

**AGRICULTURE, RURAL DEVELOPMENT, FOOD  
AND DRUG ADMINISTRATION, AND RE-  
LATED AGENCIES APPROPRIATIONS FOR  
FISCAL YEAR 2012**

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**THURSDAY, MARCH 10, 2011**

U.S. SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,  
*Washington, DC.*

The subcommittee met at 2:05 p.m., in room SD-124, Dirksen Senate Office Building, Hon. Herb Kohl (chairman) presiding.

Present: Senators Kohl, Nelson, Pryor, Brown, Blunt, Cochran, Collins, Moran, and Hoeven.

**DEPARTMENT OF AGRICULTURE**

**OFFICE OF THE SECRETARY**

**STATEMENT OF HON. TOM VILSACK, SECRETARY**

**ACCOMPANIED BY:**

**KATHLEEN MERRIGAN, DEPUTY SECRETARY**

**JOSEPH GLAUBER, CHIEF ECONOMIST**

**MICHAEL YOUNG, DIRECTOR, OFFICE OF BUDGET AND PROGRAM  
ANALYSIS**

**OPENING STATEMENT OF SENATOR HERB KOHL**

Senator KOHL. The subcommittee will come to order.

This is our first hearing on the President's fiscal year 2012 budget.

First, I want to welcome our new ranking member, Senator Roy Blunt.

I'd also like to recognize the new members of this subcommittee, Senator Brown, Senator Moran, and Senator Hoeven. We look forward to working with each and every one of the new members of this subcommittee.

And, Mr. Secretary, it's very good to see you again.

I also want to welcome Deputy Secretary Merrigan and U.S. Department of Agriculture (USDA) Chief Economist Joseph Glauber. Also, we have with us today Mr. Mike Young, who is the new USDA Budget Director.

Mr. Secretary, it's obvious that we are faced with tremendous challenges. The Nation is still struggling through economic recovery, while Government spending is being reduced by a big margin.

Here at home, we feel the economic throes of unrest in distant parts of the world as oil supply lines are being shaken and our cost

of energy rises hugely from 1 week to the next. On top of all this, the Federal Government is still operating on a continuing resolution for the current fiscal year. These are the realities.

We all recognize that Government exists for a reason and there are some things that Government must do because it is the job of Government to do. Our food must be safe, our people must not go hungry, our farm and rural economies must remain strong, and we must never lose sight of the impact they have on our national economy. On the other hand, we are going to have to let go of some of the things that, while popular, are not essential. These are indeed days of hard decisions.

The President's budget makes a good start in that direction. Some programs are cut and some are eliminated. At the same time, new initiatives are brought forward and the President is requesting increases in some programs. Our job is to review all of these priorities and make the hard decisions.

The American people rely on USDA every day. The American people also rely on us to make sure their tax dollars are spent wisely. As Government spending declines, the need for wisdom in setting priorities has never been more acute. Mr. Secretary, we will look forward to your guidance on that very important task.

As we continue, I'd like to take note that we have a vote scheduled for 3 o'clock, and so, if we all are brief in our comments, we'll have an opportunity to ask the Secretary the relevant questions.

Mr. Secretary.

#### SUMMARY STATEMENT OF SECRETARY TOM VILSACK

Secretary VILSACK. Mr. Chairman, thank you very much. I appreciate the opportunity to be with you this afternoon.

I will be very short. We have a written statement we'd ask to be part of the record. I'd just simply make two points.

First, we recognize the responsibility to reduce our budget. We started that process last year. We continue it with the budget we propose to you this year, both in the discretionary and on the mandatory side. The reality is that there has to be shared sacrifice, as well as shared opportunity.

The second point I would make is that, in addition to cutting our way to a more balanced fiscal approach, we also have to grow the economy. We have to be focused on jobs. That is certainly true in rural America, where we have had, historically, a much higher unemployment rate than in other parts of the country. Interestingly enough, as a result of the strong agricultural economy, we're seeing the unemployment rate coming down in rural America at a faster rate than the rest of the country. We'll obviously want to continue the momentum.

So, we do indeed focus on an effort to not only reduce our spending, but also to focus it in a way that will advance, strategically, a growth agenda, as well in rural America, and continue the momentum.

#### PREPARED STATEMENT

I understand that you've got a vote. I understand that you really need to have questions directed to us. With that, I will simply conclude and look forward to your questions.

[The statement follows:]

PREPARED STATEMENT OF SECRETARY TOM VILSACK

Mr. Chairman and distinguished members of this subcommittee, I appreciate the opportunity to appear before you as Secretary of Agriculture to discuss the administration's priorities for the U.S. Department of Agriculture (USDA) and provide you an overview of the President's fiscal year 2012 budget. I am joined today by Deputy Secretary Kathleen Merrigan, Joseph Glauber, USDA's Chief Economist, and Michael Young, USDA's budget officer.

In his State of the Union Address, the President laid out some of the challenges America faces moving forward as we compete with nations across the globe to win the future. We need to be a Nation that makes, creates, and innovates so that we can expand the middle class and ensure that we pass along to our children the types of freedoms, opportunities, and experiences that we have enjoyed. We also need to take some serious steps to reduce the deficit and reform Government so that it's leaner and smarter for the 21st century.

The fiscal year 2012 budget we are proposing reflects the difficult choices we need to make to reduce the deficit while supporting targeted investments that are critical to long-term economic growth and job creation. To afford the strategic investments we need to grow the economy in the long term while also tackling the deficit, this budget makes difficult cuts to programs the President and I care about. It also reflects savings from a number of efficiency improvements and other actions to streamline and reduce our administrative costs. It looks to properly manage deficit reduction while preserving the values that matter to Americans.

In total, the budget we are proposing before this subcommittee is \$130 billion, a reduction of \$3 billion less than the fiscal year 2011 annualized continuing resolution. For discretionary programs, our budget proposes \$18.8 billion, a reduction of \$1.3 billion less than the fiscal year 2011 level. These decreases are achieved through reductions and terminations in a wide range of programs as well as proposals to achieve savings through streamlining our operations. These actions will allow us to focus limited resources on programs where we can achieve the greatest impact.

Further, we are proposing legislative changes to target reductions in farm program payments, which would save \$2.5 billion over 10 years, while only affecting 2 percent of participants. The savings would come in addition to savings we have achieved through administrative improvements that reduced the error rate in farm program payments from 2 percent to less than 0.1 percent as well as a partnership with the Internal Revenue Service to eliminate improper payments to wealthy individuals who exceed income eligibility criteria. In addition, legislation will be proposed to reduce premiums for the catastrophic coverage option under the crop insurance program providing a savings to taxpayers of \$1.8 billion over 10 years.

These and other reductions must be made if we are serious about deficit reduction and being able to support the critical investments we need to make to secure our future.

At USDA, we haven't waited to begin reducing our expenditures. Last year, we saved \$6 billion through the negotiation of a new agreement for crop insurance, \$4 billion of which will go to pay down the Federal deficit. Agencies across the Department have looked for ways to reform the way they do business—from reducing the number of visits a farmer has to make to our offices to get conservation services, to saving taxpayer dollars by operating our nutrition assistance programs with historic levels of accuracy.

I would now like to focus on some specific highlights in each of our major goals.

ASSISTING RURAL COMMUNITIES TO CREATE PROSPERITY

Agriculture has generally fared well during the recent economic downturn, with farm income expected to be at almost record levels this year largely due to the productivity and hard work of American farmers and ranchers and growers. Further, agriculture continues to be one of the major sectors of the American economy that has a trade surplus. Our budget preserves a strong farm safety net, including a \$4.7 billion farm credit program, about \$150 million more than the fiscal year 2011 level. As I mentioned earlier, we are also proposing to better target farm payments by reducing the cap on direct payments and reducing over a 3-year period the adjusted gross income eligibility limits. These actions would save \$2.5 billion over 10 years.

Rural America offers many opportunities, but it also faces a number of challenges that have been experienced for decades. Rural Americans earn less than their urban counterparts, and are more likely to live in poverty. More rural Americans are older than the age of 65, they have completed fewer years of school, and more than one-

half of America's rural counties are losing population. In addition, improvements in health status also have not kept pace, and access to doctors and health services has been a key challenge in rural areas.

Within the context of a reduced total funding level, our budget proposes to focus resources on the most effective means to address the long-term challenges facing rural communities and the Nation. A critical element is engaging with public and private partners to revitalize rural communities by expanding economic opportunities and creating jobs for rural residents.

For Rural Development programs, our budget proposes a total program level of roughly \$36 billion supported by \$2.4 billion in budget authority, a reduction of about \$1.6 billion in program level and \$535 million in budget authority. It also reflects the administration's efforts to utilize funding in the most cost-effective manner to achieve our goals.

A number of difficult decisions were made, including a reduction of \$390 million in budget authority from the fiscal year 2011 level in housing programs. The budget eliminates funding for a number of loan and grant programs, including Self-Help Housing grants and low-income housing repair loans. We are also reducing funding for direct single-family housing loans and focusing on maintaining support for single-family housing loan guarantees at a program level of \$24 billion. This level of assistance can be provided with no budget authority by continuing a fee structure that fully supports the subsidy cost of the program. We are also reducing the water and waste loan and grant program by \$62 million in budget authority. Associated with these program reductions, we are reducing administrative funding and staffing levels. These and other actions allow us to focus limited resources on meeting priority investment needs in rural America.

#### *Regional Innovation Initiative*

One of these priority investments is in a new approach we have developed to ensure USDA supports rural communities who choose to engage in regional economic strategies. This approach recognizes that attempting to address the challenges faced by rural communities through a generic approach will not be sufficient. Instead, USDA needs to respond to grassroots local priorities and recognize that each rural region needs a distinctive strategy that reflects its unique strengths, its particular mix of industry clusters, and which integrates its regional economic assets.

In 2010, to support rural communities' efforts to collaborate regionally, USDA used the Rural Business Opportunity Grant program to provide funding to seven identified regions to support plans focused on supporting job creation, local, or regional food systems, renewable energy, capitalizing on new broadband deployment, and the utilization of natural resources to promote economic development through regional planning among Federal, State, local, and private entities. Funding has been provided to multijurisdictional regions in California, Iowa, North Dakota, Oregon, South Carolina, Vermont, and Washington to develop regional plans to enhance economic opportunities. USDA is working department-wide to determine how it can support the priorities of the people in the region. USDA is also working with other Federal partners to ensure that these rural regions have access to other Federal programs that support their regional strategies. By creating a regional focus and increasing collaboration with other Federal agencies, resources can be leveraged to create greater wealth, improve quality of life, and sustain and grow the regional economy.

For 2012, USDA proposes a Regional Innovation Initiative that works through existing programs to fund regional pilot projects, strategic planning activities, and other investments to improve rural economies on a regional basis. USDA would target up to 5 percent of the funding within 10 existing programs, approximately \$171 million in loans and grants, and allocate these funds competitively among regional pilot projects tailored to local needs and opportunities. The approach will support projects that are more viable over a broader region than scattered projects that serve only a limited area. It will also help build the identity of regions, which could make the region more attractive for new business development, and provide greater incentives for residents to remain within their home area.

The fiscal year 2012 budget specifically provides an increase of \$5 million for the Rural Business Opportunity Grant program to foster regional collaboration that encourages regions to engage in strategic regional economic planning that identifies the needs of a defined rural region. In addition, an increase of \$2.1 million is included for the Rural Community Development Initiative to provide technical assistance to communities to develop housing or community facilities projects.

*Facilitating the Development of Renewable Energy*

A major administration priority is continuing to make investments in building a green energy economy. Last year, the President laid out his strategy to advance the development and commercialization of a biofuels industry. At the center of this vision is an effort to increase domestic production and use of renewable energy. Advancing biomass and biofuel production that holds the potential to create green jobs is one of the many ways the Obama administration is working to rebuild and revitalize rural America. By producing renewable energy—especially biofuels—America’s farmers, ranchers, and rural communities have incredible potential to help ensure our Nation’s energy security, environmental security, and economic security. Through investments in energy efficiency and renewable energy sources, farms and rural small businesses across the country can reduce their energy consumption and energy expenses. In 2009 and 2010, USDA has helped nearly 4,000 rural small businesses, farmers, and ranchers save energy and improve their bottom line by installing renewable energy systems and energy efficiency solutions that have produced or saved a projected 4.3 billion in kWh—enough energy to power 390,000 American homes for a year.

In 2012, USDA plans to invest more than \$900 million in discretionary and mandatory funding to improve the entire supply chain of biofuels and bioenergy, from research and development, to production and commercialization. In addition, the budget includes \$6.1 billion for electric loans, which will be used to support renewable energy and the development of clean-burning low-emission fossil fuel facilities to support renewable energy deployment and clean energy technology.

*Promising Market Opportunities*

Developing and supporting market opportunities and outlets for agricultural producers helps to promote jobs and prosperity in rural America. Over the past year, we have supported efforts to build and strengthen regional and local food systems through the “Know Your Farmer, Know Your Food” efforts. Our goal is to build a link between local production and local consumption, which is particularly beneficial to small- and mid-sized farmers.

In fiscal year 2012, USDA will continue to support efforts to expand promising market opportunities with \$9.9 million in funding for the National Organic Program, which will be used to strengthen oversight and enforcement and \$7.7 million for transportation and market development activities that will stimulate development of regional food hubs and marketing outlets for locally and regionally grown food.

Furthermore, USDA, working together with the Departments of Health and Human Services and the Treasury will implement the Healthy Food Financing Initiative (HFFI) to provide incentives for food entrepreneurs to expand the availability of healthy foods by bringing grocery stores, small retailers, and farmers markets selling healthy foods to underserved communities. HFFI will make available more than \$400 million in financial and technical assistance to community development financial institutions, other nonprofits, public agencies, and businesses with sound strategies for addressing the healthy food needs of communities. For USDA, the budget requests \$35 million to support local and regional efforts to increase access to healthy food, particularly for the development of grocery stores and other healthy food retailers in urban and rural food deserts and other underserved areas. In addition, USDA will make other funds available by encouraging and rewarding relevant grant and loan applications through existing Rural Development and Agricultural Marketing Service programs.

*Broadband*

In his State of the Union Address, President Obama established a goal to deploy the next generation of high-speed wireless coverage to 98 percent of all Americans. In the last one-and-a-half years, with funding from the American Recovery and Reinvestment Act (ARRA) we have done more to bridge the digital divide for rural Americans than many ever thought possible. ARRA funding will enable around 7 million rural Americans to connect to 1 of 285 last-mile, 12 middle-mile, or four satellite projects funded by USDA. On top of that, more than 360,000 businesses and 30,000 community service organizations such as hospitals, schools, and public safety agencies will be connected to a high-speed digital future. USDA will continue to build on the success of funding provided through ARRA by making loans and grants under the authorities provided by the farm bill. Our budget continues to provide support for these important efforts with \$17.9 million for grants to support local broadband access in rural communities and funding for loans with balances available from prior-year appropriations.

### *Trade Expansion*

Expanding access to global markets makes a critical contribution to our efforts to enhance rural prosperity by providing opportunities for increased sales and higher incomes. During the past year, we have worked diligently to remove trade barriers and open new markets. Through our efforts, we were able to regain access for our poultry exports to Russia, after Russia introduced a ban on the use of chlorine washes in the processing of poultry. Similarly, we worked to expand market access for pork in Russia and China by addressing residue and disease issues, and we continue to engage China on reopening that market for our beef exports. Also noteworthy, we entered into a memorandum of understanding with China that addresses quality and sanitary and phytosanitary policy issues that will help to facilitate our soybean exports. This is a very significant step as China is now our largest overseas market for soybeans, and the significant growth we have experienced in that market—in soybeans and many other products—has helped China to emerge as our largest agricultural export market.

Our trade promotion activities support the National Export Initiative (NEI), a Governmentwide effort to double U.S. exports over the next 5 years in order to spur economic growth and employment opportunities. Every \$1 billion worth of agricultural exports supports an estimated 8,000 jobs, so we know that when we succeed in expanding markets we are creating real benefits for our workforce. To bolster these efforts, the budget proposes an increase of \$20 million for the Foreign Agricultural Service to support an expansion in trade monitoring and enforcement activities, exporter assistance and education efforts, support for State-organized trade missions, and in-country market access and promotion activities.

### *Ensuring Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources*

USDA continues to be a major partner in advancing the administration's conservation and environmental agenda through support of the conservation partnership and the strategic targeting of funding to high-priority regional ecosystems. The budget request will ensure that the conservation partnership remains strong among Federal agencies, State and local governments, tribes, industry, and farmers. This broad partnership has proven to be a resilient and effective mechanism for meeting the administration's water policy goals and helping protect the Nation's 1.3 billion acres of farm, ranch, and private forestlands.

The budget requests nearly \$900 million in discretionary funding for conservation activities, primarily technical assistance that provides comprehensive conservation planning for the Nation's farmers, ranchers, and private forest landowners. This reflects a reduction of \$168 million and related staff-years for the elimination of the watershed operations and rehabilitation programs, conservation operations earmarks, and the Resource Conservation and Development program.

The fiscal year 2012 budget advances resource protection by strategically targeting funding to high-priority regional ecosystems and initiatives. This includes \$15 million to implement the Strategic Watershed Action Teams Initiative, which will enhance targeted technical assistance in priority watersheds for a period of 3–5 years with the goal of reaching 100 percent of the landowner base in each watershed eligible for farm bill conservation program assistance. The goal of this initiative is to hasten environmental improvement while keeping production agriculture competitive and profitable.

To improve the delivery of conservation technical assistance, which is a field staff-based activity, the budget includes \$11.3 million to fund the Conservation Delivery Streamlining Initiative. This initiative will develop new business processes designed to simplify the planning process and maximize the amount of time USDA technicians spend in the field helping farmers. These funds will improve how we deliver conservation planning and financial assistance and help farmers with practice installation.

Finally, the budget includes an increase of \$7 million for the Conservation Effects Assessment Project, to enhance the scientific understanding of the environmental effects of conservation practices on agricultural landscapes. This knowledge will help us improve the design and implementation of conservation programs.

The fiscal year 2012 budget also includes \$5.8 billion in mandatory funding to support cumulative enrollment of more than 302 million acres in farm bill conservation programs, an increase of nearly 8 percent more than fiscal year 2011, for conservation programs authorized in the 2008 farm bill, such as the Wetlands Reserve Program, Environmental Quality Incentives Program, and the Conservation Reserve Program.

PROMOTE AGRICULTURAL PRODUCTION AND BIOTECHNOLOGY EXPORTS AS AMERICA  
WORKS TO INCREASE FOOD SECURITY

USDA works to improve global food security through a wide variety of activities, such as providing food and technical assistance that supports the development of sustainable agricultural systems in developing countries, by facilitating the adoption of biotechnology and other emergent technologies that increase agricultural production and food availability, and by working to advance internationally accepted, science-based regulations that facilitate trade. These efforts are important because more than 1 billion people worldwide face hunger and malnutrition every day, and we know that failing agricultural systems and food shortages fuel political instability and undermine our national security interests.

USDA is an active partner in the administration's global food security initiative—Feed the Future—and we have been working closely with the State Department, the U.S. Agency for International Development (USAID), and others to further its objectives. As an implementing partner, USDA can offer expertise in basic and applied research that benefits both the United States and developing countries; in-country capacity building and technical assistance; and market information and economic analysis. For example, during the past year, USDA has worked with USAID to develop the Norman Borlaug Commemorative Research Initiative, a mechanism designed to increase cooperation and collaboration between our two agencies in managing research strategies and their implementation. Through this mechanism, we will collaborate on targeted, high-impact research priorities, such as wheat rust, legume productivity, livestock diseases, mycotoxins, and human nutrition, which can have far-reaching benefits to farmers worldwide.

An important means to assist developing countries to enhance their agricultural capacity is by providing training and collaborative research opportunities in the United States, where participants can improve their knowledge and skills. The budget provides increased funding for the Cochran and Borlaug Fellowship programs, which bring foreign agricultural researchers, policy officials, and other specialists to the United States for training in a wide variety of fields. Under our proposal, as many as 600 individuals will be able to participate in these programs and bring this knowledge home to benefit their respective countries.

Foreign food assistance programs remain a core component of our efforts to enhance global food security. The fiscal year 2012 budget includes more than \$2 billion of funding for both emergency and nonemergency international food assistance programs carried out by USDA and USAID. Although funding for the McGovern-Dole International Food for Education and Child Nutrition Program is reduced by \$9 million, the program will assist as many as 5 million women and children during 2012.

As the world population grows and the demand for food with it, we must look to new technologies for increasing production, including biotechnology. Biotechnology can expand the options available to agricultural producers seeking solutions to a variety of challenges, including climate change. However, prudent steps must be taken to ensure that biotech products are safely introduced and controlled in commerce. For 2012, the budget includes increased funding to strengthen USDA's science-based regulatory system and ensure that we can provide timely, sufficient review of the expanding volume and complexity of biotechnology applications. During the past fiscal year, USDA continued to see an increase in workload due to this expanding industry. Notably, USDA received 44 percent more requests for field testing of genetically engineered plants than were received in fiscal year 2009.

ENSURING THAT ALL OF AMERICA'S CHILDREN HAVE ACCESS TO SAFE, NUTRITIOUS, AND  
BALANCED MEALS

*Nutrition Assistance*

The budget fully funds the expected requirements for the Department's three major nutrition assistance programs—the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the National School Lunch Program, and the Supplemental Nutrition Assistance Program (SNAP).

