Testimony of

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Mr. Chairman, Ranking Member, and Members of the Subcommittee, thank you for the opportunity to discuss Title I and disaster assistance provisions associated with the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill). These programs, together with the Federal crop insurance program, form the backbone of the farm safety net. This hearing provides an opportunity to reflect on the performance of these programs under the 2008 Farm Bill, while thinking ahead to the upcoming 2012 debate.

Title I is very broad and covers not only our "traditional" commodity programs, but also the new Average Crop Revenue Election (ACRE) program, as well as dairy, sugar, and many other provisions. Disaster assistance programs are covered in Titles XII and XV and complement the Title I provisions. After discussing our experience with these programs, I would like to address our efforts to modernize and ensure high-quality, cost-effective program delivery, which is benefiting producers and streamlining our internal operations.

Direct and Counter-Cyclical Payment Program

The Farm Service Agency (FSA) operates the direct and counter-cyclical payment program, which was first authorized by the 2002 Farm Bill. Direct payments are made to producers with program crop base acres, and do not depend on the crop that is currently planted or on current yields or prices. A producer's payment is based on the farm's base acres associated with the crop, the farm's (fixed) program yield, and a fixed national payment rate established in statute. In total, FSA makes approximately $4.9 billion in direct payments annually, accounting for about 80 percent of Title I outlays in fiscal year (FY) 2011.

Like direct payments, counter-cyclical payments depend on base acres, but are made when market prices drop to levels that trigger payments. With grain and oilseed market prices at record, or near-record levels, counter-cyclical payments have been modest, and for FY 2010 and 2011, only producers with cotton and peanut base acres have received benefit. FSA will issue about $131.8 million in counter-cyclical payments in FY 2011. In comparison, counter-cyclical payments totaled $4.4 billion in FY 2006 and $3.2 billion in FY 2007, when market prices averaged significantly lower.

Average Crop Revenue Election (ACRE) Program

ACRE was first authorized by the 2008 Farm Bill, and is based on revenue risk rather than price risk. It provides an alternative to traditional farm programs and depends on both state- and farm-level triggers. Both the state-level and farm-level triggers—which are in turn based on historical average yields and national average market prices—must be met before a producer receives a payment. Because it is an alternative to traditional programs, an ACRE participant forgoes counter-cyclical payments and incurs a 20 percent reduction in direct payments and a 30 percent reduction in marketing assistance loan rates for all commodities on the ACRE-enrolled farm. Once a farm is enrolled in ACRE, that farm is required to stay enrolled in ACRE throughout the duration of the 2008 Farm Bill (through 2012).

Overall, ACRE participation has been strongest for corn, soybeans and wheat. In 2009, about 33 million acres of base acres were enrolled, including 13 million acres (16 percent) of corn base (over half of that total is in Illinois, Iowa, and Nebraska), and about 8 million acres (15 percent) of soybean base (Illinois and Iowa were again top states). Nearly 10 million acres of wheat base were enrolled in ACRE, about 13 percent of the total enrolled wheat base. For wheat, expected net returns, combined with strong educational efforts, improved ACRE participation for the crop, particularly in Oklahoma (2.5 million acres enrolled) and North Dakota (1.6 million acres).

The bulk of enrollment occurred in 2009, the first year of the program. An additional 1.2 million acres of base and 6,000 farms (not in the program in 2009) were enrolled in ACRE in 2010. In 2011, about 2,600 more farms have enrolled in ACRE.

Several reasons likely explain the relatively modest interest in this new program. ACRE requires producers to do a significant amount of “homework” to understand how it would work for their farms. Many producers have been participating in some form of direct payment since 1996 with Production Flexibility Contract payments, and later the direct payment program. This is further complicated by operators’ having to explain to landlords and, at times, bankers, how expected ACRE net returns compare to net returns under the traditional programs. According to statute, ACRE participation is locked in for a farm throughout the remainder of the 2008 Farm Bill once that farm is enrolled in ACRE. Because of market uncertainties and without a clear understanding of this new program, most producers hesitated to commit their farms to a multi-year ACRE agreement. Basically, producers found themselves trading off the certainty of existing direct payments with the uncertainty of ACRE payouts.

