007. Further detail about the program is found in Exhibit 6; LIP fact sheet.

These three programs, supported by the Congress through the 2007 Act, have helped California’s producers, including drought victims, reorganize their operations and recover from the disaster’s setbacks. While the current California drought began in 2007 and some of its economic damages done by drought in 2007 have been addressed by the 2007 Act, the conditions continue. However, on Dec. 31, 2007, the law’s protection ended.

**2008 Farm Bill**

Title XII of the 2008 Farm Bill gave many California farmers extra protection on 2008 production, but only if they had been enrolled in crop insurance or NAP. However, since the window to purchase crop insurance or NAP coverage closed for the 2008 crop year while the 2008 Farm Bill was in debate, the law that passed gave producers a chance to become eligible. Department of Agriculture Secretary Ed Schafer announced just 10 days ago on July 11 that farmers could acquire a buy-in waiver for disaster assistance on 2008 losses. The deadline for producers to participate in the second-chance safety net is Sept. 16, 2008. Missing this deadline prevents producers from receiving disaster assistance for the 2008 crop season. Secretary Schafer used the announcement to urge every producer whose crops and grazing lands are not covered by insurance or NAP to take advantage of this one-time opportunity. The details about buy-in fees and limitations are part of Exhibit 7; USDA news release no. 0182.08.

In the package are five basic programs: the Supplemental Revenue Assistance Payments (SURE) Program, Livestock Forage Disaster Program (LFP), Livestock Indemnity Program (LIP), Tree Assistance Program (TAP), and the Emergency Assistance Livestock, Honeybees and Farm-Raised Fish Program (ELAP). The maximum disaster payment available to a producer under these programs is limited to $100,000. An additional $100,000 is available under the Tree Assistance Program.

However, the Federal regulations and program policies and procedures for these programs did not receive expedited rulemaking authority and thus are currently being drafted and developed through the normal rulemaking process. In addition, payments will be calculated on the season average price for the crop, pushing payment delivery on 2008 losses into 2009.

**Supplemental Revenue Program (SURE)**

As the successor to the ad hoc crop disaster programs previously available in the 2005 – 2007 legislation, SURE is available to eligible producers in counties where a qualifying natural disaster declaration is made by the Secretary of Agriculture. Producers can also qualify if they experience a greater than 50 percent loss in production because of weather. To qualify for SURE payments, NAP or crop insurance is required for all crops the producer grows.

The SURE Program disaster payment is 60 percent of the difference between the Disaster Program Guarantee for all crops and the total farm revenue for all crops. Note that the Disaster Program Guarantee cannot exceed 90 percent of the expected revenue for each crop. SURE payments cannot be competed until the crop marketing year is completed.

**Livestock Indemnity Program (LIP)**

Similar to the previous Livestock Indemnity Program, LIP covers livestock deaths in excess of the normal mortality due to adverse weather. A disaster declaration is not required and NAP or crop insurance is not required. The payment rate for eligible losses is 75 percent of fair market value.

**Livestock Forage Disaster Program (LFP)**

LFP is the new successor to the previous Livestock Compensation Program and provides assistance for forage losses due to drought and fire on public managed land. Producers qualify for this program if the Drought Monitor designates their county as severe, extreme or exceptional. The Drought Monitor is a national service provided through the cooperation of USDA, the National Drought Mitigation Center, the Department of Commerce and the National Oceanic and Atmospheric Administration.

A disaster declaration is not required for LFP, but NAP or crop insurance is required for the grazed land. Payment for covered losses increases with the severity and length of drought based on the Drought Monitor designations with a base payment being 60 percent of the feed cost for a month and increasing up to three times the base payment. The payment for public land forage losses is less.

**Tree Assistance Program (TAP)**

Orchardists and nursery tree growers may receive cost-share benefits under the TAP if losses exceed 15 percent. In addition to trees, bushes, vines and nursery trees for commercial sale are eligible. NAP or crop insurance is required. Loss must be due to a natural disaster and the program provides for partial reimbursement of costs for replanting, pruning, debris removal and salvage efforts.

**Emergency Assistance for Livestock, Honey Bees and Farm-Raised Fish (ELAP)**
ELAP provides emergency relief to producers of livestock (including horses), honey bees and farm-raised fish.  Coverage is for losses from disaster such as adverse weather or other conditions such as blizzard and wildfires not adequately covered by any other disaster program.  NAP or crop insurance is required.

Other programs included in the 2008 Farm Bill that are important to California's farmers and ranchers faced with drought prospects include NAP, the Emergency Loan Program (EM) and Emergency Conservation Program (ECP).

**Noninsured Crop Disaster Assistance Program**
As mentioned earlier, NAP is important in these parts of California where so many crops are produced that are ineligible under the RMA guidelines for crop insurance.  NAP goes into effect when disasters create low yields, loss of inventory or prevented planting occurs. Crops eligible for NAP coverage include crops grown for food, including food for livestock; crops grown for fiber, such as cotton and flax (except for trees); crops grown under a controlled environment, such as mushrooms and floriculture; specialty crops, such as honey and maple sap; value-loss crops, such as aquaculture, Christmas trees, ginseng, ornamental nursery and turf grass sod; and seed crops where the propagation stock is produced for sale as seed stock for other eligible NAP crop production.