National School Lunch Program participation is estimated to reach a record-level again in 2012, 32.5 million children each school day, up from about 31.6 million a day in 2010. The budget proposes an increase of \$9 million to ensure USDA makes progress to decrease the prevalence of obesity among children and adolescents, and to improve the quality of diets. The increase will allow USDA to continue implementing the scientific, evidence-based nutrition guidance and promotion of the 2010 update of the Dietary Guidelines for Americans.

The budget includes \$7.4 billion for WIC, which will support the estimated average monthly participation of 9.6 million in 2012, an increase from an estimated 9.3 million participants in 2011. The request is \$138 million more than the 2011

annualized continuing resolution. This includes an increase for the breastfeeding peer counseling program and a doubling of the breastfeeding program performance bonus funding. WIC State nutrition services and administrative activities are funded at a level sufficient to ensure effective program operations along with increased emphasis on information technology (IT) and electronic benefits transfer (EBT).

Participation in SNAP is estimated to average about 45 million participants per month in 2011, and is projected to fall slightly in 2012. The budget includes more than \$85 billion, including ARRA funding, to fund all expected costs. Legislation will be proposed to extend the ARRA provision that waives time limits for able-bodied adults without dependents for an additional fiscal year. In total, this change would add about \$92 million to recipient benefits and SNAP program costs in 2012. In addition, the fiscal year 2012 budget proposes to maintain the increase for SNAP benefits authorized by ARRA for 5 months, increasing outlays in 2014 by \$3.3 billion.

#### *Food Safety*

The budget includes \$1 billion for the Food Safety and Inspection Service, a reduction of about \$7 million less than 2011. The requested level is adequate to fully fund inspection activities and including an increase of \$27 million to improve our capability of identifying and addressing food safety hazards and preventing foodborne illness. These increases are more than offset by reductions due to streamlining agency operations, reducing lab expenses, and recognizing that implementation of a catfish inspection program will not occur in 2012.

#### *Minimizing the Impact of Major Animal and Plant Diseases and Pests*

To protect agricultural health by minimizing major diseases and pests of food crops and livestock, the budget includes \$837 million, a reduction of \$76 million, in appropriated funds for the Animal and Plant Health Inspection Service (APHIS). We have taken a close look at the APHIS budget and have proposed a number of program reductions and redirections to ensure that scarce resources are being used prudently. The budget achieves savings through a variety of means. It includes decreases for activities where eradication campaigns have been successful, such as cotton pests, pseudorabies, and screwworm, and for pests and diseases where eradication is not likely, such as tropical bont tick. Savings are also possible in the avian health program without affecting overall performance. Further, the budget achieves other savings by acknowledging the role of the producer to engage in best management practices to reduce certain diseases, such as John's disease. These savings allow us to propose increases for selected pests, including the light brown apple moth and the European grapevine moth.

### RESEARCH

Scientific research is essential for our prosperity, health, environment, and our quality of life. By investing in the building blocks of American innovation, we will help ensure that our economy is given all the necessary tools for new breakthroughs, new discoveries and the development of new industries. While progress will not come immediately, our investments today will be a catalyst which leads to answers to problems of national importance, including developing alternative energy sources, improving the nutrition and health of America's children, and developing solutions to the most urgent environmental problems.

The fiscal year 2012 budget requests approximately \$1.2 billion in discretionary funding for the National Institute of Food and Agriculture (NIFA), a decrease of \$141 million from 2011. The budget eliminates \$141 million in congressional earmarks as well as makes selective reductions in ongoing programs, including a reduction of 5 percent in formula funding for 1862 Land Grant Institutions and the elimination of the animal health and disease formula program. The budget continues to move toward the use of competitive grants to generate the solutions to the Nation's most critical problems. A major element in NIFA's research budget is an increase of \$62 million for the Agriculture and Food Research Initiative (AFRI)—the premier competitive, peer-reviewed research program for fundamental and applied sciences in agriculture. This increase, which brings the total AFRI funding to \$325 million, will focus on sustainable bioenergy, global food security, food safety, human nutrition and obesity prevention, and global climate change, while still supporting foundational research.

The fiscal year 2012 budget for the Agricultural Research Service is approximately \$1.14 billion, a net decrease of \$42 million. This reduction is achieved through the elimination of congressional earmarks and other lower-priority projects that total about \$101 million. These reductions help fund program increases totaling approximately \$59 million for high-priority research. Major initiatives include improved genetic resources and cultivars leading to better germplasm and varieties

with higher yields, enhanced disease and pest resistance, and resilience to weather extremes such as high temperature and drought. The budget will also fund several initiatives to support research on breeding and germplasm improvement in livestock which will enhance food security and lead to the development of preventive measures to combat diseases and thereby increase production. These initiatives have great potential to help ensure an abundant, safe, and inexpensive supply of food to meet global demand. Additionally, the budget funds research initiatives that will accelerate the development and deployment of dedicated energy feedstocks, thereby reducing dependence on foreign oil and expanding the opportunities for American farmers. Finally, the budget supports projects that focus on food safety, human nutrition, and obesity prevention.

The fiscal year 2012 budget request for the National Agricultural Statistics Service includes an increase of nearly \$12 million in initiatives, which is offset by \$8.3 million in terminations of low-priority programs. This includes the elimination of a land tenure survey largely comprised of farm operators that are accounted for in the Agricultural Resource Management Survey. The fiscal year 2012 budget includes full funding to support the third year of the 2012 Census of Agriculture's 5-year cycle and to improve the data quality of the County Estimates program which is used within the Department to administer crop insurance programs, as well as crop revenue support programs, emergency assistance payments, and the Conservation Reserve Program.

Finally, \$8.4 million is included for initiatives within the Economic Research Service, including an initiative for behavioral economics that will yield information and analysis that enhances decisionmaking on economic and policy issues related to agriculture, food, farming, natural resources, and rural development. These increases are partially offset by a \$4.9 million reduction from lower-priority projects.

#### MANAGEMENT INITIATIVES

To reform USDA so it is leaner, more efficient and ready for the 21st century, we will support efforts to better streamline operations and deliver results—at lower cost—for the American people. The budget reflects the Department's commitment to increasing program delivery effectiveness by implementing management improvements, administrative efficiencies, and IT systems that modernize the USDA workplace.

A significant streamlining and efficiency measure being proposed is a structured buyout of 504 Federal headquarters and related employees—10 percent—of the Farm Service Agency (FSA). This restructuring effort is expected to result in net savings of \$27 million in 2012 and total savings of \$174 million through 2015. In addition, we are proposing a further savings of \$14.4 million in FSA administrative expenses through efficiencies related to advisory contracts, travel expenses, printing and supplies. It is also critical that we continue to invest in modernizing the FSA IT system to provide a secure, modern system capable of supporting Web-based program delivery.

One of the key components for increasing USDA effectiveness is focused on creating a high-performing and diverse workforce across the Department. Through USDA's Cultural Transformation Initiative, the Department and its workforce are being revamped to increase job satisfaction, training opportunities, and career development possibilities. USDA will focus on improving leadership development, labor relations, human resources accountability, and veterans and other special employment programs. These efforts will greatly improve the productivity of the Department, resulting in better service to USDA constituents and more value for American taxpayers. A \$3 million increase is proposed to strengthen our human resources transformation initiatives and veterans hiring efforts.

USDA also strives to improve the efficiency with which it purchases more than \$5 billion in goods and services annually. These acquisitions support USDA program delivery, including food purchases for the nutrition programs and IT purchases in support of business operations. Regardless of what is being purchased, USDA relies upon a workforce of acquisition professionals to efficiently and effectively procure the goods and services needed to ensure continued service delivery by the Department. As part of a Governmentwide initiative pursuant to the President's Memorandum on Government Contracting, USDA is requesting funding of \$6.5 million for training, workforce development activities, and supporting IT systems. Such efforts will greatly improve the workforce's ability to negotiate more favorably priced contracts and manage contract costs more effectively. These improvements will support USDA's actions to implement its acquisition savings plan that includes a projected 7-percent reduction in noncommodity acquisitions in fiscal year 2011, with additional reductions in the out-years.

We are also taking additional steps to address the unfortunate history of civil rights in USDA. As you know, since coming into office, this administration has made great strides in resolving claims of discrimination by reducing the backlog of complaints and by working to settle lawsuits brought against the Department by Black and Native American farmers and ranchers. USDA has worked closely with the Congress to secure the funding necessary to address the *Pigford II* class action lawsuit. The Department has also been working to resolve other discrimination claims such as those being brought by women and Hispanic farmers and ranchers. In fiscal year 2012, we are requesting funding under the FSA to pay the administrative costs of resolving existing civil rights claims, and to provide settlement for discrimination claims filed under the Equal Credit Opportunity Act where the statute of limitation has expired. The Department remains committed to taking these actions as part of our commitment to create a New Era of Civil Rights in USDA.

Ensuring that the Department and its programs are open and transparent is also a key component of the transformation effort. As a result, USDA is proposing to expand the Office of Advocacy and Outreach (OAO), which was established by the 2008 farm bill, to improve service delivery to historically underserved groups and will work to improve the productivity and viability of small, beginning, and socially disadvantaged producers. The outreach efforts led by OAO will help to ensure that all persons eligible to participate in USDA programs will have the opportunity and the information necessary to benefit from the services delivered by the Department.

The President told us that winning the future will require a lot of hard work and sacrifice from everyone. The President's budget reflects sacrifice, but provides the funding to achieve his vision for a strong America. I look forward to working with this subcommittee to help build a foundation for American competitiveness for years to come so that we pass on a stronger America to our children and grandchildren.

I would be pleased to take your questions at this time.

Senator KOHL. All right. We'll begin our questioning. Thank you so much, Mr. Secretary.

#### FOOD SAFETY AND INSPECTION SERVICE FUNDING LEVEL

As you are aware, we're still in negotiations regarding the fiscal year 2011 bills. H.R. 1 proposes an \$88 million cut to the Food Safety and Inspection Service (FSIS). I've been told this proposed cut would seriously limit FSIS's ability to maintain its inspection force. At what point, Mr. Secretary, would budget cuts at fiscal year 2011 result in a furlough of FSIS inspectors? If that is so, do you have a contingency plan?

Secretary VILSACK. Mr. Chairman, we are obviously hopeful that this matter gets resolved without significant reductions in the FSIS budget. As you probably well know, that budget is predominantly personnel. Any significant cut and reduction in that budget would obviously lead to a very difficult set of decisions we would have to make, relative to our workforce. Most of what our workforce does in that area is to provide inspection services to a number of processing facilities. We would be concerned, obviously, about the impact it would have on those processing facilities and on the markets that are impacted and affected by the work that they do.

We have proposed, in the fiscal year 2012 budget, a reallocation within FSIS. I would simply say that the key here is to give the Department sufficient time to manage difficult choices that you all have to make. If you attempt to squeeze, in a relatively short period of time—i.e., a set of months—a solution to a budget problem that has accumulated perhaps over decades, I think you're going to have difficulty, and I think you're going to make it very difficult for us to manage it properly without someone being hurt. This is one area, in particular, that we have concerns about.

Senator KOHL. All right.

## GAO REPORT ON DUPLICATIVE GOVERNMENT PROGRAMS

Mr. Secretary, the Government Accountability Office (GAO) recently released a report on duplicative Government programs, which I'm sure that you are aware. Duplication in food safety efforts across Federal agencies was a major theme in the report. Can you please respond to the findings of the report regarding overlap in food safety activities? Do you believe the current food safety system is adequately serving the American public? And, how do you believe it can be improved?

Secretary VILSACK. Mr. Chairman, we engaged, at the beginning of the administration, in a workstudy group with the Department of Health and Human Services. It has, in a sense, jurisdiction on food safety issues, as you well know. We handle roughly 20 percent of the food needs of this country. The Food and Drug Administration (FDA) handles the other 80 percent.

What we wanted to be able to do, and what I think you accomplished with the food safety legislation passed last year, was to begin to create parallel tracks, for both the FDA and the USDA, focused on a philosophy of prevention rather than reaction. I think that the food safety proposal that you passed is a very good, significant step forward. We are working with the FDA as they begin the process of implementing that. We've provided staff to assist them in rulemaking, and we'll make sure that we parallel as best we can.

We've also, Mr. Chairman, improved our communication between the two Departments so that we're in a position to know what FDA knows and they're in a position to know what we know, so that we do a better job of regulating the safety of the food supply, particularly as it relates to school lunch purchases and the school lunch program, where we had a problem early in the administration. So, I'm confident that we will be able to do a better job of protecting the food safety concerns of Americans.

There's still work to be done. We are proposing in the budget additional support for the Public Health and Information System, which will provide us data that will allow us to do a better job, within USDA, of determining where there may be potential problems, and address those problems before they manifest themselves into difficulties.

We are also continuing to work on the Uniform Incident Command structure, which will allow us to do a better job of communicating with State and local public health officials. In the event there is a concern or a problem, we'll try to contain it and mitigate it, as best as possible.

We will continue to work, within USDA, on better testing, and more appropriate testing, to ensure that we are catching and identifying pathogens. As the science evolves, so must our testing.

Senator KOHL. Thank you.

We'll turn now to Senator Collins, and then Senator Moran.

Senator COLLINS. Thank you, Mr. Chairman.

First, let me thank you for holding this hearing.

Also, a warm welcome to the Secretary and the members of this panel.

The Department's budget request for the year 2012 is a source of great interest to many Mainers. Farmers across my State, including blueberry growers, potato farmers, and dairy producers, all look to USDA for assistance in the areas of crop research, farm management, and agricultural marketing. But as we know, the Department's mission is much broader than that, than simply fostering agricultural production. And it also plays a key role in spurring economic and infrastructure development in rural communities around the country. I believe that most people would be surprised to learn that roughly three-quarters of USDA's budget actually goes to providing nutrition assistance. That is why I want to take the time today to talk about policies in the Department that appear to be headed toward limiting access to fresh white potatoes within our Federal nutrition programs.

Let me concede a certain bias here. I grew up in northern Maine, and my first job was picking potatoes on a farm during the school recess, for a couple of years, when I was very, very young.

So, I do want to talk about the fact that the white potato is the only vegetable excluded from the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)-approved food list. And the Department is proposing to place strict limits on the use of potatoes for the national school breakfast and lunch programs.

So, I have a visual aid here that I want to use to illustrate my point, because if you compare the nutritional content of iceberg lettuce, which is on the WIC list and is not proposed for limitations for the school lunch or breakfast program, with that of the fresh Maine potato, there is quite a difference.

For example, one medium white potato has nearly twice as much vitamin C as this entire head of iceberg lettuce. Per serving, potatoes contain more than four times the potassium as iceberg lettuce, and more potassium than bananas, a fruit that we think of when it comes to potassium. Per serving, potatoes contain twice as much dietary fiber as the iceberg lettuce, and three times more iron than iceberg lettuce, which we know is so important to pregnant women.

So, my question, Mr. Secretary, is, what does the Department have against potatoes?

Secretary VILSACK. Absolutely nothing, Senator. The reality is that when you take a look at the WIC program, it is absolutely supplementing the purchases by the mom or the dad that's using the WIC program. And what we know from research is that moms and dads understand what you have outlined, which is the significant nutritional value, and the dollar value, of purchasing potatoes. And for that reason, they are already purchasing potatoes in great quantity. So, what the WIC program is doing is, it's essentially supplementing those potato purchases with purchases of other vegetables that are not normally purchased or not purchased in the quantity that potatoes are purchased. So, in other words, it's not discriminating against potatoes, it's recognizing that potatoes are already being purchased by WIC recipients.

As it relates to the school breakfast and school lunch programs, we are working—I had a meeting with the Potato Council just recently, and we're willing to take a look at opportunities to look at potato consumption in the school breakfast and school lunch pro-

grams. What we want to do is, obviously, move away from the fried nature of what most schools are preparing. That's essentially the equipment that they have. We obviously want to take a look at ways in which we might be able to provide other alternatives for producing those potatoes so that they are not as caloric—high in caloric content and fat content, because, as you know, we're trying to deal with a significant obesity issue.

So, it's not the potato, it's the way in which the potatoes are being produced or being provided.

Senator COLLINS. Thank you, Mr. Secretary. I hope you will take a look at that.

I would suggest, since my time has expired, that the Government sends a signal when it lists every other vegetable except the potato for the WIC program and when it proposes to limit the use of potatoes in the school lunch or breakfast program. That signal can be perceived as a negative one. I know that's not your intent, but it can be perceived as saying that potatoes are not healthy, when, in fact, when we do that comparison—and I have nothing against iceberg lettuce—

Secretary VILSACK. High value of vitamin K, by the way, that head of lettuce.

Senator COLLINS. I'm sorry?

Secretary VILSACK. It's a high value of vitamin K.

Senator COLLINS. K. Yes, but when you compare it with the fiber, vitamin C, and potassium, it doesn't stack up. I'm not saying this should be banned. I'm saying that neither should this be.

Secretary VILSACK. Right.

Senator COLLINS. So, I do appreciate the fact that you're willing to work with the industry about what you would perceive as more helpful ways of preparing the potato.

Thank you.

Thank you, Mr. Chairman.

Senator KOHL. Thank you very much, Senator Collins.

Before we turn to Senator Moran, I'd like to ask our ranking member to make his statement and ask for questions.

Senator BLUNT. Thank you, Mr. Chairman. I think I'll take my questions in order. Thank you. Sorry to be late for the meeting. I certainly look forward to working with you on this subcommittee, and was pleased to get a chance to visit with the Secretary just a few days ago.

But I am pleased to be here. And I'll take my questions in the order that I arrived. Maybe Mr. Moran will ask better questions than I might have asked, anyway.

So, thank you, Chairman.

Senator KOHL. All right. Very good.

Senator Moran.

Senator MORAN. Mr. Chairman, thank you very much. And thank you, Mr. Blunt.

I'm honored to be a member of the agricultural appropriations subcommittee. I spent the bulk of my time, in the House of Representatives, as a member of the authorizing Committee. Certainly, the jurisdiction of our subcommittee is of great interest to many, many Kansans, and has a huge consequence upon American producers, as well as American consumers.

I welcome the Secretary and look forward to working with him in my current capacity.

And I just want to direct my questions in a couple of areas. First of all, agricultural research. I believe that agricultural research is a significant component of what we can do to be of assistance to agriculture, as well as those who purchase agriculture commodities. USDA has a significant role to play. I think, generally, we've fallen behind in regard to the resources going into agriculture research, as compared to other research. And in particular, I wanted to focus on the competitive grant research program, Agriculture and Food Research Initiative (AFRI). I've tried to find out, in my short 6 weeks of being a Member of the Senate, how that money is spent.

So, Mr. Secretary, my hope is, either today or at an appropriate time, you could give me a list of the Department's priorities, how that money is categorized, and what your suggestions are for increasing or decreasing funding within those various categories, so I can get a better understanding of what the priorities of the Department are, and to, from my perspective, make sure that you continue to focus, or that you again focus, upon production agriculture in the research concepts that you pursue.

Secretary VILSACK. Senator, if you want, I can provide you some background about that today, and supplement it if it's not satisfactory.

We have increased our commitment to competitive grants. We believe this is one way of leveraging additional resources. There are a number of key areas in which we focus these competitive grants.

First, I would say that we have grants that are focused on both commodity and livestock production and protection. That has to do with how do we make farms more efficient, in terms of their capacity to create more production? And how do we protect them against pests and diseases, invasive species and the like, that could potentially cut down on productivity? So, that is one key area.

We are also spending some time and some resources on biofuels, ways in which we might be able to use a wide variety of crops, crop residue, and waste products to be able to produce biofuels to supplement what we're doing with a corn-based ethanol process, to expand beyond that. As we know, the Renewable Fuel Standard requires us to get to 36 billion gallons by the year 2022. To do that, we need substances other than corn, so we're doing some research in that area.

We are obviously focused on food security issues, in terms of our capacity to meet the growing need that we not only have in this country, but, as well, the global need. As you well know, the world population is scheduled to grow to 9 billion-plus by 2050. The question is, how are we going to feed those folks? What is America's role in feeding those folks? How do we maintain security—food security? That's part of the research that is underway with the AFRI grants.

We are also taking a look at ways in which agriculture will have to adapt or mitigate the consequences of climate change that may impact itself in less water, higher temperatures, more opportunities

for drought, more flooding conditions, what we can do to make sure that we don't see a significant decline in productivity.

We are also taking a look at resources in the area of nutrition and obesity, given the very significant impact that we have with a third of our children being obese, and the consequences of that to our national security and educational achievement. We think that's an appropriate place for some resources to go, in terms of our competitive grants.

That gives you a general overview. There's probably more specifics that you'd like, and we'll be happy to provide those.  
[The information follows:]

AGRICULTURE AND FOOD RESEARCH INITIATIVE—FOCUS AREAS

[Dollars in thousands]

Focus area	Fiscal year 2010	Fiscal year 2011 <sup>1</sup>	Fiscal year 2012 <sup>2</sup>
Bioenergy .....	\$40,000	\$40,000	\$48,239
Global climate variability .....	55,000	55,000	60,058
Global food security .....	15,000	15,000	31,980
Nutrition and health .....	25,000	25,000	33,520
Food safety .....	20,000	20,000	28,520
Foundational areas <sup>3</sup> .....	80,773	80,773	89,605
NIFA fellows .....	6,045	6,045	11,480
Legislatively authorized set-asides .....	20,664	20,664	21,253
<b>Total, AFRI .....</b>	<b>262,482</b>	<b>262,482</b>	<b>324,655</b>

<sup>1</sup> Fiscal year 2011 annualized level as presented in the fiscal year 2012 President's budget.