For the 2009 crop year, about $446.6 million in ACRE payments were made. Wheat producers (who experienced both low prices and yield losses) accounted for about $310 million of that total, with an estimated $100 million paid for corn, $20 million for barley, $10 million for sunflower seed, and small amounts for several other crops. Oklahoma, Washington, Illinois, South Dakota, North Dakota, and Idaho received about 80 percent of the payments.

Because the magnitude of ACRE payments are determined by season average prices in any given year, there is a significant time lag between the start of a crop year and the issuance of payments. Further, the 2008 Farm Bill mandates that payments cannot be made until after October 1 of the calendar year following the calendar year of the harvest. We expect 2010 crop year payments to total about $24 million in FY 2012.

Marketing Assistance Loans

Marketing assistance loans provide producers with interim financing at harvest time to meet cash flow needs without having to sell their commodities. The harvested commodity is used as collateral for the loan. The value of marketing assistance loans made totaled about $7 billion in FY 2011. Market loan repayment provisions specify, under certain circumstances, that producers may repay loans at less than principal plus accrued interest and other charges.

Alternatively, producers can apply for a loan deficiency payment in lieu of securing a loan. Similar to the situation for counter-cyclical payments, high market prices have greatly reduced marketing loan benefits, which are expected to total less than $50 million in FY 2011.

Ensuring Compliance with Eligibility Requirements

Each year, FSA makes about 7 million separate payments to farmers and ranchers. The vast majority of payments are made quickly and accurately. Over the past two years, FSA has taken a variety of actions to help identify and further limit the occurrence of improper payments.

The 2008 Farm Bill redefined eligibility requirements for DCP, ACRE, and certain other programs by lowering the average gross income (AGI) limit to $750,000 for on-farm income and to $500,000 for non-farm income from the previous cap of $2.5 million for all income. To ensure that only those participants who comply with AGI requirements receive specified farm program benefits, FSA entered into an agreement with the Internal Revenue Service (IRS). With the written consent of the program participant, the IRS performs a series of calculations using tax return data to determine a producer's average AGI values and compares those values with the AGI limits. IRS then provides to FSA a report that indicates whether or not the participant appears to meet or exceed each of the average AGI limitations. AGI compliance reviews for FY 2009 and 2010 are still underway and we look forward to being able to soon verify that producers are fully compliant with the law.

The 2008 Farm Bill also requires that FSA reconcile data with the Social Security Administration (SSA) to address concerns regarding payments to deceased persons. Before the 2008 Farm Bill was enacted, FSA started a data-matching process that compares program payment information to the SSA "death master file," starting with payments issued in FY 2007. Review of the data-match report and information on file in FSA offices revealed that 121,527 payments in FY 2007, totaling $108 million, were disbursed on behalf of deceased persons. However, relatively few of these payments warranted further action. The vast majority of the payments identified as issued to deceased producers were in fact earned or requested prior to death. If a producer is enrolled in a program and is due a payment and the producer passes away during that year, the payment will be issued to the estate of the deceased person. USDA issued a regulation in late 2010 making explicit that payments will not be made on behalf of a deceased person unless the payment was earned by that person while alive and was requested by that person or their authorized representative before or after their death.

Planting Flexibility, 10-Acre Base Provisions

We recently delivered two reports to Congress mandated by the 2008 Farm Bill—one on the impacts of the Planting Transferability Pilot Program (PTPP) and the other on the effects of provisions eliminating payments to FSA farms with 10 or fewer base acres. The Economic Research Service provided substantial assistance with these reports, which we greatly appreciate.

PTPP, first authorized in the 2008 Farm Bill, relaxes the planting restrictions, in certain FSA programs, placed on vegetables destined for processing, and is available in seven upper Midwestern States. PTPP emerged in response to claims by Midwestern vegetable processors that access to vegetables used for producing pickles, tomato paste, and canned beans, among other foods, has been constrained by statutory planting restrictions. These statutory fruit and vegetable planting restrictions date back to 1990, and were put in place to address concerns expressed by the produce sector that payments to farms with base acres planted to fruits and vegetables could lead to a significant decline in prices, which would be unfair to a sector that received relatively modest government support. Prior to PTPP, fruit and vegetables could be grown on base acreage if the farm has a history of planting fruit and vegetables. In these cases, payments are reduced acre-for-acre for each acre of fruit and vegetables planted. PTPP places farms with no history of planting fruit and vegetables on the same footing as those with a planting history for the select processing vegetables. Without PTPP, participating farms with no planting history would receive a far greater penalty.