Eligible producers must apply for NAP coverage of crops in a specific timeframe and pay the applicable service fees at their local FSA office.  Limited resource producers may request a waiver of service fees.

When a NAP crop or planting is affected by a natural disaster such as drought, producers must notify their local FSA office and complete the "notice of loss" portion of the application.  They must also complete the application within 15 calendar days of the natural disaster occurrence, the final planting date if planting was prevented by the natural disaster, or the date damage to the crop or loss of production became apparent. The natural disaster must have either reduced the expected unit production of the crop by more than 50 percent, or prevented the producer from planting more than 35 percent of the intended crop acreage.  NAP covers the amount of loss greater than 50 percent of the expected production based on the approved yield and reported acreage.  Further information on NAP is in *Exhibit 8*; NAP fact sheet.

So far in 2008, 43 counties in California have received NAP payments in the amount of $6,214,164.

**Emergency Loan Program**

FSA's Emergency Loan Program (EM) provides emergency loans to help producers recover from production and physical losses due to drought and other disasters. EM loans may be used to restore or replace essential property; pay all or part of production costs associated with the disaster year; pay essential family living expenses; reorganize the farming operation; and refinance certain debts.  EM loans may be made to producers who own or operate land located in a county declared a Presidential disaster area or designated by the Secretary of Agriculture as a disaster area. Participants must be established family farm operators and U.S. citizens or permanent residents and have sufficient farming or ranching experience.  They must have suffered at least a 30 percent loss in crop production or a physical loss to livestock, livestock products, real estate or chattel property.  They must have an acceptable credit history, must be unable to receive credit from commercial sources, must provide collateral to secure the loan; and show that they have repayment ability.

Producers can borrow up to 100 percent of actual production or physical losses to a maximum amount of $500,000.  Applications for EM loans must be received within eight months of the county's disaster designation date.  A more thorough explanation of the process required for EM application is included in Exhibit 9; the Emergency Disaster Designation and Declaration Process.

In FY 2006, there were 12 EM loans authorized in California for $1,791,000.

In FY 2007, there were 12 EM loans authorized in California for $1,989,000.

As of June 30, 2008, for FY 2008 there have been 11 EM loans authorized in California for $1,651,000.

**Emergency Conservation Program**

ECP provides emergency funding and technical assistance for farmers and ranchers to rehabilitate farmland damaged by natural disasters and for carrying out emergency water conservation measures in periods of extreme drought. ECP is administered by state and county FSA committees. Subject to availability of funds, locally-elected county committees are authorized to implement ECP for all disasters except drought, which is authorized at the national office of FSA.

County FSA committees determine land eligibility based on on-site inspections of damage, taking into account the type and extent of the damage. For land to be eligible, the natural disaster must create new conservation problems that, if untreated, would impair or endanger the land, materially affect the land's productive capacity, represent unusual damage, or be so costly to repair that Federal assistance is or will be required to return the land to productive agricultural use. Conservation problems existing prior to the applicable disaster are ineligible for ECP assistance.

ECP program recipients receive cost-share assistance of up to 75 percent of the cost to implement approved emergency conservation practices as determined by county FSA committees. Individual or cumulative requests for cost-sharing of $50,000 or less per person, per disaster are approved at the county committee level. Cost-sharing from $50,001 to $100,000 is approved at the state committee level. Cost-sharing above $100,000 must be approved by FSA's national office. Further, there is a payment limitation of $200,000 per person, per disaster.

To rehabilitate farmland, ECP program participants may implement emergency conservation practices, such as removing debris, restoring fences and conservation structures, and providing water for livestock in drought situations. Other conservation measures may be authorized by county FSA committees, with approval from state FSA committees and FSA's national office. In 2007 a total of $2.5 million has been paid to California producers under the ECP.

**Conclusion**

Farmers and ranchers are familiar with FSA's programs and loans. We attempt to keep them informed about changes to the programs as they occur, especially at a time like now when we are implementing a new Farm Bill. Because nearly two-thirds of all U.S. counties participate in a disaster designation as a primary or contiguous county in a given year, our producers know the process well. Still, we frequently remind them of the steps they must take to become eligible during a new designation.

USDA and all of us in the agencies that deal directly with the producers we serve are fully aware of the need for quick and accurate response when disaster occurs. Likewise, we know our obligation to America's taxpayers, who entrust us with seeing that their money is spent wisely on agricultural programs that assure them of quality food, fiber, and an opportunity to improve our energy capacity. The drought in California is a problem for the state's farmers and ranchers, just like it is for every other resident, but we have a safety net to protect them and consumers from any long-term threat to California's important agricultural capabilities. We monitor drought conditions in our state routinely to anticipate changes and to keep our county offices informed of the potential threat (*see Exhibit 10; U.S. Drought Monitor – California*).

Thank you for allowing USDA to share in this important information gathering hearing. And thank you for coming to California to gather your insights, because we are the most productive agricultural state in America, and also one of the most resilient.