<sup>2</sup> These numbers reflect redirection of funding for the Institutional Challenge Grants and the Graduate Fellowships programs into AFRI. Institutional Challenge Grants funding has been equally allocated across the AFRI Challenge Areas. The Graduate Fellowships funding has been added to the NIFA Fellows program.

<sup>3</sup> These are considered investments in each of AFRI's congressionally established priority areas, as follows:

- plant health and production and plant products;
- animal health and production and animal products;
- food safety, nutrition, and health;
- renewable energy, natural resources, and environment;
- agriculture systems and technology; and
- agriculture economics and rural communities.

Senator MORAN. Mr. Secretary, I would love to see the breakdown, in dollars, in each one of those areas, and kind of the trend in which I see the Department going.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION RULE

I'm going to try to ask a very brief question, which the answer can be yes or no. I asked the Department, last September, to do economic analysis—Mr. Glauber, to make economic analysis available in regard to Grain Inspection, Packers and Stockyards Administration rules. I'm pleased to know that you're doing that. And I am asking whether or not—once that economic analysis is complete, whether the Department will allow for public comment.

Secretary VILSACK. Senator, if I can, that's not as easy of a question to answer with a yes or no. And the reason is that in order to explain how we went about this process—we solicited comments, as you know, it generated a substantial amount of comments. We're taking those comments into consideration, categorizing them, and they will help to inform the analysis that Joe and his team will do. I've instructed them to do a thorough analysis, a complete analysis. Obviously, we want to make sure that, once we present the final rule for review and for implementation, that it's a solid rule, one that we can justify. And given the extent of the comments, I'm con-

fident in Joe's team, that they'll be able to provide an analysis that can pass muster and that will lead to a good product that we can support and defend.

Senator MORAN. I would encourage you, Mr. Secretary, to allow a very transparent post-economic analysis process at the Department.

Thank you, Mr. Chairman.

Senator KOHL. Thank you, Senator Moran.

We'll turn to Senator Brown, and then Ranking Member Blunt.

Senator BROWN. Thank you very much, Mr. Chairman.

Secretary Vilsack, nice to see you.

Mr. Chairman, I know that Wisconsin produces more cheese than any State in the country, but you should know that Ohio produces more Swiss cheese than any State in the country, and that I grew up on a dairy farm, working on a dairy farm, milking Guernseys and Holsteins. So, if you want to know more about Swiss cheese, I'm your guy, right?

I chose this subcommittee, on the Appropriations Committee, for a couple of reasons. One is that one out of seven Ohioans are employed in agriculture—not too different from many other States in this country—but also because of the priorities of this Committee, the subcommittee, under Chairman Kohl's leadership, had been pretty much exactly right—putting food on the table and fighting hunger in America and abroad, about ensuring families don't have to worry about the quality and safety of the food that we buy in supermarkets; about ensuring that our Nation's children grow up strong and healthy, and their mothers have the support and nutritional foundation they need to succeed; and about cutting-edge research to bear on our Nation's most difficult problems. And this subcommittee has pursued those as priorities, and I'm appreciative of that and laud that.

#### BROADBAND

I have a couple of questions, Mr. Secretary. During the 2008 farm bill, several of us worked—in the Agriculture Committee—to rewrite the broadband section of the bill to ensure wider access for communities that are underserved. And you were in Ohio, and worked on that and discussed that and helped to begin the implementation. I understand USDA, today, announced the implementation of the new language for broadband. Could you just briefly give us your thoughts about that?

Secretary VILSACK. Sure. Senator, we certainly agree with the observations contained in the 2008 farm bill, that there needed to be a more focused effort on broadband expansion in unserved and underserved areas. You all basically instructed us to take a look at how to define "rural" with respect to broadband expansion. And the interim rule, the final rule, that we proposed today, we're talking about communities of 20,000 or less that are not located adjacent to, or near, an urban area. We have instructed our folks to take a look at giving priority to unserved and underserved areas.

Our hope is that there are sufficient resources for us to continue the good work that was done with ARRA. ARRA allowed us to fund 330 projects, impacting 7 million Americans in rural areas, poten-

tially 320,000 businesses having access to broadband, as well as 32,000 anchor institutions, like schools, libraries, and hospitals.

We obviously want to continue that, because the Department of Commerce recently put out a map of the United States, showing some of the holes, if you will, in terms of coverage. We want to try to address those with these rules.

So, we've put the rules out. We've put out an application process that will be on the Web, and we're encouraging folks to get comments in, before May 14, on the structure we proposed, and to begin the process of applying for resources.

Senator BROWN. Thank you.

I will submit several questions for the record on topics important to Ohio, especially something we've talked about, the Agricultural Research Station in Wooster, and what we can do on that.

[Senator Brown's questions were not available at press time.]

#### BEGINNING FARMERS

Senator BROWN. And the other question I'd like to ask now is—comment and question, Mr. Secretary—the average age of farmers, as we know, in all of our States, is now 57, and going up—and we all are concerned about what that means, attracting young people into agriculture. How do we better target Farm Service Agency (FSA) loan programs and other USDA assistance, to help launch careers for beginning farmers?

Secretary VILSACK. Senator, we're cognizant of that issue. Thirty percent of our farmers are older than the age of 65, as well. We saw a 30-percent increase in the number of farmers older than 75, and a 20-percent decrease in the number of farmers younger than 25. There are a couple of things.

No. 1, focusing our Beginning Farmers and Ranchers Loan Program, which we have been doing. We've got the Office of Advocacy and Outreach, that is focused on strategies for beginning farmers.

No. 2, I would say that we are doing a better job of using our direct loan capacity. I may be wrong on the percentage of this, but a substantial percentage, maybe up as high as 50 percent of our loans, on the direct loan side, have gone to beginning farmers, as well as about 19 percent going to socially disadvantaged farmers. So, we are making an effort to direct our credit efforts in a way that helps beginning farmers.

But I think there has to be, as we begin the debate and conversation about the 2012 farm bill, I think this is one area that we really need to focus on. We've got some ideas and thoughts. I know my time is up, but I'd be happy to share them with you or the subcommittee, at a later date, relative to how we can identify young people who are interested in farming, how we might be able to use the tax code to encourage farmers who have no relatives to pass the farm on to, to get young people engaged, to get sweat-equity opportunities. There are a whole series of things that need to be done.

Senator BROWN. Thank you.

Thank you, Mr. Chairman.

Senator KOHL. Thank you very much, Senator Brown.

Senator Blunt.

## PREPARED STATEMENT

Senator BLUNT. Thank you, Mr. Chairman. Again, I look forward to working with you on this subcommittee.

I'll have a statement for the record and some written questions, I'm sure, as well.

[The statement follows:]

## PREPARED STATEMENT OF SENATOR ROY BLUNT

Good afternoon. Thank you Chairman Kohl for holding today's hearing on the U.S. Department of Agriculture's (USDA) fiscal year 2012 budget request, and thank you to our witnesses for being here today.

This is my first hearing as ranking member of the Agriculture subcommittee, and I look forward to working with the chairman and other members of the subcommittee as we determine funding levels for the Department during an era where we must show restraint, and everything must be on the table.

While we are still working to get our fiscal house in order for fiscal year 2011, we are looking forward to fiscal year 2012. The task that has been placed before us, Mr. Chairman, is not ideal. How we respond to this responsibility is important for the taxpayers and our economy as a whole. We're at a crucial moment in our Nation's history, and the decisions we make now will define who we are going to be as a country.

We are all aware of the current state of our economy. Americans are gravely, and rightfully, concerned about the size of the national debt and the budget deficit. As we begin to formally review the administration's budget request, we have to recognize that every \$1 we appropriate will be borrowed and must be repaid with interest. The Government must start operating under the same rules that families across America face every day when balancing their checkbook.

Last week, the Government Accountability Office released a report on duplicative efforts throughout the Government that highlighted more than 30 programs at USDA. The President's budget also proposes a series of program consolidations and terminations at the Department. Both of these proposals should be thoughtfully and seriously considered.

While tackling these difficult funding decisions, we do so with an understanding of the important role that agriculture plays in our economy. We should invest taxpayer dollars wisely in agriculture programs that will increase our agricultural communities' competitiveness here and abroad because agriculture is a leading driver in our economic recovery.

For example, research supports more efficient, higher-quality agricultural production and the continued development of new and existing biofuels. That same research also supports American farmers and rural communities by giving them the tools to be more competitive in the global economy.

Agriculture products remain the one highlight in our export portfolio. The Secretary notes in his written testimony that every \$1 billion worth of agricultural exports supports an estimated 8,000 jobs. Agriculture exports from Missouri alone support more than 37,000 jobs.

We have to continue to expand access to foreign markets because a thriving agriculture industry is key to our economic recovery. It's time to move forward with the free trade agreements with South Korea, Columbia, and Panama.

Mr. Secretary, I look forward to hearing your thoughts on these important issues. Again, thank you Chairman Kohl for holding today's hearing.

## CROP PRODUCTION

Senator BLUNT. I may have missed it, but, in your response to Senator Moran's question about agricultural research, I didn't hear as much as I would hope to hear about plant research, about having better results from less and less acreage, or on the same amount of acreage as we struggle to feed a growing world. I know that's one of your priorities, but I'd like to hear your thoughts on that.

Secretary VILSACK. Senator, I did—I actually started with the first area of emphasis, in terms of our competitive grant program,

is on crop and livestock production and protection, which is precisely to your point of how—

Senator BLUNT. Actually, I thought that was more the implementation of things we thought might work than trying to develop what might work, which was my point.

Secretary VILSACK. No, no—the question was about competitive research grants. And this has to do with developing new ways to produce, to become more efficient, more effective. It's precisely the point that I'm making.

Senator BLUNT. Good.

Secretary VILSACK. As well as on the food security side, how do we learn from our experiences in other countries that may be drought-stricken, may be struck with floods? How can we create, potentially, new products that would be more inclined to be productive in very adverse weather conditions? That's part of the research, as well.

#### TRADE AGREEMENT

Senator BLUNT. Good. On the “other countries” front, we have three trade agreements. I understand they could mean an additional \$2.3 billion in meat and poultry exports alone. That could add almost 30,000 new jobs in our economic recovery. What is the position you and the Department are taking on each of those three agreements?

Secretary VILSACK. We are very supportive, obviously, and hope to have quick ratification, of the Korean Free Trade Agreement, which has been completed. That will basically allow 60 percent of the tariffs on about \$5 billion of agricultural products to be removed immediately; the other 40 percent, over a period of years. You're correct, it will increase opportunities for us and make us far more competitive. We want it to be done quickly, because, obviously, we risk the possibility of Korea making a deal with Australia and other countries, where we could potentially lose market share.

It's my understanding that Ambassador Kirk has been instructed to complete the discussions and negotiations on the Colombian and Panama Free Trade Agreements, and we're excited about that opportunity, as well. We hope that the Korean Free Trade Agreement's passage will provide momentum for the passage of the other two free trade agreements.

It's not just those bilateral agreements, it's also the multilateral discussions that are taking place—the Transpacific Partnership, which the President is very interested in embracing—as well as our efforts at USDA in the Foreign Agricultural Service to reduce barriers to trade. We've seen a lot of that happen, in part because of the growing trade surplus that we're experiencing in agriculture. We project it to be \$47.5 billion this year, which will be a record, in terms of sales, by almost a \$20 billion increase more than last year's record. Every \$1 billion of agriculture sales creates 8,000 to 9,000 jobs. So, we are certainly supportive of this, and encouraging quick action.

Senator BLUNT. Very good.

On the other two agreements, not for today, but I'd like to know what you think, for Colombia and Panama, the best markets are. For example, wheat or other markets that might benefit.

Regarding the beef market, and again, I think your point is well made, that if we don't get to those markets before other people do, you allow patterns to establish that are often hard to reverse. And I think the beef area still needs some work, but it's moved some since Ambassador Kirk has worked on it, as he has.

GAO REPORT ON DUPLICATIVE PROGRAMS

There was a GAO duplication report that came out after you submitted your budget, and I wonder if that's given you a chance to go back and look at things to find some savings by bringing programs to your Department that would be better done there than somewhere else, or figuring out how to better accomplish some of the programs that are duplicative.

Secretary VILSACK. I had a conversation with the President, earlier today, about the whole issue of trade—as you well know, that there are a number of agencies that are involved and participate in trade. The challenge is to make sure that the opportunities and the tremendous advantage that we have in agriculture, in whatever structure, whatever ultimately comes about, in terms of restructuring or reorganization, is not impacted negatively. This is a good-news story. This is a positive story. It's one we want to build on, we want to continue. We've got really good people working at Foreign Agricultural Service, breaking those barriers down. We want to continue that.

We are constantly looking for ways in which we can restructure and reorganize within the USDA. We have a Process Improvement Program underway, which is identifying efficiencies and savings. As we deal with difficult budgets, as we deal with decisions you all will make, they will obviously impact personnel. Our only request is that you give us sufficient time in which to manage it properly.

As I said earlier, if we try to shoehorn in a solution to budget problems that have accumulated over a number of years into a short period of time, it makes it much more difficult for us, as managers, to do an effective job and to minimize the negative impact that it may have on the American public. We don't want that. You don't want that. We just simply need appropriate time.

I haven't had a chance to look at the GAO report in its totality. I know that there are issues concerning food safety. And as we are working with the FDA to make sure that we are coordinating our efforts so that we have, in a sense, a virtual food safety agency, in terms of its capacity, in terms of its philosophy, focused on prevention, as opposed to just reacting. We want to be able to be proactive. We want to prevent problems from occurring before they happen.

Senator BLUNT. I remember one point in that report was that FDA is responsible for the safety of shell eggs, and USDA is responsible for the safety of processed eggs.

Secretary VILSACK. That is a good example, Senator, but, maybe a better example is the pizza example, that, if it's a cheese pizza, with respect to Senator Brown or the chairman—

Senator BLUNT. Particularly if it's a Swiss cheese pizza.

Secretary VILSACK. That might be tough. But if it's a cheese pizza, basically, FDA does it. But if there's one pepperoni slice on it, it's ours. And I think that there are, obviously, ways.

But in order to do this, I think the first thing is, you've got to build a foundation. And the way you build a foundation is to make sure that the philosophies are the same. I think what we had was a philosophy, because of the quantity that FDA had, of being reactive to circumstances, to try to mitigate the impact. And we at USDA—because of our niche, we were looking more to preventative measure. I think preventative is now what you all have been able to do with the food safety legislation that passed last year. You've got us all on the same track, which I think is very, very important, and I think it's going to result in improved food safety.

Senator BLUNT. I did ask the Housing Secretary the other day, at a hearing like this, if they had the infrastructure to handle the rural housing component. They may or may not have. And what we don't want to do is eliminate programs if your Department can uniquely serve a purpose that others would have to create additional infrastructure to do. So, we want to be careful about it, but we also want to be sensible about it, in trying to eliminate duplication wherever we can.

Secretary VILSACK. Also, I think that there's a real desire to avoid—we had this with the U.S. Agency for International Development, in terms of overlapping jurisdiction and responsibilities and confusion.

There's a difference, if I can, between rowing and steering. Steering is the policymaking aspect of this. There should be consistency. There should be, clearly, somebody in charge of the steering apparatus. But the implementation—it's a different set of skills, and somebody ought to be—that ought to be a separate lane. And if you start confusing the steering and rowing, you end up not going anywhere.

#### BROADBAND

Senator BLUNT. That is absolutely true. Not for an answer today, but on broadband, which we're all interested in seeing that people have access to, I'd like you to come back to me with a definition of what “underserved” means. I know what “unserved” means. I don't know what “underserved” means, and I think you get into a really interesting competitive environment, where you go in and assist somebody to compete with someone who has gone in and already put infrastructure in, themselves, without taxpayer help.

Secretary VILSACK. I think the answer to that may be in the interim final rule that we presented today. We'll get you and your staff a copy of that.

[The information is available as follows:]

*See Federal Register, Monday, March 14, 2011, Vol. 76, No. 49, pgs 13770–13796, Rules and Regulations at <http://www.gpo.gov/fdsys/pkg/FR-2011-03-14/pdf/FR-2011-03-14.pdf>*

Senator BLUNT. Good. I'd like to see it.

Thank you.

And thank you, Mr. Chairman.

Senator KOHL. Thank you, Senator Blunt.

We'll listen, now, to Senator Nelson, then Senator Hoeven, and then Senator Cochran.

Senator Nelson.

Senator NELSON. Thank you, Mr. Chairman.

And, Mr. Secretary and your colleagues, it's good to have you here. We appreciate this opportunity to go over some very important issues.

#### NATIONAL DROUGHT MITIGATION CENTER

Mr. Secretary, as you know, the National Drought Mitigation Center at the University of Nebraska, Lincoln, performs a number of valuable services: monitoring and forecasting drought, planning for drought, and developing means of mitigating drought. It's extremely important for farmers and ranchers for understanding trends that affect food production and for planning by a number of businesses and individuals. And the widely used Drought Monitor is published on Thursdays, I believe. As we all know, these are extremely important.

For a number of years, a number of these beneficial programs were supported by earmarks. In the absence of earmarks, do you have any plans for sustaining the National Drought Mitigation Center through—and its activities—in your fiscal year 2012 budget?

Secretary VILSACK. Senator, what we have suggested is that there really does need to be a priority-setting process. There are a number of projects that have received earmarks over the course of a number of years. All of them have, I'm sure, appropriate justification, including the one that's located in your area, in Nebraska.

I think it would helpful for us to, basically, do a review of all of those proposals and all of the existing facilities to determine, what are the highest priorities? When we are dealing with difficult budgets, it is, at the end of the day, about choices and priorities. We want to make sure we can justify whatever decisions are made.

So, there is a priority-setting process in place. I can't tell you, today, where the Nebraska project is, specifically, in that process, because it hasn't been completed.

Senator NELSON. I might point out that the project might exist in Nebraska, but it's nationwide in its implications, and is used by a number of other entities, as well. Unfortunately or fortunately, depending upon your point of view, drought is not just unique to Nebraska. So, others have focused on it, and I think it's, obviously, a worthwhile project. And I want to make a pitch for it. Perhaps we can follow up after the hearing.

And relating to trying to find a way to make a budget work in difficult and trying economic times, I understand the challenge that you face. I think it's important for the American people if we—consider it this way, that if you like importing 70 percent of your oil, you'll love importing 70 percent of your food.

#### AGRICULTURAL PRODUCTION

What I'm getting at is, your agency and the programs under your agency and programs—new farm program and everything we move forward on, will be designed to try to sustain American agriculture so we can continue to produce, here at home, our own food for our own needs: food, fuel, fiber, and feed.

So, I hope that, as we look at cuts, we'll be judicious and, as you say, prioritize, so that, at the end of the day, agriculture is not left hanging without a safety net. In anticipation of bad times, we need

to be sure that we are protecting against those bad times. And it's harder to do it—in good times, in terms of commodity prices. But in tough budget times, as we do that, we have to be very judicious and have very strong prioritization so that we don't end up having people talk us out of continuing to support agriculture in advance of the bad times.

Secretary VILSACK. I'm not sure if I have time to respond to that, Mr. Chairman.

Senator, we obviously agree. We're certainly pleased with the fact that we have a strong agricultural economy today, but recognize full well the nature of agriculture could be difficult tomorrow. There does need to be a strong safety net. We do have to have shared—as the President says, shared sacrifice and shared opportunity, and it has to be proportional. We think our budget reflects those—that balance. We think it maintains a strong safety net, through a variety of mechanisms: additional market opportunities, crop insurance, as well as the payment structures that are in place. We are suggesting some changes to the payment structure which we think are legitimate. But we're happy to tell the agricultural community that we are aware of the need for a strong safety net.

Senator NELSON. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Senator KOHL. Thank you, Senator Nelson.

Senator Hoeven, Senator Cochran.

Senator HOEVEN. Thank you, Mr. Chairman.

Secretary Vilsack, good to see you again. You've been up here a lot, and I know how demanding your schedule is. So, it's good to have you here.

#### AGRICULTURAL RESEARCH

First thing I want to touch on, for just 1 minute, is a follow-up to both my colleagues, Senator Moran and Senator Blunt, in emphasizing the importance of ag research. I think it pays incredible dividends. And obviously, we're going to have to tighten up on these budgets. We have a spending issue. And from what I've seen, agriculture will certainly take its share of the load. Some of us may feel it's even taking more than its share of the load. And I think that's borne out by some of the percentages I've seen so far.

But good farm policy is important to every single American and people all over the globe, as you well know. We have the lowest-cost, highest-quality food supply, not only in the world, but in the history of the world, thanks to our farmers and ranchers.

But I'm wondering if there's some flexibility that we could give you, in your budget, that would help. And a couple different areas. Ag research. I think that's incredibly important. If you have some ability to move dollars around, that might help us do more through our universities and extensions, so forth, to do a good job on ag research. Biofuels development. Also, even in the area of, with the Rural Utilities Service (RUS), some of the new clean coal technologies, which actually comes under your purview through RUS.

Is there something we can do with flexibility, in these times when there are going to be less dollars, that can really help, in terms of doing the job—make your budget go further for agriculture?