FSA data for 2009 indicate that 10,215 acres were planted under PTPP, about 14 percent of the 75,000 allowable acres in the statute and a small share of total processing vegetable acreage. One hundred and fifty-five farms participated, with Illinois, Indiana, and Minnesota accounting for approximately 85 percent of the farms and acres. Several reasons explain the relatively low participation. Stagnant market demand and producers' flexibility to expand processing vegetable production without PTPP are major reasons. For growers to expand acreage, processors must offer attractive contract prices. Growers and processors, though, are very well aware that long-run demand for processing vegetables is stagnant or declining, and that net returns to other crops are often more attractive. Even if markets were more favorable, availability of non-base acres and a producer's prior vegetable planting history on base acres often provide sufficient acreage for expanded plantings.

Regarding the 10-acre base (base-10) analysis, the 2008 Farm Bill eliminates DCP and ACRE payments to FSA farms with 10 or fewer base acres. Farms classified as "limited resource" and "socially disadvantaged" are exempt from this provision. About 371,000 FSA farms, out of 2.2 million farms with base acres, became ineligible for payments as a result of the provision. The dollar amount of payments prohibited was $29.1 million, compared to approximately $5.9 billion total DCP and ACRE payments in 2009, since the affected farms control only 1.6 million, or 0.6 percent, of total base acres. However, the actual savings was likely smaller, since not all operators of FSA farms enroll in commodity programs in a given year. In 2008, prior to implementation of the provision, just 40 percent of base-10 FSA farms enrolled in the DCP program. Operators affected by the provision would forgo an average of $79 per farm in 2009, compared with the average DCP/ACRE payment across all FSA farms of $2,620. For farmers choosing not to enroll, the transaction cost of enrolling may outweigh the benefits.

Applying a 40 percent enrollment rate to 2009 data, there are an estimated 148,400 farms who no longer receive $11.7 million in payments. The administrative cost savings are another estimated $1.5 million, for a total savings of $13.2 million per year.

The base-10 provision had little impact in the Corn Belt and Great Plains, where FSA farm sizes are relatively large. In contrast, regions along or near the East Coast tend to have a high proportion of farms with small base acre holdings and have been more affected. For example, in the Eastern Upland and Southern Seaboard regions, 35 and 28 percent of FSA farms, respectively, became ineligible under the base-10 provision in 2009.

Supplemental Revenue Assistance Payments (SURE) Program

Title XII of the 2008 Farm Bill contains the SURE program, which provides assistance to crop producers for eligible losses in times of natural disasters. To be eligible for SURE (or any other

2008 Farm Bill disaster program except for the Livestock Indemnity Program), producers must have Federal crop insurance or Noninsured Crop Disaster Assistance Program (NAP) coverage on all their crops and be located in a county included in the geographic area covered by a natural disaster declaration issued by the USDA Secretary. The Secretarial disaster designation is not required if a farmer can prove a whole farm loss of more than 50 percent of normal, including farming operations across county or state lines.

As of July 12, 2011, payments for 2008 and 2009 crop losses to date total more than $2.6 billion. (Of this amount, about $0.8 billion can be attributed to an increase in benefits mandated under the American Recovery and Reinvestment Act.) Major recipient states include North Dakota ($358 million), Texas ($349 million), and Iowa ($289 million), which account for 40 percent of the total. Although these states have been key beneficiaries, SURE payments have been critical to helping producers in many other states. Twenty-seven states have received over $10 million since the inception of SURE.

SURE differs from previous disaster programs in that SURE losses and revenues are calculated based on all of a producer’s land, including multiple farms combined, compared to ad hoc disaster program calculations made on a crop-by-crop basis. As a result of the whole-farm focus, a county may receive a Secretarial disaster designation, but few producers may be eligible for SURE payments. SURE’s whole-farm nature and the number of variables used in the calculations make the program quite complex.