Secretary VILSACK. On the research side, Senator, we're trying to do that by increasing, over what we had last year, the competitive grant program. We think that that is a way in which we can more effectively leverage scarce Federal resources to partner with private resources and the land grant universities to extend our research opportunities.

## ENERGY PROGRAMS

You mentioned RUS. We are proposing, in this budget, the capacity to use a portion of \$6 billion in loan authority to be able to better assist existing facilities that might be fossil fuel-based, as they look for new renewable opportunities for peak production, for efficiencies and improvements, and more flexibility in being able to use those resources to help assist in the development of those improvements. That would be something that could be helpful.

Senator HOEVEN. So, that is something we could work with your people, in terms of your budget, that—clean coal technology, the RUS loan program is a great example. How do we make sure—same thing in biofuels—second-generation cellulosic development for ethanol, other—and biodiesel.

Secretary VILSACK. Well, the biofuels—

Senator HOEVEN. We need to get that creativity going in the private sector.

Secretary VILSACK. You're right.

Senator HOEVEN. We need to get your dollars into those projects.

Secretary VILSACK. On the biofuels side, I think the Congress and the President have been of one mind, in terms of getting the energy title of the farm bill implemented. And we are attempting to do that with new biorefineries that are being financed with the Biomass Crop Assistance Program, with advanced biofuel producer assistance. All of that is underway. So, I think we're doing a pretty good job on that. But we're certainly willing to work with you in other ways.

I will tell you that I have a deep concern—this is a little far afield from your question, but I have a deep concern about the cliff that some folks want to create, in terms of the incentives that are currently in place for the biofuel industry. I think, if you create a cliff, what you're going to see is a drop in production. You're going to see a loss of jobs. I think it would be much better to have a glidepath towards ultimate elimination of those incentives—but, a glidepath. And perhaps a redirection of those incentives in a way that helps blender pumps, helps build greater demand with flexible fuel vehicles. That kind of thing could be very helpful to us.

So, I think there are a number of ways in which we can help.

Senator HOEVEN. Blender pumps, flex-fuel vehicles, higher-blend standard, working with the Environmental Protection Agency—I think we can transition to some of those measures that can still help the industry grow, but that don't create a cost, necessarily, for the Federal Government.

Secretary VILSACK. Right. Or reduce the cost that we've been incurring over time.

Senator HOEVEN. Right. Thank you.

Senator KOHL. Thank you, Senator Hoeven.

Senator Cochran.

Senator COCHRAN. Mr. Chairman.

Mr. Secretary, welcome to the subcommittee. We appreciate your cooperation with us in attending the hearing.

#### CATFISH INSPECTION PROGRAM

While we understand that the Department has been considering releasing some catfish inspection regulations and beginning to implement a program, we've not seen any final action taken, or specific requests for funding, for enforcement of the program. What is the status of that issue, if you know, particularly as it relates to aquaculture activities?

Secretary VILSACK. Senator, we just recently put forward for comment and consideration, specifically as it relates to catfish, a responsibility that was given to us statutorily, a new inspection program. We expect and anticipate that there'll be quite a bit of comment, relative to precisely how extensive that inspection process should be, in terms of the varieties of catfish that should be included.

I didn't know how many different varieties of catfish there were until I got this job. I just thought there was one kind, out in the Mississippi River. But I find that that's not the case. There are quite a few more.

So, our view is that it's going to take some time for us to sort of get our hands around precisely what we will be regulating. Therefore, it would be a bit premature this year to ask for resources for an inspection process, or enforcement process, when we don't have the program in place. We anticipate it will take us a little time to get it in place.

Senator COCHRAN. We would encourage you to move ahead on it. We hope you don't do like we do here in the Senate sometimes, and just kind of filibuster, talk, talk, and nothing really happens. We hope the administration will cooperate with this subcommittee, and collaborate on defining a new regime, and then let us provide the funds to pay for it.

Thank you, Mr. Chairman.

Senator KOHL. Thank you very much, Senator Cochran.

#### FARM SERVICE AGENCY LOAN PROGRAMS

Mr. Secretary, for the past 2 years, private credit markets provided insufficient credit to support farmers and ranchers, due to the recession. As a result, this subcommittee had to increase support for FSA loan programs. Wisconsin is the largest user of these programs, with a loan portfolio of more than \$1.3 billion. And they are particularly important for the dairy industry. This budget cuts those programs by 6 percent. Can you give us some assurances that private credit markets will provide adequate credit for farmers and ranchers in fiscal year 2012?

Secretary VILSACK. Mr. Chairman, I think the most significant reduction in the loan programs is a program that provided not just a loan, but also interest assistance. Given the difficult times, our feeling was that there obviously are priorities, and our priorities should be on the direct loan and the guaranteed loan programs without interest assistance.

We are seeing a better credit circumstance, in terms of the capacity to get credit. That's probably in part because farm prices are better. It's in part because we're seeing fewer defaults. We're seeing fewer efforts to restructure or ask for additional time in which to pay. Therefore, we're fairly confident that the numbers we've provided should be adequate to meet the credit needs of our farm community, given the circumstances as they exist today. But as you know, things could change in the next 3 or 4 months. We're keeping an eye, obviously, on energy costs. That may have an impact on all of this. But at this point in time, we're confident that we'll be able to meet the need with what we proposed.

#### GOVERNMENT SPENDING CUTS

Senator KOHL. Mr. Secretary, as we've all been trying to find ways to reduce Government spending, we received from the Office of Management and Budget (OMB) a list of suggested places to cut spending across the entire Government. That list included 38 items, of which 12 out of the 38 were from USDA. Those USDA programs included cuts of \$1.5 billion, from a total of \$6.5 billion on the entire OMB list.

So, can you explain why OMB seems to be focused so much on USDA spending? Are these USDA programs really not that important? Does USDA simply have too much money these days, or does the administration have huge amount of regard and respect for your ability to create efficiencies?

Secretary VILSACK. I'd like to think it's the latter, Mr. Chairman. But in all seriousness, we at USDA recognize the responsibility because of the people that we work with and represent and work for—the folks in rural America, who I think, themselves, understood something about that long ago, which is one of the reasons why the ag economy is probably a little bit stronger than other parts of the economy, because there wasn't quite as much debt. We're seeing, right now, an 11.3 percent debt-to-asset ratio in farm country, which is a solid ratio.

So, we stepped up last year, with a \$4 billion savings on the crop insurance. We were asked to identify, consistent with the President's instructions, a number of reductions that would take place within a reduced discretionary spending number. We've provided those to OMB. And I think what you see is a reflection of OMB's efforts to accelerate what we have identified in the fiscal year 2012 budget as a way of assisting the Congress in trying to finalize the fiscal year 2011 budget.

Will these reductions be easy? No. If I had my druthers, I'd like to live in a world where we had unlimited resources and we didn't have to deal with these issues. But the reality is, American families are dealing with them, and they expect their Government to do the same. And we want to be reflective of that value.

Senator KOHL. All right.

Senator Pryor, we'll turn to you.

Senator PRYOR. Thank you, Mr. Chairman.

Secretary Vilsack, always good to see you. Thank you for being here today.

Let me start by picking up on something that Senator Cochran said just a few moments ago. And that is that catfish is an impor-

tant industry, of course, but even more than that, it's an important food source for people, and it's important that consumers know what they're eating and can be assured that it's safe to eat. So, I hope that the USDA will continue to move down the tracks with your new catfish rule.

NATIONAL INSTITUTE OF FOOD AND AGRICULTURE

Let me, though, ask a question about the National Institute of Food and Agriculture (NIFA). I have a question, generally, about the administration's decision to recommend some of these cuts, because as some of my colleagues have said already, agriculture is a fairly strong sector of the U.S. economy. I think you just mentioned that. And we are not doing well, when it comes to exports. We have a huge trade deficit. The President has come out and said he wants to double exports within so many years. It seems to me that we're a world leader in exporting of agriculture products, and so I'm not sure why we should be cutting that. We want to see economic recovery. We want to see a more stable, more robust economy in this country. And really, the foundation of rural America's economy is agriculture.

So, I was going to ask about NIFA. But just generally, why are you recommending some of these cuts? And particularly with NIFA, which is agricultural research and is doing great things all over the country. Why are we cutting now? I understand we're in a difficult budget environment, but tell me the administration's thought process.

Secretary VILSACK. I would say two things.

First of all, as it relates to exports, I want to make sure I make our budget clear, Senator. We are proposing, actually, in that area of the budget, an increase of \$20 million. And we believe that that increase—based on experience, every \$1 we spent on export assistance last year netted \$35 of trade. So, that's actually an increased item on our budget.

Senator PRYOR. Right.

I think it's great. That's why we need the product in the pipeline.

Secretary VILSACK. It can create economic opportunity.

As it relates to NIFA's budget, basically, we are increasing the competitive grant program within NIFA. Our belief is that, by increasing that part of NIFA, of AFRI, we will be able to leverage an equal or greater amount of overall dollars within research. So, while it obviously is, in total, less money, we think by increasing a part of that budget, we can make up for whatever reductions may take place in other parts of the research budget.

And it's primarily in the areas of formula funding, a small reduction in formula funding, an increase in competitive grants, because competitive grants, we believe, have the greater potential for accessing additional dollars into research. This administration has been a supporter of research, and has been proposing additional resources for research, over the last couple of years.

Senator PRYOR. Thank you, Mr. Chairman.

Senator KOHL. Thank you very much, Senator Pryor.

Senator Blunt.

Senator BLUNT. Thank you, Chairman.

## DISCRETIONARY FUNDING LEVELS

What is the fiscal year 2010 number that you're working under now, the fiscal year 2012 number, and the fiscal year 2008 number? If somebody could give me the bottom line. I don't expect you to know that, without looking it up, but you might.

Secretary VILSACK. I know that the net discretionary appropriations for fiscal year 2010, enacted, was \$26 billion. In the fiscal year 2011 budget, what we proposed was a little more than \$25.5 billion. And the fiscal year 2012 number is less than—

Senator BLUNT. This is net discretionary, right, Secretary?

Secretary VILSACK. Yes.

Senator BLUNT. The other number I'd like to know is what the 2008 number was for net discretionary.

Secretary VILSACK. The fiscal year 2012 budget number is almost \$24 billion—\$23.8. The fiscal year 2008 number is \$21 billion.

Senator BLUNT. Okay, that's helpful. Thank you.

## BUDGET PRIORITIES

What are the three top priorities that you have for the year for the Department? And why would those be your three top priorities?

Secretary VILSACK. That is a really difficult question, given the scope of what we do at USDA.

First and foremost, we obviously want to continue the momentum that's been building in rural America, in terms of job growth and economic opportunity. We've got a strong ag economy. We want to continue to build on that. We have a strategy of expanding broadband, of making sure the biofuels industry is supported, of doing a good job of using our conservation resources in a way that builds outdoor recreational opportunities, which we think can help build the rural economy. And the ability to build local and regional food systems creates job opportunities. So, that's one.

Second, we've got a good trade story to tell. We obviously want to increase the momentum there.

Then we have a responsibility to make sure that safe and nutritious food is available to every American. So, that gets into the food safety area. It also gets into the nutrition programs that are important, with particular emphasis on implementation of the recently enacted Healthy and Hunger-Free Kids Act of 2010, a historic opportunity for us to improve, significantly, the school lunch and school breakfast programs, given the obesity and hunger issues we face.

Now, there are a multitude of other responsibilities we have. Invasive species are a big issue, often not discussed in a context of this budget, because, in terms of dollars, it may not be the largest part of our budget, but it's extraordinarily important to crop production and productivity.

There are issues relative to homeownership, that we discussed briefly earlier. That's an issue.

The credit needs of farmers is an issue. The beginning farmer. I mean, there are just a lot of issues that you deal with in this Department.

And asking which of those, of all my priorities, is sort of like asking which of my two sons I love the most. I love them all. And we want to work hard to try to advance all of these priorities.

Senator BLUNT. Thank you, Secretary.

I think that is it for my questions, Mr. Chairman.

Senator KOHL. Senator Cochran.

Senator COCHRAN. I have no further questions.

Senator KOHL. Senator Hoeven.

Senator HOEVEN. I have one other question, Mr. Chairman.

#### CROP INSURANCE

Mr. Secretary, crop insurance is incredibly important for our producers. It's going to be incredibly important in the next farm bill. I see, in the budget proposal you put forward, you're reducing funding for crop insurance by \$1.7 billion. That follows about a \$4 billion reduction this past year. But I think crop insurance is really going to be a cornerstone of our safety net. It will be a cornerstone of our safety net for our producers in the new farm bill. How do we improve crop insurance?

Secretary VILSACK. If I can, let me explain why we're proposing the reduction. The \$4 billion reduction was, in part, a result of us doing a historical study of appropriate returns on investment for the insurance industry to provide stability in the crop insurance arena. What we determined was, a 12-percent return on investment would be sufficient to promote and ensure stability. What we did with the crop insurance agreement was to come down from the 17-percent to a 14-percent return. So, we think that there is stability and security.

The proposal we're making this year is in one narrow area of crop insurance: catastrophic insurance. And the reason we're doing this is because the loss ratio, not the premiums, but the relationship with the insurance industry was based on a 1.0 loss ratio. When in reality, historically, it's been far less than that. So, there are ways in which we can reduce the exposure to the taxpayers, not increase the cost to producers, and make the product still available. That's what we're proposing.

We are expanding crop insurance. We have 14,000 additional customers in our crop insurance program, as a result of the program improvements we made last year in range and pasture and forageland areas. We're looking at a series of organic crops that could potentially be covered, as well. We're reducing surcharges on a variety of citrus products, which may not impact North Dakota, but—

Senator HOEVEN. That's funny.

Secretary VILSACK [continuing]. Are obviously important to folks in the South. So, there are steps that we are taking.

We are also creating a premium refund program for good producers, those who have historically good records. We've identified about \$75 million that could be returned, if you will, to producers.

So, I think we're looking—always looking for ways in which we can expand coverage and create a better program.

Senator HOEVEN. I think it's going to be absolutely key that we work together, particularly as we go into this next farm bill, on crop insurance. I think that's going to be just a key, key compo-

ment. And we have such a good case to make with it, too, for our producers.

Secretary VILSACK. You're right, Senator. I don't disagree with that.

Senator HOEVEN. Thank you.

Senator KOHL. Senator Pryor, you have a question?

Senator PRYOR. I do, Mr. Chairman. Thank you.

#### THE NATIONAL AGRICULTURAL LAW CENTER

This may seem like a parochial matter, but it really isn't; it's of national importance. And that is, University of Arkansas School of Law has the National Agricultural Law Center housed there. It offers a master of laws in agricultural law, which I think is the only program in the country that does that. But even more than that, it is really a clearinghouse for all kinds of information. Last year, they had 430,000 visitors to their Web site, wanting to know about agriculture law.

It reminds me—I just finished a book on healthcare—there's now a new field of economics, called "healthcare economics." Agriculture is complicated enough, where there is a legitimate field of agriculture law.

But the Web site also had well more than 1 million hits. And 20 percent of those—this is just last year's numbers—20 percent of those were Federal employees.

So, this is a real resource that's available to everybody. Even our own Federal Government relies on it heavily. There's a lot of very constructive and positive things I could talk about with the National Agricultural Law Center. In fact, in your shop, Janie Hipp and Doug O'Brien are former directors of the center.

Nonetheless, I'm curious to hear your explanation about why the program is proposed to be terminated and how we might overcome the adverse effects of a termination.

Secretary VILSACK. Senator, this is just a reflection on the concern that has been expressed by the President and others, in terms of specific earmarks. This is a process that we need to undertake within the USDA, that we are undertaking within USDA, to establish a priority listing of things that need to be maintained and things that need to be continued, and to be able to explain and justify why they need to be continued. We're undertaking that. And in lieu of that, our budget reflects an elimination of all of those earmarks.

Senator PRYOR. Mr. Chairman, I'm not sure I agree with y'all's definition of "earmark," but that's something that we should talk about further, and maybe not in this context. But I do think it does provide a national service.

Thank you.

#### ADDITIONAL COMMITTEE QUESTIONS

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

## QUESTIONS SUBMITTED BY SENATOR HERB KOHL

## BROADBAND

*Question.* A recent Washington Post article called the U.S. Department of Agriculture (USDA) Rural Broadband Loan Program one of the “worst ideas in Washington.” The loan program is eliminated in your fiscal year 2012 budget, but there will still be money available from previous years to carry it out.

How do you respond to criticism that the program hasn’t focused on rural America?

*Answer.* The program is focused on rural America. The issues raised in the Washington Post article addressed concerns from the USDA inspector general that the program did not reach the most rural communities. USDA has used the statutory definition of “rural” for its Broadband program that was enacted through the 2002 farm bill and then revised the Broadband program in 2008. USDA had no authority to change the statutory definition and was pleased that the Congress enacted the inspector general’s recommendation to amend the definition of “rural” in 2008. This new definition of rural was used for the American Recovery and Reinvestment Act’s (ARRA) Broadband Initiatives Program (BIP) and is used today in our revised farm bill Broadband Loan program. I am also pleased to report that no farm bill broadband infrastructure loans to new borrowers were made under this administration using the old definition of “rural.” I am also pleased to report that the Rural Utilities Service (RUS) has addressed all Office of Inspector General (OIG) recommendations on the farm bill Rural Broadband Loan Program and as of March 24, the OIG has now closed the audit. If the Congress has concerns with the current statutory definition of rural for our Broadband program, we would be pleased to work with the subcommittee to draft a new standard.

*Question.* When will rural America truly be served by high-speed broadband, which is important for economic development?

*Answer.* Under ARRA, USDA received more than \$28 billion in applications for BIP. With our \$2.5 billion in budget authority, we were pleased to leverage these funds into 320 awards totaling in excess of \$3.5 billion. In Wisconsin, USDA made 15 BIP awards totaling in excess of \$90 million. For example, USDA provided a \$15.5 million loan and \$15.5 million grant to Chequamegon Communications Cooperative, Inc. (CCC) to offer high-speed broadband to 31 rural communities in northern Wisconsin. CCC’s network will bring high-speed fiber to more than 3,000 new customers including several community anchor institutions. To further leverage this BIP award, CCC partnered with the State of Wisconsin on another ARRA project to bring high-speed Internet to schools and libraries in the area. The project will create or save 66 jobs.

Regrettably, we did not have sufficient resources to reach every unserved area in rural America. To help reach families and business in areas unserved by BIP or the Department of Commerce’s Broadband Technology Opportunities Program (BTOP), USDA made \$100 million in awards to satellite service providers to lower the cost of installation and monthly broadband service to areas that remain unserved after all BIP and BTOP awards were made.

Finally, USDA has other broadband programs to assist with bringing broadband to rural areas. Our Community Connect Grant program is specifically targeted to rural communities that have no broadband service. The 2008 farm bill Rural Broadband Loan Program offers loans to bring broadband to underserved and unserved communities. Both programs are operating under carryover funding this fiscal year and were part of the President’s fiscal year 2011 budget request. The President’s fiscal year 2012 budget did not request funds for the farm bill loan program but did request an additional \$17.8 billion for the Community Connect Grant program. The fiscal year 2012 budget did not request additional funds for the Broadband program because it anticipated sufficient carryover funding would be available.

## RENEWABLE ENERGY

*Question.* USDA was given a clear and urgent mandate to promote the development and expansion of renewable energy, to help diminish the Nation’s dependence on fossil fuels. Recent oil price volatility has caused us to refocus on this charge. Substantial mandatory funding was included in the farm bill for this purpose. This subcommittee needs to know what USDA has done with this mandate and the funding you received. Specifically:

Please describe the current state of implementation of USDA’s renewable energy programs.

Answer. The interim rules for the Advanced Biofuel Payment Program and the Repowering Assistance Program were published in the Federal Register on February 11, 2011. The interim rule for the Biorefinery Assistance Program was published in the Federal Register on February 14, 2011. Notices of funds availability and a notice contract of proposal for these programs were published in the Federal Register on March 11, 2011. The interim rule and Notice of Funds Availability for the Rural Energy for America Program (REAP) are expected to be published in the Federal Register by April 14, 2011. The Rural Energy Self Sufficiency Initiative was not implemented because no funds have been appropriated for this program.

*Question.* What are the timelines you envision for bringing new energy sources on line to reach consumers?

Answer. New energy supplies from biofuels currently being developed by the Biorefinery Assistance Program will take 3–5 years to allow for plants to be built, ramped up, and for supplies to reach consumers. Less complex renewable energy and energy efficiency projects involving known technologies are being completed anywhere from a few months to a few years.

*Question.* What challenges are slowing achievement of your goals?

Answer. Interest in our programs has never been greater. In terms of market concerns: the availability of private-sector capital and investments necessary to develop new biofuels and biorefineries is a challenge. Some lenders are risk averse and the Department has worked closely with the industry and the investment community to address this issue.

*Question.* We need to know which of these programs work and which do not. How are you measuring success and what can you tell us about successes and failures?