A significant lag exists between the timing of crop loss and receipt of SURE payment to allow for the calculation of actual farm revenue. Farm revenue depends on season average prices reported by USDA’s National Agricultural Statistics Service, which are usually released 13 months after the start of the crop year. Actual farm revenue also depends on other data which are not available until well after a crop loss occurs, including marketing loan benefits, ACRE payments, crop insurance indemnities, and other payments. Producers have until July 29, 2011, to apply for assistance for 2009 crop losses under SURE. To date, payments for 2009 losses are approximately $465 million; however, producers have until July 29, 2011, to apply for assistance for 2009 crop losses under SURE.

Other Disaster Programs

The 2008 Farm Bill also authorizes disaster assistance programs for livestock and trees. These programs include the Livestock Indemnity Program (LIP), the Livestock Forage Disaster Program (LFP), the Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP), and the Tree Assistance Program (TAP).

The Livestock Indemnity Program (LIP) provides assistance to producers who lose livestock due to natural disaster. For 2008-10 losses, about $110 million has been paid out under LIP as of July 12, 2011. LIP payments are made for livestock losses (death) above normal mortality rates at fixed payment rates per animal. Accordingly, LIP payments can be issued soon after a qualifying loss occurs to help producers rebuild herds and undertake other activities. These payments were particularly helpful to ranchers whose livestock were lost during major blizzards in the Northern Plains, as well as during extended heat in many Midwestern states during the summer of 2009. Major LIP recipient states include South Dakota ($30 million to date) and North Dakota ($20 million to date).

The Livestock Forage Disaster Program (LFP) compensates livestock producers for grazing losses due to drought. LFP has provided $380 million as of July 12, 2011 to ranchers affected by drought. LFP payments can typically be made within a few weeks of a county qualifying for assistance, which has been particularly helpful to ranchers during severe drought events. The major LFP recipient states are those that have suffered significant drought losses such as Texas ($155 million), North Dakota ($28 million), California ($26 million), and Georgia ($18 million).

The Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP) provides funds for losses that are not covered by other disaster programs. ELAP provides assistance for those livestock losses that are not covered by LIP or LFP. Funding is limited by statute to $50 million per calendar year. Of the $29 million disbursed to date for 2008-10 losses, primary recipient states include South Dakota (more than $4 million), Florida ($4 million), and California ($3 million). ELAP has provided substantial assistance to beekeepers whose bees have suffered from Colony Collapse Disorder.

The Tree Assistance Program (TAP) provides assistance to replace or rehabilitate trees, bushes and vines lost or damaged due to natural disasters. To date, TAP payments for 2008-10 losses have totaled nearly $9 million.

In addition, the Noninsured Crop Disaster Assistance Program (NAP) provides financial assistance to producers of crops where crop insurance is not available and when low yields, loss of inventory, or prevented planting occur due to natural disasters. NAP payments for 2008-10 losses have totaled $210 million.

Per the 2008 Farm Bill, losses incurred under SURE, LIP, LFP, ELAP, and TAP are not covered beyond September 30, 2011. Among the disaster assistance programs, only NAP losses will be covered beyond September 30, 2011. In contrast, authority for Title I programs discussed in this testimony extend through the 2012 crop year.

Sugar

The sugar program has supported grower returns from raising sugarcane and sugar beets at minimal federal cost since it was established in 1981. The sugar program has been a no cost program during the tenure of the 2008 Farm bill due to program operation and a tight sugar market in the United States and throughout the world. Cane and beet growers are supported by several programs that first establish a level of support, then provide USDA with supply controls tools to maintain the support level. The Sugar Price Support Loan Program establishes the support level by providing nonrecourse loans to processors of domestically grown sugarcane and sugar beets based on loan rates mandated in farm bills. If market returns are lower than loan proceeds at the time of loan maturity, sugar beet and sugarcane processors can fully satisfy their loan obligations by forfeiting sugar loan collateral to the Commodity Credit Corporation (CCC). Since sugar producers can always receive at least the loan proceeds from their crop, the loan rate acts as a floor on the market price of domestic sugar. The Price Support Loan Program also provides the beet and cane mills the financing to pay beet and cane growers for their crops long before they receive the revenue from the sale of their sugar.