Answer. All of our programs are working, very popular, and in the case of REAP, producing measurable results. While awards have been made, none of the construction projects have been completed. In terms of applicants: REAP had 2,400 successful applicants in 2010; it helped to provide an investment of \$159 million in renewable energy and energy efficiency projects in rural America with less than \$84 million of Government grants and helped to produce or save more than 2,900 megawatt hours of energy. The Bioenergy Program for Advanced Biofuels is providing incentive payments for the production of advanced biofuels. The program made payments of \$19 million to 140 recipients that produced advanced biofuel during fiscal year 2010. We measure success of our programs by the geographic diversity of the program funds, funding a wide range of project technologies, jobs creation, energy production, energy conservation, leveraging other funds with program funds, and by providing loan guarantees for the development of new fuels that will meet the energy demands of our Nation. Upon request, the Rural Business Service (RBS) will provide summary data for all of the title 9 RBS programs.

*Question.* Please describe how you are coordinating the energy initiatives within USDA, and with land grant universities' research efforts.

Answer. USDA is working within the Department and with other Federal departments and organizations, including the land grant universities, on furthering renewable energy initiatives and programs. Efforts include the following intra-/inter-governmental panels, councils, working groups, and boards.

As an extramural research, education, and extension agency, the National Institute of Food and Agriculture (NIFA) works directly with land grant universities and others to implement sustainable bioenergy strategies. These extramural groups carry out the needed work to advance programs. This is further coordinated with NIFA review of the State plans of work for noncompetitive funding. Competitive funding typically brings together university faculty, Federal scientists, industry, and others to meet national needs related to advancing bioenergy. This leverages and coordinates Federal, State, and private funding in most cases.

The USDA Energy Council mission is to advance the contribution of agriculture and forestry in rural America in promoting the Nation's achievement of energy security through the efficiency and effectiveness of the Department's numerous energy-related programs and initiatives. Chaired by the Secretary of Agriculture and consisting of the Under Secretaries and other senior managers, the Energy Council leads the Department in policy development and efforts to reach all audiences to inform them about USDA energy programs and regulations. The council ensures that these audiences are aware of the Department's comprehensive energy program and also understand how it fits into the United States' overall energy policy.

The USDA Energy Council Coordinating Committee consists of staff from all USDA mission areas who work on energy issues, coordinates energy-related activities among USDA agencies and performs duties as assigned by the Secretary as the Energy Council chair, or the Energy Council as a whole.

The Biomass Research and Development Board is co-chaired by USDA and the Department of Energy (DOE). The board coordinates the Governmentwide research

initiatives and activities for the purpose of promoting the use of bio-based products, power, and biofuels. Members of the board also include the National Science Foundation (NSF), the Environmental Protection Agency (EPA), the Departments of the Interior and Defense, and the Office of Science and Technology Policy.

The Biomass Research and Development Advisory Committee is a group of approximately 30 individuals from industry, academia including land grant universities, and State government. The committee is responsible for providing guidance to the Biomass Research and Development Board on the technical focus of the Biomass Research and Development Initiative.

The National Agricultural Research, Extension, Education and Economics Advisory Board's Renewable Energy Committee was created by the Congress in 2008. This committee annually submits to the advisory board a report that contains its findings and any policy recommendations to the USDA in preparation for the annual budget. The committee also consults with the Biomass Research and Development Technical Advisory Committee.

*Question.* How is USDA coordinating efforts with other Federal, State, and private entities to make sure the most efficient use of public dollars is taking place?

Answer. We coordinate with DOE, using their environmental reviews when available for biorefinery assistance projects and we are working with DOE grant recipients, where we guarantee loans to build biorefineries that will help to end our dependence on foreign sources of petroleum. The USDA works closely with DOE to provide the best energy expertise to our field staff and ensure that all of our project loans and grants are awarded in accordance with the highest professional standards. We work closely with EPA to ensure that their expertise is utilized as well as their efforts to promote anaerobic digester technology. We ensure that applications for assistance are selected on a basis of competition using priority scoring so that applicants selected have a project that is meritorious. REAP provides a grant for no more than 25 percent of eligible project costs, up to a maximum amount to an eligible applicant; and the majority of funds are invested by the applicant who put their own money into the project. Our programs succeed by utilizing State incentive programs, renewable portfolio standards, utility incentives, and local and national lenders making solid investments in partnership with applicants throughout the Nation.

*Question.* What is your evaluation of the Department's success in meeting its renewable energy mandate?

Answer. Based on the purpose of the program and the results tracked, we determine whether the program is successful. In fiscal years 2009 and 2010, REAP helped nearly 4,000 rural small businesses, farmers, and ranchers save energy and improve their bottom line by installing renewable energy systems and energy efficiency solutions that will save a projected 3 billion in kWh—enough energy to power 390,000 American homes for a year. In 2010, the Biorefinery Assistance Program provided a conditional guaranteed for \$55 million private loan to the advanced bioenergy producer Sapphire, once completed the facility is expected to generate 72 million kWh in renewable energy, once the biorefinery is built. In 2010, the Bioenergy Program for Advanced Biofuels provided \$18.5 billion in support of the generation of 53 billion BTUs, and the Business and Industry Guaranteed Loan program provided \$43.4 billion in support of renewable energy infrastructure.

#### PLANT/ANIMAL HEALTH

*Question.* More than \$830 million is requested for protection against invasive species, pests, and diseases. However, there is no indication in the budget what the real costs of these various threats are, in terms of market disruption, lost income, diminishment of producers' capital, etc. It is also unclear what the value is of the Department's strategies implicit in this request. This budget asks the subcommittee to make decisions regarding allocating discretionary resources absent any cost/benefit framework.

This subcommittee needs to know what are the costs facing the economy of these different threats.

Answer. Invasive pests and diseases can cause huge losses and control and eradication costs. For example, we estimate that a half-week delay in finding an animal disease outbreak can increase cleaning, disinfection, depopulation, and quarantine costs by \$70 million per incident (on average). The light brown apple moth (LBAM) attacks more than 2,000 types of plants and trees found throughout the United States and we estimate that it has the potential to cause production losses ranging from \$700 million to \$1.6 billion annually if it spreads. The Asian long-horned beetle's total potential economic impact on industries in New York and New England is estimated at \$1.1 billion in annual losses.

*Question.* In addition, what are the benefits that accrue from expenditures on the various programs?

*Answer.* The benefits of Animal and Plant Health Inspection Service's (APHIS) pest and disease programs generally include the prevention of damage to the commodity or resource at risk, reduced control costs over time, and continued trade opportunities. For example, the Asian long-horned beetle (ALB) program protects forest resources and urban trees nationwide, as roughly 30 percent of U.S. trees are potential ALB hosts. If urban areas across the United States were infested with ALB, the estimated potential national impact would be a loss of 35 percent of the canopy cover and almost \$815 billion in compensatory value. The benefits of the program include protecting these trees in neighborhoods and parks across the country as well as preventing the spread of the pest into New England's hardwood forests, which support the timber, tourism, and maple syrup industries. The LBAM program prevents the spread of the pest through regulatory and control efforts. Without the regulatory program to prevent LBAM from spreading, U.S. trading partners would restrict, if not ban, imports of U.S. fruits, vegetables, and nursery stock into their countries.

*Question.* What basis did the administration use to determine the priorities implicit in the request?

*Answer.* Our main focus was to determine those programs where we could have a positive impact on the health of American agriculture and where we could best contribute to reducing losses caused by pests and diseases. Recognizing the need to restrain Federal spending, we reviewed our programs to determine where we could do things differently. In some areas, the agency was able to take advantage of program successes to realize savings (examples include the decreases requested for the cotton pests, screwworm, pseudorabies, and avian influenza programs). APHIS also identified programs that could be reduced since eradication or control of agricultural pests or diseases are no longer considered feasible (such as emerald ash borer), or where we will request greater contributions from partners or those that directly benefit from program efforts (such as the potato cyst nematode program).

*Question.* Please identify the administration's priorities within these components.  
*Answer.* Ensuring our ability to prevent the entry of exotic pests and diseases, quickly detect those that do enter the United States, and respond in a timely way remain our highest priorities. Our budget proposes to maintain our strong infrastructure of highly skilled employees and cooperative relationships with States and industry. Additionally, there are several emerging needs for which we request more funding.

APHIS developed the National Animal Identification System in 2004 to enhance the United States' capability to minimize the spread of foreign and domestic animal diseases of concern. Since then, USDA has obtained input from stakeholders to develop a more efficient traceability system. Detecting a disease before many animals have been exposed to it limits the spread and allows for more timely eradication and management efforts. The proposed funding level for fiscal year 2012, which includes an increase of \$8.85 million for a total of \$14.15 million, more accurately reflects how much the program needs to carry out essential activities and retain advances made to date.

APHIS faces a growing workload in the area of genetically engineered (GE) plants. The requested increase for our Biotechnology Regulatory Services (BRS) program, while significant, is needed to implement improvements, expand our regulatory program for biotechnology, and resolve the challenges currently faced by the program.

The agency is responsible for enforcing the Animal Welfare Act (AWA). APHIS' Animal Welfare program carries out activities designed to ensure the humane care and treatment of animals. USDA's Office of Inspector General (OIG) recently conducted a review of APHIS' inspections for AWA compliance, specific to problematic dog dealers who have committed repeat and serious violations. OIG concluded that APHIS should shift its compliance efforts from an education focus to an enforcement focus, improve inspection performance, and seek legislation regarding the Internet sale of dogs. APHIS is responding to the audit and needs additional resources to address the improvements noted in the OIG audit.

The fiscal year 2012 budget also includes increases for programs that target specific pests, such as the Asian long-horned beetle (ALB) and the European grapevine moth (EGVM). The ALB program has eradicated two ALB outbreaks (in Chicago, Illinois, and Hudson, New Jersey) and has successful tools and strategies to attack this pest. The program is now addressing a large outbreak near Worcester, Massachusetts, that threatens New England's hardwood forests. With adequate resources, the program can prevent ALB from spreading into the valuable forests and ultimately eradicate it. APHIS is also addressing EGVM (detected in fiscal year 2009)

in California. With a strong early response, APHIS and State and industry cooperators have greatly reduced EGVM populations. Continued resources are necessary to ensure that the pest is eliminated.

*Questions.* In the future, this subcommittee requests that this segment of the budget (at least) be supported by a rigorous cost-benefit analysis, to better focus the Department's plans and strategies, and to equip this subcommittee with adequate tools to make the most effective decisions.

*Answer.* We will make every effort to provide this information with our budget request in the future.

#### GENETICALLY MODIFIED ORGANISMS

*Question.* GE or genetically modified organisms (GMOs) were in the news again last week—specifically, GMO alfalfa and GMO sugar beets. Obviously, there are a variety of concerns surrounding the proliferation of genetically modified (GM) species.

What assurances can you provide that new GM crops will not result in drift-related problems, contaminating nearby species?

*Answer.* Before a GE crop can be commercialized, APHIS thoroughly evaluates it to ensure there is no plant-pest risk, thereby enhancing public and international confidence in these products. Crops being field tested must be grown under a permit or notification depending on the type of crop and its potential risk. APHIS imposes confinement measures for field trials of regulated GE organisms to safeguard against the unintended release of GE materials into the environment and also limit gene flow. Safeguards can include surveying for local wild relatives; removing plant reproductive structures (detasseling); cleaning equipment; and bagging flowers to contain pollen. APHIS also conducts thorough inspections of field trials to ensure that biotechnology organizations are adhering to APHIS regulations and permit conditions. Once APHIS has made a determination of nonregulated status, the GE organisms do not fall under APHIS regulatory purview and can be moved and planted freely in the United States.

*Question.* Does this budget request, for instance for BRS, provide sufficient resources for the Department to meet marketplace demands and ensure public safety regarding GMOs?

*Answer.* The fiscal year 2012 budget request for the BRS program includes an increase of \$12,072,000 to, among other things, enhance APHIS' compliance program and improve the petition process for nonregulated status. Specifically, the increase will allow BRS to inspect additional field test permit acreages, develop emergency response plans for APHIS to rapidly respond to incidents involving regulated GE organisms, enhance port of entry inspection procedures and processes, increase the ability to respond to emerging technologies, and fully implement the Biotechnology Quality Management System, a voluntary program that helps participating biotechnology researchers and companies develop sound management practices that enhance compliance with regulatory requirements for field trials and movement of regulated GE organisms. APHIS has also requested funding in the fiscal year 2012 budget to begin a multiyear gene flow status and trends monitoring program. This program will develop information about the extent, scale, and measurement of gene flow in major agricultural regions in the United States.

#### RESEARCH

*Question.* Mr. Secretary, the budget proposes to decrease funding for the two USDA research agencies, the Agricultural Research Service and NIFA, by \$180 million. In NIFA alone, nearly 20 programs are eliminated.

I understand and appreciate the need to consolidate or eliminate programs, especially in this budget environment. How did you determine which programs to eliminate and which to protect? Are you trying to steer people towards competitive funding?

*Answer.* The administration strongly believes that peer-reviewed competitive programs that meet national needs are a more effective use of taxpayer dollars than earmarks that are provided to specific recipients. The fiscal year 2012 budget proposes to eliminate these targeted earmarks. Within necessary budget constraints, it is critical that taxpayer dollars be used for the highest quality projects, those that are awarded based on a competitive peer-reviewed process to meet national priorities. Therefore, some broad aspects of many research topics currently addressed by earmarked projects can be included in the scope of the Agriculture and Food Research Initiative (AFRI) program in fiscal year 2012. Other topics will be addressed under other broader based, competitively awarded Federal programs supported with non-Federal funds administered by State-level scientific program managers.

## AGRICULTURE AND FOOD RESEARCH INITIATIVE

*Question.* In AFRI specifically, over the past few years, have you received more qualified applications than you have been able to fund? How do you coordinate with other Federal and State research agencies to prevent duplication?

*Answer.* There are always more qualified applications for AFRI than we are able to fund. In fiscal year 2009, the first year of the AFRI program, NIFA received 2,424 applications, of which 835 ranked well enough in the peer review process to qualify for funding. Funds were available to support 470 of those applications. For fiscal year 2010, funds are available to support the applications processed to date.

NIFA has increased discussions in recent years with agencies such as NSF, the National Institutes of Health (NIH), and others to ensure coordination and lack of duplication. NIFA is actively partnering with these agencies to offer joint programs in areas of common interest, creating greater visibility and impact for agricultural issues. For example, NIFA has recently partnered with NIH to offer a program entitled, "Dual purpose with dual benefit: Research in biomedicine and agriculture using agriculturally important domestic species." This program allows NIFA to leverage its scarce dollars while engaging a broader research community in work relevant to NIFA's mission.

## RESEARCH

*Question.* Is there concern about the long-term effects that occur from stopping or significantly reducing agricultural research projects mid-stream? Typically, do the researchers stay in agriculture research, or do they move on to something else?

*Answer.* While the administration proposes to eliminate earmarks and emphasize peer-reviewed competitive programs, we do expect earmark projects funded in fiscal year 2010 to fully meet research goals and objectives outlined in the proposals submitted to and approved by the agency. The majority of these projects included multiyear funding that would allow for the orderly completion of the specific research outlined in these proposals. The agency has encouraged recipients of earmarked projects to submit proposals to the competitive grant programs of the agency. Researchers generally continue to stay in agricultural research but may also look to alternative sources to support their work.

## SETTLEMENTS OF DISCRIMINATION CASES

*Question.* Recently the Department announced settlement processes for discrimination cases involving Hispanic and women farmers and ranchers.

Please summarize the current status of the *Pigford*, *Love*, *Garcia*, and *Keepseagle* cases.

*Answer.* On February 18, 2010, USDA worked with the Department of Justice (DOJ) to enter into a settlement with Black farmers for \$1.25 billion, known as *Pigford II*. And on December 8, 2010, President Obama signed legislation that will provide \$1.15 billion in funding for this settlement beyond the \$100 million provided for in the 2008 farm bill. When this settlement receives final approval by a Federal court, we look forward to bringing closure, once and for all, to the long-standing litigation brought by Black farmers against USDA.

On October 19, 2010, USDA and DOJ announced the settlement of a class action lawsuit filed against USDA by Native American farmers (*Keepseagle*) alleging discrimination by USDA. The settlement, which received preliminary approval by a Federal court, ends litigation concerning discrimination complaints from Native Americans generally covering the period 1981–1999. Under the settlement agreement, \$680 million will be made available from the Judgment Fund to eligible class members to compensate them for their discrimination claims, and tax relief. An additional \$80 million will be provided by USDA for the forgiveness of existing farm loan program debt.

On February 25, 2011, USDA and DOJ announced a unified claims process for Hispanic and women farmers and ranchers who allege discrimination that occurred between 1981 and 2000. Under the plan, the United States will make available at least \$1.33 billion from the Judgment Fund to eligible claimants to resolve their discrimination claims. USDA will provide an additional \$160 million in debt relief to successful claimants with eligible farm loan program debt. USDA is presently conducting outreach across the country regarding the claims process and is in the process of procuring an independent administrator and adjudicator to carry out the claims process. Once the administrator and adjudicator are in place, the opening of the 180-day period for filing claims will be announced.

*Question.* Are there other situations involving groups of aggrieved applicants that remain unresolved?

Answer. On March 15, 2011, a group of *Garcia* plaintiffs filed a complaint challenging the voluntary claims process. This complaint has been referred to the judge presiding over *Garcia* and the Government will argue for its swift dismissal. We are moving forward to fully implement the Hispanic and Women Farmers and Ranchers Claims Process and the new lawsuit has no impact on our outreach and preparation. USDA is confident that the court will uphold the legality of the voluntary claims process.

*Question.* What processes have you implemented to ensure equal public access to all farm credit programs?

Answer. The Farm Service Agency (FSA) has more than 2,400 offices located throughout the country. While not all of the offices have credit officials permanently stationed in them, FSA employees are cross trained to provide basic information on credit programs and arrange an appointment with the credit official if needed. Each FSA office delivering credit programs has developed a marketing/outreach plan to ensure programs are marketed to all sectors of the served communities. FSA credit forms have been streamlined to make the application process less daunting. Currently FSA is working on a "plain language guide to FSA loans" that when completed will provide for a layman's guide to obtaining credit.

#### RENEWABLE ENERGY

*Question.* REAP has been in existence, in some form, since the fiscal year 2002 farm bill. Substantial mandatory and discretionary funding has been spent on this program over the years. This budget seeks to supplement the \$70 million of mandatory funds available in 2012 with an additional \$37 million of discretionary dollars. Why is additional funding needed for this specific program?

Answer. The demand for REAP far exceeds the funds available in this program. In 2010, more than 300 eligible applications did not receive funding. This program encourages investment; and successful applicants make tangible investments in more energy conservation, more renewable energy production, and a more productive economy.

*Question.* In the past, the bulk of this funding was used for on-farm activities such as grain dryers. Is this the best use of this funding?

Answer. Through the interim rule the agency is limiting equipment replacement to similar size or capacity equipment. The change is designed to provide an equitable distribution among a range of technologies and balance our portfolio without giving any project type an undue advantage.

*Question.* Would utilizing these funds in alternative energy programs be more effective in moving the United States toward energy independence?

Answer. REAP is geared towards rural areas and small businesses. Achieving energy independence is a goal that requires a comprehensive effort and will involve every community in America, rural and urban. Energy efficiency has played a major role in reducing our demand for energy and most experts predict we will continue to do more with less energy in the future. Providing the mechanisms for energy efficient rural communities must be part of achieving energy independence. While we aren't going to totally replace fossil fuels in the near term, we need to rapidly grow our ability to use alternative advanced biofuel and rural communities are on the frontlines of that effort. The investment in REAP and other USDA Energy programs is a sound investment with real dividends for America.

#### WATER AND WASTE DISPOSAL PROGRAM

*Question.* The second largest source of budget authority expenditures in the USDA Office of Rural Development (RD) is the Water and Waste Disposal program. Projects are typically funded through loan/grant combinations, with the loan component averaging 65–70 percent of the project cost.

Have you given thought to requiring communities to rely even more heavily on loans?

Answer. RD Water and Waste Loan and Grant activities are exclusively focused on rural water and waste infrastructure needs, working with only rural areas with populations of 10,000 or less. Most RD projects serve areas well less than a 10,000 population. Applicants must demonstrate that they need Federal assistance because they cannot obtain credit from commercial lenders or investors, and they have urgent needs for water or wastewater improvements. While some communities are able to take on additional loan debt, many of our applicant communities are not. The average cost for water and waste disposal service in rural America has increased as the cost of construction, operation, and maintenance of water and waste disposal systems has increased. The average cost per equivalent dwelling unit was

\$43 per month for water service and \$45 per month for waste disposal service for the projects we funded in fiscal year 2010.

The program is a needs-based program, where loan and grant funds are combined based on a strict underwriting process to keep rates reasonable for rural residents. That underwriting process considers the cost of the project, the current ability of a community to take on additional debt, and the level of reserves that are needed for replacement of short-lived assets (i.e., motors, pumps, etc), as well as other factors necessary to ensure that the project is feasible.

In fiscal year 2010, RD obligated 1,052 loans of which 315 (30 percent) were cases where the loan component was greater than 70 percent of the funding provided.

*Question.* Can this be done such that grant funding is conserved for the most remote and low-income rural communities?

*Answer.* Grant funding is currently conserved for the communities with the greatest financial need. We continue to implement our funds through an underwriting process that determines the loan and grant mix needed to fund the project. Grant levels are subject to the availability of funds and we are not always able to provide the level of grant funding a community has requested. Therefore, we encourage and often facilitate the partnering of our funding with that of other Federal, State, and local programs to keep the user rates as reasonable as possible.

#### HOUSING

*Question.* This budget announces a fee change in administration policy regarding rural housing support. Many long-standing rural housing programs are eliminated, and the flagship Single-Family Housing Direct Loan program is slashed. The following housing programs are eliminated: Very Low-Income Housing Repair Loans; Multifamily Housing Guaranteed Loans; Credit Sales of Acquired Property; Self-Help Land Development Loans; Mutual and Self-Help Housing Grants; Housing Preservation Grants; and the Multifamily Housing Revitalization and Preservation Program. And the Single-Family Housing Direct Loan Program is reduced from an historic annual level of \$1.1 billion to \$211 million. This loan program, for very low- and low-income rural households, will fund fewer than 1,700 houses nationwide.

What is your vision of the future role the Federal Government will play regarding providing support for rural housing?

*Answer.* Housing is a vital economic pillar in rural America for creating wealth for communities and homeowners. USDA realizes that rural populations tend to be more economically challenged with lower incomes and fewer housing choices than their suburban and urban counterparts, and therefore we continue to offer a no-down payment homeownership program through both the Single-Family Housing Guaranteed and Direct programs. Providing credit in areas that lack private investment is a critical function of USDA RD. To address the need for credit—particularly in the rural housing market—RD has dramatically increased the Single-Family Housing Guaranteed Loan Program in recent years, doubling the Government's investment from \$12 billion in 2010 to \$24 billion in 2011. A fee structure that is consistent with other Federal housing agencies has eliminated the requirements for additional budget authority.

*Question.* What evidence do you have that private housing credit markets have recovered sufficiently to meet credit needs in rural America?

*Answer.* RD's section 502 guaranteed loans have taken on a greatly increased role in providing adequate housing credit in rural America. The program increased from 31,000 guarantees for \$3 million in fiscal year 2006 to 133,000 guarantees totaling nearly \$12 billion in fiscal year 2010. The market has clearly demonstrated a need for USDA's home loan program as lenders have increased activity in rural areas. We expect this growth to continue.

The private housing credit markets have never fully met the needs in rural America. These credit markets have changed, with RD stepping in to play a crucial role to help assure adequate credit will be available to rural Americans and stabilize mortgage availability. The situation would be worse without the USDA program.

The private housing credit markets for affordable rental loans guaranteed through the section 538 program have not changed the past several years. RD has maintained its relationship with the Government National Mortgage Association (Ginnie Mae) to secure loans guaranteed under the section 538 program. Through this relationship the vast majority of the loans guaranteed under the section 538 program prior to the credit crisis and after the crisis have been purchased by private investors as pooled loans in Ginnie Mae securities.

*Question.* Does it make sense to have a nationwide housing loan program that serves fewer than 1,700 families?

Answer. The Single-Family Housing Direct Loan Program provides subsidized mortgages to low- and very low-income families, who cannot obtain credit elsewhere, so that they can own modest, decent, safe, and sanitary homes in rural areas. In some instances, qualified borrowers can reduce the interest rate to 1 percent. The fiscal year 2012 budget provides funding to support the needs of rural America's neediest homeowners. The funds are targeted to very low-income borrowers who would not be eligible for private-sector financing. The Direct Loan program enables these borrowers the opportunity to purchase a home.

While it's true that the Single-Family Housing Guaranteed Loan Program performance from 2010 shows that 30 percent (more than 40,000) of the loans were to low-income home buyers, there will always be a segment of the population that will not qualify for the guaranteed program because of the need to qualify for private-sector credit. It is USDA's intent to meet that need, however large or small, to the extent possible given our budget constraints.

*Question.* In the face of eliminating the multifamily revitalization program, how does USDA plan to protect the Government's interest in its large multifamily housing portfolio?

Answer. The USDA plans to protect the Government's interest in its large multifamily housing portfolio through a proposed budget increase in the Section 515 Direct Rural Rental Housing Program for fiscal year 2012. Traditionally, the way to fund revitalization has been through the section 515 program with rehabilitation loans. The fiscal year 2012 budget proposes to increase the section 515 program from \$69.5 million to \$95 million.

*Question.* For years USDA has cultivated the expansion of Self-Help Housing grantee organizations across the country. What assistance can the Department provide to these organizations now that you are eliminating grant funding?

Answer. USDA intends to continue a partnership in the immediate future with the Self-Help Housing Technical and Management Assistance (T&MA) contractors to provide guidance to Self-Help Housing grantees. As we transition out of a program that we recognize has made major contributions to rural housing, we will no longer have the ability to fund the administrative costs associated with Self-Help Housing due to budget constraints. Together with the grantees and T&MA contractors, USDA will identify other means for grantees to garner fees for their services and address regulations that will accommodate new ideas.

RENTAL ASSISTANCE

*Question.* Please describe in detail the forecasting methodology used to develop contract renewal estimates (number of contracts and costs) for the President's budget.

Answer. In 2004, the RD Program Office and Chief Information Office developed a rental assistance forecasting tool that incorporated the Office of Management and Budget's (OMB) inflation rate to forecast the exhaustion of funds from all the rental assistance contracts. The forecasting methodology reviews actual rental assistance usage over the last 3 years, develops an average usage rate, and applies the inflation factor to determine the amount needed in the contract based on the number of units with rental assistance. The methodology was reviewed by the Government Accountability Office (GAO), which provided comments on the inflation adjustment that were incorporated in the tool in 2005.

*Question.* How do you determine inflation factors for utility increases, etc.?

Answer. Inflation factors are determined within the forecasting tool using the OMB inflation rate.

*Question.* Is the same methodology used for section 515 and farm labor housing?

Answer. The same methodology is used for section 515 and farm labor housing.

*Question.* Has this methodology been reviewed by either OIG or GAO?

Answer. This methodology was reviewed by GAO in 2005.

*Question.* If so, what were their comments and what changes were implemented based on those comments?

Answer. GAO suggested a change in the inflation adjustment to add the inflation factor one time, rather than for each year in a contract. The change was incorporated.

*Question.* Please provide, by year since 2008, the total President's budget request, including the number of contracts and average costs.

Answer. [The information follows:]

Fiscal year	Budget request (millions)	Appropriation (millions)	No. of units under contract	Amount obligated (millions)	Average per year
2008 .....	\$567	\$478.7	121,568	\$478.7	\$3,937

Fiscal year	Budget request (millions)	Appropriation (millions)	No. of units under contract	Amount obligated (millions)	Average per year
2009 .....	997	997.0	210,618	902.5	4,285
2010 .....	897	980.0	219,231	980.0	4,470
2011 .....	966	980.0	211,111	252.8	4,340
2012 .....	906	.....	204,500	.....	.....

*Question.* Also provide the appropriated amount, the number of contracts actually funded and the average cost.

*Answer.* [The information follows:]

Fiscal year	Budget request (millions)	Appropriation (millions)	No. of units under contract	Amount obligated (millions)	Average per year
2008 .....	\$567	\$478.7	121,568	\$478.7	\$3,937
2009 .....	997	997.0	210,618	902.5	4,285
2010 .....	897	980.0	219,231	980.0	4,470
2011 continuing resolution .....	965	980.0	58,237	252.8	4,340

*Question.* For each year since 2008 please provide the average actual duration of contracts funded.

*Answer.* Starting in fiscal year 2008, Rental Assistance contracts were funded for a 1-year period. In fiscal year 2009, of the contracts funded in fiscal year 2008, approximately 9.5 percent of the contracts exhausted funds prior to the end of the 1-year period. In fiscal year 2010, of the contracts funded in fiscal year 2009, approximately 3 percent of the contracts exhausted funds prior to the end of the 1-year period.

*Question.* Please describe how RD controls the escalation of rental assistance costs.

*Answer.* The Housing Act of 1949 requires that borrowers under Section 515 Rural Rental Housing and Section 514 Farm Labor Housing programs submit a budget annually to demonstrate the costs associated with operating rental housing. This includes requests for rent increases, which must be justified by the borrower. Since rental assistance provides some of the operating income to support operations, the Rural Housing Service (RHS) field staff work closely with borrowers and management agents in reviewing the budget and determining appropriate costs.

#### MULTIFAMILY REVITALIZATION INITIATIVE

*Question.* Please describe in detail all of the tools available in the Multifamily Housing Revitalization Initiative toolbox, and how RD utilizes this mix of options to sustain affordable housing in rural areas.

*Answer.* The Multifamily Housing Revitalization Demonstration Program uses four tools to financially restructure these affordable rural rental properties. These tools are a modification of the existing section 515 loan, a zero-interest rate section 515 loan, a soft second section 515 loan (a second loan that has its interest and principal deferred to a balloon payment) and a revitalization grant. In addition, there are two other programs which, although not technically revitalization, are funded from the same account. They are the Preservation Revolving Loan Fund and RD vouchers. The properties are reviewed and underwritten to determine the property's financial needs, after which a combination of tools are used to ensure the property is financially sound and remains in the affordable housing portfolio for many years. In addition to these section 515 revitalization tools, direct loans are available to support revitalization activities of the portfolio as well. The section 538 loan guarantee has also been used in the past to address immediate capital repair needs; however, funding for section 538 is not requested in the fiscal year 2012 budget. Many revitalization projects also use third-party funding, such as low-income housing tax credits, as additional leverage for revitalization of section 515 properties.

*Question.* By year, for the life of the initiative, please provide the President' budget request, the appropriated amounts, and how those funds were used.

*Answer.* [The information follows:]

[Dollars in millions]

Fiscal year	Budget request (budget authority)	Appropriated (budget authority)	Number of deals	Soft 2nd loans	Grants	Deferrals	Zero-percent section 515 loan	Presentation revolving loan fund	Vouchers
2006	\$214.00	\$18,976	76	\$4.5	\$0.2	\$48	\$0,280	\$6,415	\$0,620
2007	74.25	18,853	87	2.8	0.5	56	2,561	9,151	3,000
2008	27.80	27,804	135	13.0	0.4	100	12,649	13,793	6,205
2009	.....	27,714	94	5.3	0.2	50	15,021	15,398	6,751
2010	26.62	43,191	142	21.5	0.3	117	5,057	20,897	7,595
2011	18.00	43,191	8	3.7	.....	.....	0.391	7,061	4,557
Total	342.67	179,730	536	50.8	1.6	371	51,030	80,820	28,730

*Question.* For vouchers specifically, please provide by year the President's budget request, the amount appropriated, the number and amount of vouchers offered (distinguishing between new and renewals), the number and amount of vouchers accepted (also distinguishing between new and renewals), and how surplus voucher funding was utilized.

*Answer.* [The information follows:]

**RURAL DEVELOPMENT VOUCHER PROGRAM**

Fiscal year	President's budget	Appropriated	Dollars obligated	Vouchers issued		Total issued
				New	Renewals	
2006	.....	\$16,000,000	\$620,000	211	.....	211
2007	\$74,250,000	15,840,000	3,000,000	1,098	.....	1,098
2008	27,800,000	4,965,000	6,205,375	1,013	.....	2,101
2009 <sup>1</sup>	.....	4,965,000	6,751,534	811	1,088	2,062
2010	4,965,000	16,400,000	7,595,644	764	1,251	2,245
2011 <sup>2</sup>	18,000,000	16,400,000	3,610,843	563	1,481	1,140
<b>Total</b>	.....	.....	24,783,396	4,460	4,397	8,857

<sup>1</sup>Indicates the President's budget did not request funds for this program and proposed a \$20 million rescission from carryover balances.

<sup>2</sup>Fiscal year 2011 obligations are as of March 31, 2011.

Carryover funding that was not used for vouchers in the appropriated fiscal year was used to fund the Multifamily Preservation and Revitalization Program, for voucher administration contracting payments, and for information technology upgrades.

*Question.* What percentage of voucher recipients move from their original place of residence?

*Answer.* RHS experience in the program as of October 2010 is that 12.6 percent of the former section 515 tenants receiving vouchers move from their original apartment after the property leaves the section 515 program.

*Question.* Please describe the information systems RD utilizes to manage the voucher initiative. What socioeconomic data do you collect on voucher recipients?

*Answer.* USDA maintains a database system on all tenants in section 515 and section 514 housing developments. As a borrower prepays the section 514 or 515 mortgage, or a foreclosure action occurs, tenant information is used to advise tenants of the availability of the voucher program. Once a tenant chooses to accept a voucher, USDA utilizes the services of a contractor, who has developed a Workflow Management System that houses landlord and voucher holder information. In addition, RHS is currently in the process of replacing and upgrading its current accounting database, which will manage the voucher certification and payment processes.

The agency collects demographic and income data on voucher holders at the time of issuance of the voucher. The tenant characteristics are captured in the Multifamily Information Systems database.

*Question.* Are vouchers always renewed for the same amount or have you instituted procedures whereby voucher amounts can be increased?

*Answer.* Generally, vouchers are renewed for the same amount. There are exceptions where the original amount of the voucher may have been reduced from the maximum amount available because the voucher amount exceeded the amount of the voucher holder's rent. If the voucher holder moves to another apartment where the rent is higher, the voucher amount is adjusted upward, not to exceed the maximum amount available. USDA has not instituted a cost of living or annual adjustment increase.

#### MICROENTERPRISE PROGRAM

*Question.* What is the status of implementation of the Microenterprise Program?

*Answer.* Rural Development, Rural Business-Cooperative Service published a final rule in June 2010 and began funding loans and grants during the fourth quarter of fiscal year 2010. Additionally, on July 19, 2010, the agency published a technical correction to the interim rule (1 CFR, part 4280, subpart D).

*Question.* Is this program showing success as you expected?

*Answer.* Yes, in fiscal year 2010, the Rural Business-Cooperative Service funded 63 direct loans in the amount of \$24,982,500, 62 automatic technical assistance grants in the amount of \$5,356,349, and 12 technical assistance only grants in the amount of \$1,289,500. It is anticipated that the intermediary will revolve the Rural Microentrepreneur Assistance Program loan funds twice in the 20-year term; and each ultimate recipient loan will assist one business and save a minimum of one job. Each loan to an ultimate recipient is expected to average \$15,000 to \$20,000. This equates to an estimated minimum 40 businesses assisted and 40 jobs created/saved per \$100,000 of Loan Budget Authority.

*Question.* At this stage of implementation, isn't it premature to request additional discretionary funding to supplement the mandatory funding that is available?

*Answer.* The program has already experienced success based on the overwhelming interest in the program, as a result of the 2010 Notice of Funds Availability (NOFA). The majority of available discretionary and mandatory funding has been provided during the first round of solicitation in 2010. To date, \$34.9 million has been awarded to 82 microlenders in 38 States.

The reduced level of funding included in 2011 will be fully utilized when the 2011 NOFA is published. Already, there are 60 applicants requesting \$17.1 million in programmatic funds in the funding cue. This compares to the approximate \$16 million program level provided for 2011. If the Congress determines that additional discretionary funds are needed, it would meet the demand of rural small businesses.

*Question.* How are you measuring success?

*Answer.* We measure success of our programs by the number of jobs created/saved, businesses assisted, geographic distribution, and addressing communities with the greatest need.

## AGRICULTURAL EXPORTS

*Question.* The budget request includes an increase of \$20 million for the National Export Initiative (NEI). According to USDA, agricultural exports are forecast to hit a record of \$135 billion, this is \$9 billion more from the November forecast and higher than the previous record set in 2008.

Given the current budget atmosphere and ever shrinking resources, please explain why you believe this request is justified at this time.

*Answer.* The \$20 million request for NEI in fiscal year 2012 supports additional activities and staff positions that are necessary to reach the President's goal of doubling U.S. exports by the end of 2014. The Foreign Agricultural Service (FAS) will use these funds to enhance our activities in defending market access as well as expanding market access for U.S. agricultural products. Competitive opportunities around the globe are rapidly changing, as more and more countries enter into trade agreements and preferential arrangements. Although U.S. agricultural exports are currently strong and increasing, these changing international relationships will pose ever-increasing challenges to U.S. export competitiveness. We must also help educate more agricultural businesses on the benefits of exporting and provide technical assistance on reaching foreign customers.

To expand FAS export assistance efforts, \$18 million will be used to provide technical assistance and trade facilitation, both in the United States and in overseas markets, in order to strengthen the ability of U.S. producers and related agribusinesses to increase exports to a wider range of foreign markets. Domestic outreach efforts will include a special outreach to educate and support small- and medium-sized enterprises, which are a key focus of NEI. The remaining \$2 million will be used to bolster FAS's trade monitoring and enforcement efforts. This work will focus on key countries such as China, the European Union, Indonesia, Canada, Mexico, Japan, as well as on prospective Free Trade Agreement partners such as South Korea, Colombia, and Panama. With continued growth in exports come new and more complex opportunities for trade barriers and irritants, especially on sanitary and phytosanitary issues, and other technical issues. The additional resources will enable FAS to better support U.S. challenges to foreign actions that harm U.S. agricultural interests, as well as support U.S. defenses against trade cases brought against us, such as under the World Trade Organization.

## HUMANITARIAN FOOD ASSISTANCE

*Question.* News events daily remind us of a chaotic world where chronic and acute hunger threatens the lives of millions of people. As we have seen over the past few months, rising food prices around the world have caused instability in some of the most vulnerable places. Your budget includes level funding for Public Law 480 title II grants, which often provides the only meal a person will have during the day.

Given the current worldwide economic situation, do you believe your request is sufficient to meet the ever increasing demand for food assistance?

*Answer.* Although USDA is not responsible for administering the title II program, we understand the importance of food aid programs and appreciate the Congress' support in our efforts to alleviate hunger. Rising food prices do have an impact on hunger and certainly lead to political and economic instability worldwide.

Given competing priorities and current deficit-reduction strategies, we believe that amounts requested for fiscal year 2012 are sufficient. If unanticipated emergencies arise, the Bill Emerson Humanitarian Trust is available to supplement title II resources.

## FARM BILL CUTS

*Question.* The farm bill provides mandatory spending for a number of programs. Over the last several budget cycles the administration has proposed to limit several of these programs.

Can you discuss why the administration believes these limitations are needed and how you decide which programs to target?

*Answer.* The President believes that if we are to promote economic recovery, invest in our long-term competitiveness, and create opportunities for all Americans a comprehensive, balanced deficit reduction framework must be part of that strategy. The President's vision of "shared sacrifice" requires that mandatory programs be included in the comprehensive deficit reduction framework. There are a number of factors that have influenced which mandatory programs have thus far been targeted for reductions in the President's annual budget requests as well as how those reductions have been proposed. For example, President Obama made a campaign promise to eliminate farm program payments to wealthy individuals. Accordingly, since

taking office, the President's budget requests have consistently proposed reductions to mandatory farm programs to eliminate payments to wealthy individuals and better target the farm safety-net payments to individuals who need the assistance. These proposals have provided budgetary savings consistent with the President's campaign promises while preserving the basic structure of the farm safety-net programs so that the future of the farm program policies can be debated in the context of the next farm bill.

THE SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

*Question.* Mr. Secretary, the budget request includes an increase of \$138 million for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). According to the Economic Research Service, food prices are expected to increase 3–4 percent this year. Often times, when we see food prices rise, we also see a corresponding rise in WIC participation levels. Food becomes more expensive and so more people need assistance.

In light of food price increases, do you believe your request of \$7.4 billion is sufficient to cover the demand for this program?

*Answer.* The amount requested for WIC in the President's budget was based on estimates for the program derived from the most current data available at that time. However, the Food and Nutrition Service (FNS) recognizes that circumstances can change, and we constantly monitor food costs and participation in the program.

*Question.* The budget does not include new monies for the contingency fund. What is the current availability in the contingency fund? Given the current economic situation, do you envision the need for the contingency fund?

*Answer.* FNS constantly monitors program performance in WIC, including participation trends and food costs, and would consider seeking apportionment of the \$125 million in WIC contingency funds if needed to support participation because program costs are unexpectedly higher than anticipated.

PUBLIC HEALTH INFORMATION SYSTEM

*Question.* For fiscal year 2012, the budget proposes to decrease funding for the Food Safety and Inspection Service (FSIS) overall slightly, but includes significant increases for the Public Health Information System (PHIS), which will help FSIS track information in a more streamlined, real-time manner.

Can you discuss how the testing of PHIS went and what benefits you expect it to provide when fully implemented.

*Answer.* FSIS conducted multiple rounds of user acceptance testing with field personnel as well as several extensive dry-run training sessions with District Office representatives from around the country in order to make PHIS the best possible tool for FSIS personnel. They provided critical feedback that was utilized to refine the system for implementation and finalize clear and concise training for inspection program personnel.

The goal of the PHIS is to improve the agency's ability to collect, analyze, and communicate data to protect public health. The system will integrate FSIS' data sources to support a comprehensive, timely, and reliable data-driven approach to FSIS inspection, auditing and scheduling. This system will be flexible, user-friendly, and Web-based. It refines and replaces many of FSIS' stove-piped legacy systems (e.g., Performance-Based Inspection System (PBIS)), automates paper-based business processes (e.g., export certification), and can accommodate changing needs.

PHIS will better identify food safety risks to help prevent outbreaks or recalls. Using multiple FSIS data sources, analysts will be able to identify trends and anomalies, including the relationship between pathogen test results and inspection findings.

Using PHIS' predictive analytics component, the agency will be able to monitor establishment data in near real time and have built-in alerts for anomalies such as a large number of incomplete inspection activities or high rates of noncompliance in an establishment.

PHIS will also streamline the agency's export program by automating paper-based processes, including establishment applications for approval for export, applications for export certificates, and the issuance of export certificates. The system will enable automatic edit-checks to ensure that certificates properly reflect a foreign country's import requirements.