To avoid federal costs, the farm bill includes tools that permit USDA to manage domestic supply so that domestic sugar prices are higher than the support price, hence, eliminating forfeiture costs. Domestic supply is limited through 1) the Flexible Marketing Allotments for Sugar Program, which provides limits for the quantity of sugar that domestic sugar beet and sugarcane processors can market; 2) the administration of Tariff Rate Quotas (TRQ) that limit foreign sugar imports at the low tier tariff; and 3) a new program, the Feedstock Flexibility Program for Bioenergy Producers (authorized under Title IX of the 2008 Farm Bill), which requires USDA to purchase expected surplus sugar in the marketplace and sell it to producers of bio-energy to prevent loan forfeitures under the Price Support Loan Program.

The enactment of the 2008 Farm Bill coincided with full implementation of the North American Free Trade Agreement (NAFTA), which allows sweetener trade between the U.S. and Mexico without a tariff. Before the 2008 Farm Bill, analysts expected that the U.S. would increase shipments of High Fructose Corn Syrup (HFCS), a cheaper sweetener than sugar, to Mexico. This situation was expected to displace Mexican sugar, production of which was expected to expand in response to U.S. sugar support prices that were raised in the 2008 Farm Bill. Mexican sugar was expected to flow into the U.S., resulting in U.S. prices falling below the federal price support level, threatening sugar forfeitures to the CCC and thereby requiring activation of CCC purchases of surplus sugar for sale to bioenergy producers under the Feedstock Flexibility Program.

Compared to these expectations, U.S. sugar demand has increased significantly. In fact, greater Mexican imports did not saturate the U.S. market, but instead helped maintain adequate U.S. sugar supplies in response to the loss of refining capacity due to an explosion at the Savannah sugar refinery and a temporary reduction in beet sugar production. Even with increased Mexican imports, growing U.S. demand prompted USDA to increase the sugar import tariff-rate quota twice in both FY 2010 and FY 2011. Despite the almost doubling of sugar prices since 2008, sugar is increasingly used in the U.S. to replace other sweeteners in food products.

The sugar market outlook in the near term remains tighter than expected in 2008 and USDA does not anticipate forfeitures of sugar to the CCC and the activation of the Feedstock Flexibility Program under the current Farm bill.

Farm Storage Facility Loan (FSFL) Program

The Farm Storage Facility Loan (FSFL) program ensures that eligible producers have adequate capacity to store their harvested production through low-interest financing that can be used to build a new storage facility, upgrade existing storage, or purchase handling equipment. The maximum amount that may be borrowed is $500,000 per structure under the 2008 Farm Bill (increased from $100,000 under the re-establishment of FSFL in 2000 as authorized by the CCC Charter Act, and the repayment terms are for 7, 10, or 12 years (depending on the size of the loan). The 2008 Farm Bill also expanded eligibility for the FSFL program and, in addition to grains, low-interest loans are now available for biomass and hay facilities as well as cold storage for fruits and vegetables.

Interest in the FSFL program has increased in recent years; applications have increased from 1,717 in FY 2005 to 3,961 in fiscal year 2010. In FY 2006, the CCC made nearly $100 million in loans, while in FY 2010, loans exceeded $296 million. Much of the increased interest is on the part of corn producers who store the commodity for delivery at a later date to a nearby ethanol plant. Fruit and vegetable growers' interest in FSFLs for cold storage is relatively low at this time, and moderate interest exists for hay FSFLs.

Reimbursement Transportation Cost Payment for Geographically Disadvantaged Farmers and Ranchers (RTCP) Program

The RTCP program provides assistance to geographically disadvantaged farmers and ranchers in Hawaii, Alaska, and insular areas (Guam, American Samoa, Commonwealth of Puerto Rico, Commonwealth of the Northern Mariana Islands, Federated States of Micronesia, Republic of the Marshall Islands, Republic of Palau, and the Virgin Islands of the United States). The program reimburses producers for a portion of the transportation cost of their agricultural commodity, or of inputs used to produce an agricultural commodity during a fiscal year. Under RTCP transportation costs of inputs used to produce an agricultural commodity include, but are not limited to, air freight, ocean freight, and land freight of chemicals, feed, fertilizer, fuel, seeds, plants, supplies, equipment parts, and other inputs as determined.