Finally, the system will allow for faster and more effective communication between FSIS personnel at headquarters and the more than 8,000 FSIS personnel protecting public health nationwide in approximately 6,200 federally inspected establishments and elsewhere on the front lines. It will also allow for improved collabora-

tion with stakeholders and Federal, State, and local public health partners to improve contaminant tracing and prevent foodborne illness outbreaks.

*Question.* What will the effects be if the Congress is unable to provide the level of funding you are requesting for PHIS?

*Answer.* The agency will seek to manage the effects in such a way as to minimize the impact on PHIS. FSIS considers PHIS a critical food safety regulatory tool for inspection program personnel.

The goal of the PHIS is to better protect public health by improving the agency's ability to collect, analyze, and communicate data. The system will integrate FSIS' data sources to support a comprehensive, timely, and reliable data-driven approach to FSIS inspection, auditing, and scheduling. Through improved data quality, more consistent reporting, enhanced management controls, and efficient, effective use of FSIS data, PHIS will enable FSIS to respond more quickly to threats. Integration and analysis of the data will also help us to predict negative public health outcomes and pinpoint vulnerabilities so that FSIS can rapidly respond to the hazards at all points and prevent problems. The system will also allow FSIS to coordinate effectively within FSIS and with stakeholders and other agencies, improving investigations and contaminant tracing.

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#### QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

##### FOOD SAFETY AND INSPECTION SERVICE

*Question.* For fiscal year 2011, the administration requested an \$18 million increase more than fiscal year 2010 levels for the Food Safety and Inspection Service (FSIS) to support initiatives to improve public health infrastructure, speed up investigations and response to outbreaks, conduct a baseline study on the prevalence of pathogens, and expand sampling. Rather than this increase, FSIS would suffer an \$88 million cut over the remainder of the year if H.R. 1, passed by the House of Representatives becomes law.

Please describe any progress you were able to make on the initiatives described in the fiscal year 2011 budget and describe how the fiscal year 2012 budget builds on that. If no progress was made, did we in fact lose a year of progress on improving public health?

*Answer.* In addition to inspection, verification, enforcement, and other activities directly related to FSIS' food safety mission, during fiscal year 2011, FSIS has continued to develop its Public Health Information System (PHIS). The agency conducted multiple rounds of user acceptance testing with field personnel as well as several extensive dry-run training sessions with District Office representatives from around the country, who provided critical feedback that was used to make PHIS the best possible tool for employees. FSIS refined the system based on this feedback; began training inspection program personnel on March 14; and plans to launch the system on a staggered basis, as employees are trained, in April 2011. FSIS will continue implementation and enhancement of PHIS into fiscal year 2012.

During fiscal year 2011, FSIS has also implemented policy initiatives, such as revised salmonella performance standards and new campylobacter performance standards aimed at reducing the prevalence of these pathogens in young chickens and turkeys. However, FSIS did not fund these initiatives as they were proposed in the President's fiscal year 2011 budget, since FSIS is operating with an annualized fiscal year 2011 continuing resolution funding.

*Question.* What impacts would the proposed \$88 million cut have on food safety programs, and how would those impacts be addressed in fiscal year 2012—even assuming the Congress provides at least the full FSIS budget request for fiscal year 2012?

*Answer.* Under the proposed plan to mitigate an \$88 million reduction, the agency would seek to manage the effects in such a way as to minimize the impact on the agency's regulatory responsibilities, on industry, and ultimately the consumer.

If FSIS funding for fiscal year 2011 were reduced further, we would have to review our options for achieving efficiencies for fiscal year 2011 and fiscal year 2012. I would point out, however, that 85 percent of the FSIS budget is for personnel; therefore, a reduction of this magnitude would likely have an effect on the FSIS workforce.

*Question.* Can you describe what is new in the food safety initiatives proposed for fiscal year 2012 and what is a carryover from last year's request?

*Answer.* For fiscal year 2012, the FSIS request totals \$1,011,393,000, a net decrease of \$7,127,000 (0.7 percent) compared with the annualized fiscal year 2011 continuing resolution amount of \$1,018,520,000.

The fiscal year 2012 budget for FSIS includes the following increases for food safety initiatives:

- \$16.6 million to continue the deployment and enhancement of the FSIS public health information infrastructure, including \$13 million to allow for the purchase of critical equipment and improvement of information gathering systems to enhance access of inspection personnel to centralized, mission-critical systems (fiscal year 2011 request); and \$3.6 million to pay for staffing requirements associated with the implementation of PHIS (fiscal year 2012 request).
- \$700,000 to support regulatory testing for strains of non-O157 Shiga-toxin producing *E. coli*, motivated by increasing awareness that these strains are causing human illnesses (fiscal year 2012 request);
- \$5.5 million to expand regulatory sampling for key pathogens and conduct an additional baseline study. Expanded sampling will help FSIS better estimate food safety risks and focus its resources most effectively and efficiently (fiscal year 2011 request);
- \$4.3 million for strengthening the Public Health Epidemiology Program, which will support the agency in responding more quickly to the current public health needs, including rising frequency of multijurisdictional foodborne illness investigations (fiscal year 2011 request).

Increases in the fiscal year 2012 budget request for FSIS are partially offset by reductions in funding for:

- The Catfish Inspection Program, given the investment to date and the need for considerable stakeholder engagement and regulatory development before adoption and implementation of the program (–\$15.3 million) (combined fiscal years 2011–2012 request);
- Cooperative agreements with the 25 State and local partner laboratories in the Food Emergency Response Network (FERN). In conjunction with the capabilities of the FSIS laboratories, this funding will maintain surge capacity throughout the FERN laboratory system should a terrorist attack on the food supply involving meat, poultry, or egg products take place (–\$4.1 million) (fiscal year 2011 request); and
- FSIS laboratory capacity-building. Since fiscal year 2002, FSIS has worked to improve the overall security and capacity of its three regulatory sampling laboratories. We have completed the capacity-building phase of these efforts and have begun the maintenance and operational phases, which require considerably fewer resources (–\$5.6 million) (fiscal year 2011 request).

In addition, FSIS will achieve significant savings by streamlining agency operations (–\$4.5 million), achieving broadband efficiencies (–\$3.5 million) and laboratory sampling efficiencies (–\$1 million), and reducing laboratory sample shipping costs (\$400,000) (fiscal year 2012 requests).

*Question.* The inspector general for the U.S. Department of Agriculture (USDA) found that the current sampling program lacks a statistical precision that is reasonable for assuring food is safe. Would you describe how the program in your budget for fiscal year 2012 addresses the concerns raised by the inspector general?

*Answer.* FSIS agrees that a strong sampling program is an important part of inspection activities performed by the agency. We believe that to ensure food safety, FSIS must verify that establishments have identified hazards likely to occur and have put in place processes to minimize or eliminate those hazards. Verification includes a variety of inspection activities, of which sampling is just one example.

The focus of the Office of Inspector General (OIG) report is the sampling method that FSIS uses to test for *E. coli* O157:H7 in beef products. Overall, our current beef sampling strategy appears to be working, because ground beef is no longer the leading source of foodborne-based *E. coli* illnesses.

Still, the agency is continually considering new approaches to further reduce the incidence of *E. coli* O157:H7, testing being one of our many strategies. Testing alone will not ensure the safety of products in the marketplace. Food safety is achieved by ensuring that the appropriate safeguards are in place at every step along the process.

That is why the agency is working to ensure that our sampling programs have the greatest possible impact on public health. We want to explore what improvements can be made in our sampling programs, and the OIG report will inform and help drive our efforts.

As referenced in the report, FSIS will develop a plan for prioritizing and performing *E. coli* O157:H7 baseline studies of beef to improve our verification systems, and will develop new verification tasks for inspection program personnel to perform as part of their hazard analysis verification and their verification of sanitary dressing.

*Question.* The fiscal year 2012 budget request estimates savings of \$34 million from restructuring, eliminating positions, and introducing efficiencies. If FSIS inspection is inadequate, we risk massive recalls, plant closures, and of course, heightened food safety risks to consumers.

Please describe what safeguards would be in place with respect to the proposed savings to ensure that they don't result in inspection failures with serious adverse consequences?

*Answer.* The proposed \$34 million in savings for fiscal year 2012 from restructuring, eliminating positions, and introducing efficiencies will not affect our front line inspection workforce. For example, FSIS has identified 37 full-time equivalent positions that can be eliminated by refraining from backfilling open positions resulting from attrition, restructuring functional areas to streamline operations, and consolidating staff and resources to eliminate redundant positions, saving the agency an estimated \$4.5 million. However, none of these positions are in the field.

The agency does not anticipate a change in its regulatory requirements and activities, and would seek to minimize any effect on the enforcement of its regulatory responsibilities. For example, FSIS inspection program personnel will continue to be present at all times for slaughter operations and once-per-shift per day for processing operations. In addition, FSIS personnel will continue to perform humane handling verification and enforcement activities at all slaughter plants.

#### SCHOOL FOOD SAFETY

*Question.* The Healthy, Hunger Free Kids Act sets some new requirements for USDA to improve food safety in America's schools. Specifically, the bill requires you to improve the communication and effectiveness of communication from the Federal level to the States about food safety holds and recalls.

How do you intend to improve that communication? Have you considered a Rapid Alert System similar to the one used in Europe, which uses technology to ensure rapid dissemination of critical information?

*Answer.* The Food and Nutrition Service (FNS) currently uses a Rapid Alert System to communicate with State Agencies about food safety recalls that affect USDA foods. The Rapid Alert System uses telephone, email, text message/SMS, and fax to repeatedly contact the State recall coordinators until they acknowledge receiving the message.

USDA has conducted an evaluation of the needs of State agencies during food emergencies such as recalls, and is setting criteria and exploring means to improve their capabilities. The President's fiscal year 2012 budget request proposes \$1.75 million to fund State information technology enhancements to assist State agencies in fulfilling their responsibility to quickly identify and inform recipient agencies that receive recalled product. These enhancements would provide for improved communication with recipient agencies about recalled foods; enable Web-based information posting; and include both a rapid alert notification system and a self-registration notification service. Currently, FNS communicates with State agencies through the Electronic Commodity Ordering System (ECOS), but a similar system reaching from State agencies to local school districts and schools is not widely available. Provided funds are available, phase two of this initiative would enable the same rapid communication between State agencies and recipient agencies.

*Question.* Are you considering reorganizing responsibility within the Department for oversight of food safety in schools, which is now shared among FSIS, the Agricultural Marketing Service (AMS), and FNS, I understand?

*Answer.* No, at this time the Department has no plans to reorganize the oversight of food safety activities within schools.

Ensuring safe food for our school children is a collaborative effort among a number of USDA agencies which have unique authorities that span the farm to table food safety continuum, from inspecting the product when it is produced, to setting procurement standards, managing the distribution of the product to schools, and inspecting the school cafeterias in which the product is served.

In February 2010, Secretary Vilsack announced several new initiatives to assure the safety and quality of food purchased by USDA for the National School Lunch Program and these initiatives have moved forward. For example, in July 2010, after a detailed, ongoing review by USDA's FSIS and the Agricultural Research Service (ARS), AMS finalized tougher new standards for ground beef purchased for Federal food and nutrition assistance programs including the National School Lunch Program. The new standards guaranteed that USDA purchase standards meet or exceed major private-sector buyers of ground beef.

In addition, USDA has increased its information sharing between agencies to better monitor vendor performance and identify potential food safety issues in the proc-

ess. For example, information on FSIS in-plant enforcement actions, positive pathogen test results, and recall notifications are being shared directly with AMS.

Also, as Secretary Vilsack had requested, the National Academy of Sciences completed a review of the testing procedures and requirements of USDA purchased ground beef for the National School Lunch Program. The review confirmed America's school children are receiving a safe ground beef supply.

Collectively, these changes and ongoing scientific reviews of AMS commodity procurement specifications is ensuring, and will continue to ensure, that the food USDA distributes to school children and others meets the highest quality and safety standards.

#### DAIRY POLICY REFORM PROPOSALS

*Question.* There is a significant amount of work being done to develop proposals for modifying and reforming Federal dairy policy. The Congress will consider a number of important considerations relating to the ramifications of any changes to Federal dairy policy. In addition to the key objective of enhancing income protection and prospects for dairy farmers, the Congress will also be examining expected impacts of policy on milk and dairy product markets and prices, consumer prices, and costs to the Federal budget both for the dairy programs and for nutrition programs such as the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

Will you ensure that USDA includes all of these considerations and potential impacts in its analysis and review of proposals for dairy policy reform and that the Department completes and provides to the Congress such review and analysis in time for it to be available to the Congress in its examination of legislative options for dairy policy reform?

*Answer.* The USDA looks forward to working with the Congress in evaluating proposals for dairy policy reform. We will strive to provide comprehensive information on the impacts of significant reform proposals in a timely manner.

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#### QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

##### DAIRY

*Question.* Years 2009 and 2010 were catastrophic for our Nation's dairy farmers. Over supply and chronically low prices led to an unprecedented loss of farm equity and the closure of more than 4,500 dairies nationwide. In response, the U.S. Department of Agriculture (USDA) spent more than \$1 billion on dairy support programs and the Congress appropriated an additional \$350 million to help farmers weather the hard times. These private-sector losses and public-sector expenditures were untenable, and the lesson was clear: Federal dairy programs must be reformed.

What is the Department doing to facilitate meaningful reforms in the dairy support system?

*Answer.* The Secretary formed the Dairy Industry Advisory Committee (DIAC) which was made up of 17 milk producers, processors, retailers, and academic members. The DIAC has worked over the past year to develop a set of recommendations for dairy policy reform. The Department is currently reviewing those recommendations. The recommendation of the DIAC can be found at: [http://www.fsa.usda.gov/Internet/FSA\\_File/diac\\_final\\_rpt\\_0302.pdf](http://www.fsa.usda.gov/Internet/FSA_File/diac_final_rpt_0302.pdf).

*Question.* Do you believe that a supply management system will help stabilize dairy prices? And if so, will the market stabilize at a level that is sustainable for both producers and processors?

*Answer.* Developing and administering a supply management system to stabilize dairy prices at a level that is sustainable for both producers and processors could prove to be a tremendous challenge. Finding the correct balance between producer and processor price desires in an ever changing domestic and international marketplace could be difficult. While the DIAC recommended that the Federal Government should adopt a growth management program by a narrow margin, the subcommittee was not prepared to endorse a specific plan or agree on whether better coordinating milk marketings with milk usage over time in order to reduce milk price volatility should be a public or a private endeavor.

##### DAIRY INSURANCE PROGRAM

*Question.* Crop insurance has been a great asset to row crop farmers across the country looking to manage their risks, but to date the dairy insurance program, Livestock Gross Margin for Dairy (LGM-Dairy), has not seen the same successes.

Is a new dairy insurance program needed to ensure that farmers have a bona fide safety net and a sound financial management strategy?

Answer. The Risk Management Agency (RMA) has administered the LGM-Dairy pilot program since 2009. Until this year, the pilot program experienced very low participation. During summer 2010, the Federal Crop Insurance Corporation Board of Directors approved two program changes that have had a significant impact on participation. The board revised the date that premium is due from the producer until the end of the coverage period, and instituted a graduated producer premium subsidy. These changes went into effect for the December 2011 sales period, and RMA saw a significant jump in participation. Participation in the LGM-Dairy policy has continued to grow each month since then, until program funding was exhausted during the March 2011 sales period. (The Federal Crop Insurance Act limits funding to not more than \$20 million for administrative costs to cover all livestock pilot programs, which generally include any premium subsidy and administrative and operating expenses. There are currently eight livestock pilot programs available, and LGM-Dairy was allocated approximately \$16.2 million with the remaining amount left to fund the other livestock programs based on their historical rate of spending.) During this short period of sales time reflecting the new program changes, private companies wrote and RMA will reinsure about 44 million cwt. of milk, representing about 2.5 percent of the market. Thus, dairy producers have responded to these changes indicating they believe the LGM-Dairy program has become a viable risk management strategy.

*Question.* If every dairy farmer in the country were to opt in to the existing LGM-Dairy program, what would be the annual expected cost to the Federal Government? If we found a way to reduce the volatility of the dairy market, how would this annual expected cost change?

Answer. If every dairy farmer were to use the LGM-Dairy product, USDA estimates it would need approximately \$715 million to support this program, based on the recent market conditions and purchasing patterns of dairy producers. If the volatility in the dairy market were reduced, both the cost to dairy producers and the amount of premium subsidy paid to dairy producers would decrease, but it is not possible to provide any meaningful estimates as to how much savings that might entail given the wide range of potential scenarios to consider.

#### INVASIVE PESTS

*Question.* California farmers, unlike farmers in many other States, pride themselves on receiving very little by way of Federal subsidies. But what I do hear is that they need assistance in finding ways to control invasive pests that come across the border from Mexico or through our international ports. The European grapevine moth, just discovered last year, already has the potential to devastate the \$3.2 billion California grape and wine industry. The red palm weevil, just discovered this year, threatens the date industry and poses a serious public safety threat. And of course, the Asian citrus psyllid, which has been found in San Diego, Imperial, Orange, Riverside, and Los Angeles counties is poised to overwhelm citrus producers in California, just as it overwhelmed the Florida producers only 3 years ago.

Simply put, U.S. agriculture is facing threats from foreign pests and diseases like never before, and the USDA must do more to help growers address these bugs.

The Congress included section 10201 in the 2008 farm bill which authorized funding for States and localities to address invasive pest problems in new and unique ways, but the funding for this program is in question because the Commodity Credit Corporation (CCC) will not release the funds to pay for these activities. What are you doing to ensure that this funding goes out in a timely manner?

Answer. We recognize your concern about the threats that U.S. farmers face from invasive pests and diseases and the potential for section 10201 programs to help with early detection and control of new infestations. The Animal and Plant Health Inspection Service (APHIS) has taken steps to improve the process for allocating section 10201 funds and worked with a variety of stakeholders, including the National Plant Board, specialty crop stakeholder groups, State partners, and others, to develop criteria for evaluating proposals for the funds.

The Commodity Credit Corporation Charter Act (15 U.S.C. 714i) limits the availability and use of section 11 CCC funds for salaries and related expenses, including technical assistance, associated with the implementation of farm bill programs. Language was included in the American Recovery and Reinvestment Act of 2009 that allowed APHIS, and certain other USDA agencies, to utilize the funds of CCC to administer certain 2008 farm bill programs in fiscal year 2009 and fiscal year 2010. However, this authority expired at the end of fiscal year 2010 and without this authority to use CCC funds to administer farm bill programs going forward, APHIS

and other agencies would have to reduce discretionary program funding and use appropriated funds to carry out mandatory farm bill programs.

For fiscal year 2011, USDA requested language be included in the full-year appropriations bill that would allow section 11 funds of CCC to be available for salaries and related administrative expenses associated with the implementation of certain farm bill programs without regard to the limitation contained in section 11 of the CCC Charter Act. The fiscal year 2012 budget includes \$50 million for section 10201.

*Question.* What authorities and resources can APHIS use to address emerging pests and diseases prior to congressional approval of the action?

*Answer.* Under section 442 of the Plant Protection Act, the Secretary of Agriculture may transfer funds from other appropriations or funds available to the agencies or corporations of the USDA in connection with emergencies in which a plant pest or noxious weed threatens any segment of U.S. agriculture. For example, USDA released \$16.9 million from CCC for the European vine moth in fiscal year 2011. APHIS can also use its appropriated Contingency Fund to address small-scale outbreaks.

*Question.* I was pleased to see that the President's budget included \$44.8 million for the Citrus Health Research Program because this program is critical to ensuring that the citrus industry has a future in our country. Can please update me on what progress has been made in developing citrus trees that are resilient to the Huanglongbing disease carried by the citrus psyllid?

*Answer.* Industry-led research to develop citrus greening-resistant trees began in 2007. The company that developed the trees is currently conducting field trials under a permit from APHIS on genetically engineered (GE) trees that have shown disease resistance in a laboratory setting. If the trees perform well in the field, the company will likely petition APHIS to determine the GE trees' regulatory status so that they can be commercialized.

APHIS is working to coordinate and accelerate research efforts to identify tools that can assist producers with sustainable management of citrus greening, including development of disease-resistant trees. USDA has established the Citrus Research Coordination Group, a collection of representatives from USDA agencies, universities, States, and citrus industry organizations. This group is coordinating the comprehensive research being conducted by more than 150 scientists dedicated to finding the necessary tools and solutions for citrus greening. The research efforts focus on several critical areas, including: crop improvement by developing disease-resistant trees; horticulture management strategies designed to maintain productive trees, even if they are infected with citrus greening; early-detection technology to find the disease; and tools to track infectious citrus psyllid populations and limit their encroachment into citrus production areas.

#### ANTIBIOTICS

*Question.* I remain concerned about the routine use of antibiotics in the food and water of animals that are not sick. While I understand that these antibiotics may improve feed efficiency, it also facilitates the development of antibiotic-resistant bacteria.

The President's fiscal year 2012 budget request announces that the Agricultural Research Service (ARS) plans on launching a biotherapeutic discovery program to find alternatives to antibiotics in animal agriculture. Can you provide more details on this initiative and when you plan on implementing this program?