This program benefits farms and ranches in geographically disadvantaged areas of the U.S. Signup for 2010 RTCP program began Aug. 2, 2010 and ended on Sept. 10, 2010. Distribution of payments for 2010 RTCP began on July 20, 2011. In FY 2010, 1,545 geographically disadvantaged farmers and ranchers applied to participate in the program, and more are expected with the FY 2011 RTCP signup beginning July 25, 2011.

Acreage Crop Reporting Streamlining Initiative (ACRSI)

FSA requires that producers participating in any Title I program report all the cropland acreage on their farm each year to their local office. In field hearings, we repeatedly heard from producers that they were dismayed by the necessity to report acreage and production data to multiple agencies (not only FSA, but also the Risk Management Agency and the National Agricultural Statistics Service). To address these concerns, we have initiated the Acreage Crop Reporting Streamlining Initiative (ACRSI), a system which allows producers to report their acreage data only once to USDA.

We anticipate piloting this effort in four counties in Kansas in fall 2011 for 2012-crop wheat plantings. Feedback from this pilot will help us move this project forward to a nationwide scale. Over time, our ACRSI project will be leveraged to support our “Modernize and Innovate the Delivery of Agricultural Systems” (MIDAS) effort, which I will turn to next.

MIDAS

FSA has relied on aging technology which was installed in the mid-1980’s, as well as segmented web-based IT systems that have created inefficiencies and threatened the delivery of Title I benefits. To address these issues, FSA has invested in the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) program. MIDAS is an integrated business solution based on enterprise resource planning (ERP) technology. MIDAS will modernize Farm Programs delivery and will provide comprehensive and robust processes and tools to simplify Title I, Title II, and disaster program service delivery and improve customer service for both agency employees and producers.

Currently, MIDAS is developing the “to-be” global requirements, processes, and solution design. Over the longer term, MIDAS will be integrated with other initiatives, such as Geospatial

Information Systems (GIS), the Department's Financial Management Modernization Initiative (FMMI), and the Enterprise Data Management (EDM) program. MIDAS has already improved service delivery by implementing recommendations from the USDA "Listening Sessions" and the FSA MIDAS Lean Six Sigma field office visits to improve processes. These efforts focused on modifying program forms and addressing web time out issues for web applications in high usage by field office employees, such as reconstitutions. As a result service delivery has been improved and opportunities for errors have been reduced.

Full implementation of MIDAS, which would occur in FY 2014 assuming the program is fully funded, will result in improved business processes and service delivery to our producers, ranchers and farmers, and USDA employees that provide day-to-day service to our customers. Through MIDAS, we will be able to adapt to and implement new programs more rapidly, with the time between passage of new legislation and program delivery to producers substantially reduced. . Producer information will be collected once, not multiple times for multiple programs or multiple times for multiple agencies (through integration of MIDAS with ACRSI). Benefits will also be realized internally within FSA. Systems integration will result in improved performance and more reliable reporting. In addition, the need for manual processes (such as data entry) will be greatly reduced. This work is very similar in scope to the modernization and streamlining of FSA's farm loan programs – through which the agency has realized significantly shorter processing times and more efficient service through online business processes.

The MIDAS Project Office recently conducted a series of demonstrations for USDA management, FSA state and county offices, and others on the functionality of the ERP software solution. Based on initial feedback, the MIDAS demonstration was well received and state and county offices have re-confirmed that the software will meet the requirements of farm program delivery.

Working Toward the Next Farm Bill

Mr. Chairman, as we move forward toward development of the next farm bill, it is important that we approach this new legislation with an eye toward truly making a difference in the future of the lives of millions of rural Americans, while at the same time using scarce resources wisely. In the coming months, I look forward to providing answers to your questions and helping better frame and move the debate toward the topics and issues that are most important to our constituents.

I am happy to respond to any questions. Thank you.