*Answer.* The incidence of antibiotic resistance in pathogenic bacteria is rising. This presents one of the greatest threats to human health in the 21st century. Public health concerns with antibiotic resistance are driving new proposed regulations and policies to restrict the use of antibiotics in animal production. Developing alternatives to antibiotics is therefore becoming a critical issue for food animal medicine. The ARS Animal Health Research Program is using new information emerging from the rapidly expanding "omic" technologies (e.g., animal genomics, metagenomics, transcriptomics, proteomics, metabolomics) to discover new molecules with antimicrobial activity that can be developed as alternatives to antibiotics. The ARS Animal Health National Program plans for fiscal year 2012 include launching a biotherapeutics discovery program that will focus initially in the following strategic areas:

- innate immune molecules with antimicrobial function;
- bioactive phytochemicals (herbal extracts and volatile oils); and
- demonstrated synergistic approaches that could both reduce costs and increase efficacy while reducing the risk of drug resistance development.

This animal health initiative cross-cuts other national programs, such as the ARS Food Safety Research Program, which includes research on alternatives to antibiotics, microbial ecology, and the effect of processing environments on antibiotic resistance prevalence.

*Question.* Should the USDA and ARS receive funding less than the President's fiscal year 2012 request, will this inhibit the program?

*Answer.* If ARS receives funding less than the fiscal year 2012 request, this will prevent the launch of the proposed animal health alternatives to antibiotics research program.

*Question.* Are you working with the Food and Drug Administration (FDA) in relation to its proposed draft guidance regarding the use of antimicrobials in food-producing animals? When can we expect to see this guidance implemented on the farm?

*Answer.* ARS provided significant input to the development of the draft guidance document. USDA has collectively drafted a response plan to FDA's latest guidance document on the voluntary reduction of growth promoters in agriculture. APHIS is the lead agency for USDA interactions and any timeline for on-farm implementation.

#### ORGANIC

*Question.* Organic agriculture is one of the fastest growing segments of the rural economy. It creates nearly 150,000 jobs and provides farmers with lucrative market opportunities.

But Federal investment in organic research and market data has lagged behind its fair share—organic agriculture makes up about 3.7 percent of the total industry, but research in this new and promising area only makes up 2.6 percent of the total USDA research budget. I was pleased to see the agency's plan to spend \$20 million in the Organic Agriculture Research and Extension Initiative (OREI) and an additional \$5 million in the Organic Transitions program, but I believe more must be done to help ensure the continued growth of this industry.

What additional resources can be made available to help organic farmers discover and understand the best ways to address invasive pests and diseases?

*Answer.* In the 2011 OREI, research and extension to develop and improve systems-based Integrated Pest Management (IPM) programs for organic crops was one of the seven priority areas. Specifically, we requested systems-based evaluations that could include the safety and efficacy of allowable pest management materials and practices. Special emphasis was given in the 2011 request for applications to research relating to management of diseases, insect pests, and weeds in specific regions where organic acreage is increasing, and yet remain deficient in terms of numbers of certified and exempt organic farms, as compared to nationwide averages. For example, the southern region lags behind the northeastern and north central regions in organically certified acreage. Additional research and extension on pests, weeds, and diseases that may limit production in those regions should help overcome barriers to the growth of organic farming in these underrepresented regions. The southern region is often the first place that invasive plants, diseases, and pests are noticed. Controlling them in the region in which they first appear can help reduce the spread to other regions, as well as making additional management tools available as they are needed. Research in organic systems is particularly valuable, because organic farmers rely on a systems approach that includes rotation, cover crops, tillage, biological controls, and less toxic materials. Thus resistance is less likely to develop to a specific material.

Invasive pests, weeds, and diseases also can be a problem in animal agricultural systems. An additional priority in the 2011 OREI was to develop or improve systems-based animal production and pest management practices, especially in the areas of nutrition, grazing, pasture, and confinement requirements, to improve animal productivity, health, and welfare, while retaining economic viability. Thus two of the seven priorities in OREI pertained directly to pest, weed, and disease issues. In addition, plant breeding and animal selection for pest and disease resistance comprised two additional priorities of the seven. Therefore, more than one-half of the priorities for this program deal with some aspect of research and extension on management of pest, weeds, and diseases in organic farming systems. Compiling extension resources is another priority, and these resources could also address pest, weed, and disease management.

The Sustainable Agriculture Research and Education (SARE) program is another source of competitively awarded funding for improved pest management in organic production systems. Historically, approximately 20 percent of the SARE program awards have been for applied research in organic systems and pest control has been one of the predominant focus areas for the proposals that we receive. The SARE pro-

gram had a funding line in 2010 of \$14.5 million for research and education and a funding line of \$4,705,000 for professional development and training. Together these funds allow SARE to provide a seamless continuum that links research with outreach and implementation. The fiscal year 2012 budget proposes increases of \$10.8 million for SARE, including \$10 million for the creation of a new Federal-State matching-grant SARE program to assist in the establishment and enhancement of State-sustainable agriculture research, education, and extension programs. These increases will bring the total SARE funding to \$30 million in 2012.

In fiscal year 2012, total ARS and NIFA funding will provide more than \$38 million for direct organic research. ARS spends an additional \$32.5 million on research which indirectly contributes to organic production.

*Question.* What internal work is being done by ARS or other USDA entities that reduces the need for harsh chemical pesticides and improves the effectiveness of greener and organic alternatives?

*Answer.* ARS organic farming research is focused on understanding the scientific basis of biological and physical processes innate to plants, soils, invertebrates, and microbes that naturally regulate pest problems and soil fertility. ARS organic research emphasizes whole-system preventative solutions, rather than one-for-one substitution of conventional production materials and practices with organic ones. Results from ARS organic research can also benefit conventional agriculture by reducing the need for purchased synthetic agricultural chemicals. ARS organic research activities are coordinated with other agencies through the USDA Organic Working Group. In March 2011, three Research, Education, and Economics agencies (ARS; the Economic Research Service (ERS); and the National Institute of Food and Agriculture (NIFA)) together with the Office of the Chief Scientist and the Office of the Secretary hosted a very successful USDA Organic Research Conference in Washington, DC. Feedback from participants indicated that many were pleasantly surprised by the breadth, depth, and level of USDA support for organic agriculture research. Some specific examples of ARS internal research objectives and activities are:

- Identify genetic plant growth efficiency mechanisms and combine with soil fertility management strategies to increase crop productivity with improved cultivars suited to organic production conditions.
- Develop whole-system biological-based management strategies for weed, insect pest, and disease control using preventive approaches as first defense, and therapeutic controls as rescue practices.
- Develop whole-system biological-based management strategies for prevention of parasites in small ruminant grazing animals.

NIFA is engaged with a wide range of research, education, and extension programs that develop and help agricultural producers adopt IPM approaches on their farms and ranches. IPM provides a sustainable approach to managing pests by combining biological, cultural, physical, and chemical tools in a way that minimizes economic, health, and environmental risks. These approaches encourage the use of the most environmentally friendly and sustainable methods for managing pests. NIFA programs support the development of IPM strategies and bio-based methods like biological control methods, microbial pesticides, mating disruption tactics, genetic manipulation of pests, and improving plant resistance to pests and diseases. The adoption and implementation of these science-based IPM methods helps reduce the need for pesticides on conventional and organic farms and ranches.

The National Organic Program (NOP) strictly regulates the pesticides that can be utilized in certified organic production. In most cases, these materials are less toxic and have reduced potential for an adverse environmental impact. In certified organic production, many of the allowed pesticides are restricted to use as a “last resort” in an overall approach that relies first and foremost on biologically based materials and cultural management practices. These practices include tillage, rotation, and cover cropping as a preferred alternative to herbicide usage. Very few herbicides are allowed in certified organic production. All these practices utilized by organic farmers reduce the potential for the development of resistance in pest and weed populations and the necessity for increasingly harsh and frequent application of pesticides.

*Question.* Organic products receive a substantial premium at market, and this has helped many farmers increase their income and improve their living conditions. But along with this premium comes the possibility that some farmers may seek to cheat the system and make false “organic” claims.

Please explain how \$10 million for NOP is sufficient to regulate and enforce a set of complex standards on more than 16,000 certified organic operations. What assurances can you give me, and all consumers of organic goods, that the USDA “Or-

ganic" label really means that the product was grown without pesticides or hormones?

Answer. NOP accomplishes its main mission by accrediting private and public entities as certifying agents to conduct organic certification of production and handling operations. There are currently 94 accredited certifying agents located around the world, certifying about 27,000 operations, about 17,400 of which are U.S. domestic operations. NOP authorizes the State of California to handle compliance and investigative activities for agents and operations located in the State. NOP also recognizes six foreign governments (United Kingdom, Denmark, Israel, New Zealand, India, and Japan) to exercise oversight for products certified to the NOP standards in their countries. The United States-Canada Organic Equivalency Arrangement allows products certified to each country's standards to go to the other country with minimal additional conditions.

NOP currently has a budget of \$7 million which supports 32 staff members. NOP staff members manage a comprehensive accreditation program, handle complaints and take enforcement actions on violations of the regulations, develop and revise standards and policy guidance, as well as coordinate the activities and implement the recommendations of the National Organic Standards Board.

NOP ensures organic integrity and consumer assurance through a rigorous accreditation and certification process. The accreditation applicants are first assessed through a comprehensive desk audit. Upon satisfactory completion, an onsite audit of personnel and system is then conducted. Subsequently, regular audits are conducted at every 2.5 years for all certifying agents, domestic and foreign. NOP certification is a process-based system that establishes proactive control measures through the development, approval and implementation of organic system plans (OSP). The OSPs describe detailed practices and procedures for production and handling, all inputs used and their source/composition/application, monitoring practices and procedures, record-keeping system, and management practices to prevent contamination and commingling. Implementation of the OSP is verified through annual onsite inspections.

NOP regulations require pre- or post-harvest tests based on suspected use of prohibited materials or excluded methods. Such tests are often conducted in the process of complaint investigation and utilized as a tool to verify compliance. The program is presently considering additional measures to further deter the use of prohibited materials.

The program accomplishes these tasks by collaborating with other entities and leveraging resources to manage this complex global program within available resources. However, many areas could be enhanced to increase organic integrity of products shipped to the United States from around the world. To that end, a \$2.9 million increase has been proposed in the NOP budget for 2012 to conduct additional surveillance of foreign accredited certifying agents; increase the program's capacity to investigate complaints and violations (both domestic and foreign); educate certifying agents worldwide to ensure the organic regulations are consistently applied; and respond to requests for international equivalency agreements.

*Question.* Could you please provide me with a report on all enforcement actions taken by NOP in 2010, and with an enforcement strategy for the remainder of 2011 and beyond?

Answer. Responsibility for enforcement of the NOP regulations is shared by the certifying agents and NOP. Certifying agents ensure the correct implementation of NOP standards through annual inspections and require corrective actions by operations when noncompliances are identified. NOP takes enforcement action as part of its complaint investigation and accreditation audit processes.

NOP has increased its enforcement activities, not only in the United States but also in foreign countries, through monitoring recognition agreements and certification activity of foreign certifying agents. During fiscal year 2010, NOP conducted compliance assessments in Canada, Egypt, Israel, Denmark, Ghana, and China. AMS auditors also conducted organic audits in Argentina, Italy, Germany, Bolivia, and Mexico.

During fiscal year 2010, NOP closed 123 complaints. As a result of investigating these complaints, NOP issued 10 civil penalties, totaling \$64,000; and issued 52 cease-and-desist letters that stopped inappropriate use of the NOP logo or label.

Through the enforcement activity of NOP, three certifying agents have lost their accreditation status (Guaranteed Organic Certification Agency, California; California Organic Farmers Association, California; and Certified Organic, Incorporated, Iowa). Those certifying agents are no longer permitted to certify organic producers or handlers.

For the remainder of 2011 and beyond, NOP's No. 1 priority is to protect organic integrity through enforcement activities. NOP's plan is focused on the following 10 points:

- clear, enforceable standards;
- timely notification to certifiers, organic producers, and handlers concerning changes/clarifications to the standards;
- transparency of suspensions, revocations, adverse actions, and sanctions;
- quality certification program;
- effective and efficient complaint handling process;
- penalties for willful violations;
- market surveillance inspections;
- unannounced inspections;
- periodic pesticide residue testing; and
- continual improvement.

#### SECTION 502 AND MUTUAL SELF-HELP HOUSING PROGRAM

*Question.* The administration's budget proposes to reduce funding for affordable housing for low-income families and improving housing conditions in smaller, poorer rural communities. The Department's Section 502 Single-Family Housing Direct Loan Program was funded at \$1.02 billion, but the administration has requested \$211 million for fiscal year 2012. This is a cut of nearly 79 percent to a program that small towns and rural communities rely on for affordable housing. In addition, the Mutual and Self-Help Housing Program, which was funded at \$43 million in fiscal year 2010, has been eliminated in the administration's request.

How will the Department continue to offer affordable housing to low-income families in rural areas despite the elimination of the Mutual and Self-Help Housing Program and a major budget cut in the section 502 program?

*Answer.* Housing is a vital economic pillar in rural America for creating wealth for communities and homeowners. USDA realizes that rural populations tend to be more economically challenged with lower incomes and fewer housing choices than their suburban and urban counterparts, and therefore we continue to offer a no-down payment homeownership program through both the Single-Family Housing Guaranteed and Direct Loan programs.

Providing credit in areas that lack private investment is a critical function of USDA Rural Development. To address the need for credit—particularly in the rural housing market—Rural Development has dramatically increased the Single-Family Housing Guaranteed Loan Program in recent years, doubling the Government's investment from \$12 billion in 2010 to \$24 billion in 2011. In these austere fiscal times, we are investing more than ever in rural housing at no cost to the taxpayer, because the Single-Family Housing Guaranteed Loan Program has a negative subsidy rate and does not require budget authority.

The need to address the state of the current housing stock, in particular for very low-income seniors, and in areas of persistent poverty like tribal lands and border communities, will be met through the Section 504 Home Repair Grant Program. There are fewer affordable housing options in smaller and more rurally remote communities and we continue to grow the Section 515 Multifamily Direct Program to address needs in these communities. Often the section 515 program is the critical element in making a low-income housing tax credit deal work in rural communities that are starved for private investment. We already serve hundreds of thousands of very-low and low-income tenants through our multifamily housing programs, and we intend to continue to invest in new properties and the revitalization of existing units.

USDA intends to continue a partnership in the immediate future with the Self-Help Housing Technical and Management Assistance (T&MA) contractors to provide guidance to Self-Help Housing grantees. As we transition out of a program that we recognize has made major contributions to rural housing, we will no longer have the ability to fund the administrative costs associated with Self-Help Housing due to budget constraints. Together with the grantees and T&MA contractors, USDA will identify other means for grantees to garner fees for their services and address regulations that will accommodate new ideas.

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#### QUESTIONS SUBMITTED BY SENATOR MARK L. PRYOR

##### FORMULA FUNDS

*Question.* Over the last three decades, formula funds (land grant institutions) was a percentage of the U.S. Department of Agriculture (USDA) extramural funding

have declined in both absolute and relative amounts. To rectify that drop, the Congress filled in the gaps with special grants—earmarks—that are no longer available. With inherent limitations on the scope and effectiveness of competitive-funded research and extension, do you believe it is wise to reduce our formula fund investment by 5 percent?

Answer. Although we are proposing modest cuts in formula funds, the National Institute of Food and Agriculture (NIFA) has proposed significant increases in the Agriculture and Food Research Initiative (AFRI) competitive grants program that includes increased investments in the integrated programs of AFRI. These integrated programs provide significant opportunities for support of multidisciplinary and multistate extension programs. Strong extension components within the integrated programs of AFRI will help ensure that research findings are accessible to agriculture producers and other key stakeholders. In addition, NIFA proposes to continue support for our electronically based initiative, eXtension, to ensure broad access to peer reviewed research-based information.

#### RESEARCH

*Question.* Why did the administration decide to cut funding to the Agricultural Research Service (ARS) at a time when we are depending on our leadership in science and technology to help our economy recover from the recession?

Answer. The President's fiscal year 2012 budget request for ARS proposes a net decrease of \$41.9 million. The budget proposes an increase of \$58.7 million, including \$55.7 million for new and expanded research initiatives in food safety, child and human nutrition; crop/animal breeding and protection; bioenergy/biomass; plant, animal, and microbial collections; production systems for sustainable agriculture; global climate change; and the National Agricultural Library. Investments in these high-priority programs will be critical to keeping the food and agriculture sector of the economy strong. These increases are offset by the proposed reduction or termination of ongoing ARS programs. The proposed net reduction in the fiscal year 2012 budget for ARS is achieved through the elimination of earmarked and other lower-priority projects.

#### HOUSING PROGRAMS

*Question.* Can you explain why the administration has sharply reduced funding for the Section 523 Mutual Self-Help Housing Program and the Section 502 Single-Family Housing Direct Loan Program which have been both successful and important in rural America?

Answer. The Department believes that the Section 502 Single-Family Housing Guaranteed Loan Program is the most cost-effective approach to providing a large number of housing loans. With a \$24 billion level, at a negative subsidy rate, the program provided more assistance and served more families in rural areas by far than any other housing program at the Department. For example, more than 30 percent of the loans made last year, were made to low-income families, the target population of the Section 502 Single-Family Housing Direct Loan Program (commonly known as the section 502 direct program). In fact the 30-percent figure represented 43,708 loans to low-income families, more than have ever been made in a single year by the section 502 direct program. While both the section 502 direct program and the Section 523 Mutual Self-Help Technical Assistance Grant programs have assisted low-income families, they are much more costly than the Section 502 Single-Family Housing Guaranteed Loan Program.

#### FOREST LEGACY PROJECTS

*Question.* I understand that the administration ranks Forest Legacy projects. Can you explain a little bit about that process? And can you explain to me how the projects will be funded? Will you go straight down the ranking list and fully fund project No. 1, No. 2, No. 3, and so on until you run out of funds?

Answer. Program priorities are developed in consultation with participating State-lead agencies. Each summer, the Forest Service sends a call letter to States asking them to provide a prioritized list of up to three projects. These projects always involve willing sellers who voluntarily seek to participate in the Forest Legacy Program. In many cases, there are other partners from the local community and forestry and conservation organizations who support the projects.

The call letter includes the scoring criteria that details how the projects will be ranked. In January, a panel convenes for 2 days to rank the projects and develop a prioritized list. The panel is composed of 10 members: 6 Forest Service employees and 4 representatives from State agencies responsible for implementing the Forest Legacy Program. Each member arrives at the panel having reviewed and scored the

proposed projects based upon the scoring criteria. Once the prioritized list is developed, it is cleared through the Forest Service and the USDA and becomes part of the President's budget proposal to the Congress.

The intent is to follow the prioritized list as developed and fund as many projects as funding allows. The Forest Legacy prioritization process is well-developed and understood by our State partners and other conservation interests and we believe it is important to adhere to the competitively developed list.

#### CHINA FOOD SAFETY SYSTEM

*Question.* Can you please bring the subcommittee up to speed on how things are progressing with the implementation of section 743 of the fiscal year 2010 appropriations bill? Are the Chinese cooperating with efforts to establish the equivalency of their food safety laws with those of the United States?

*Answer.* From December 1–21, 2010, FSIS conducted two separate but simultaneous audits of China's poultry inspection system: one for poultry processing and one for poultry slaughter. FSIS continues to analyze materials provided by China during the on-site audits, and sought published information on China's food safety system from various domestic and international agencies, as part of its equivalence evaluation of China's poultry inspection system.

FSIS will submit two separate audit reports to China. China will then be responsible for working with FSIS to address any concerns that may be raised in the reports.

To date, FSIS has obtained from China's primary food safety authority all of the information necessary to conduct the equivalence audits.

#### GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION RULE

*Question.* Can you tell the subcommittee the status of the new analysis of the Grain Inspection, Packers and Stockyards Administration (GIPSA) rule, and explain how the administration is working to improve the rulemaking process at USDA?

*Answer.* GIPSA provided 150 days for the public to comment on the rule. The agency received 61,000 comments, and it is currently reviewing and analyzing the comments that were received. The Department will take the following steps in developing the final rule:

- Conduct a content analysis of comments and identify those requiring additional legal and policy analysis;
- Evaluate the proposed cost-benefit analysis in light of comments and revise as necessary;
- Draft a regulatory workplan and submit to the Office of Management and Budget (OMB);
- Revise the rule as necessary;
- Enter the rule into Departmental clearance;
- Submit the rule for OMB clearance; and
- Publish the rule.

The cost-benefit analysis that is being conducted will be guided by the comments that we received during the comment period. Further, officials within the Department and OMB will clear this rule before the rule is promulgated. USDA's Chief Economist, Joseph Glauber is taking the lead in coordinating a team of economists across the Department to provide rigorous review of the comments.

#### QUESTIONS SUBMITTED BY SENATOR SUSAN COLLINS

##### RESOURCE CONSERVATION AND DEVELOPMENT FUNDING

*Question.* The U.S. Department of Agriculture's (USDA) Resource Conservation and Development (RC&D) program provides important resources for many rural communities in Maine and around the country. RC&D-sponsored activities have led to more sustainable communities, better informed land use decisions, and sound natural resource management practices.

Maine's five RC&D councils have proven their effectiveness through a number of accomplishments. During fiscal year 2010, 79 RC&D projects were actively worked on and 35 projects were completed. Maine RC&D councils participate in a variety of successful projects that range from providing technical assistance for the development of community wind projects to helping build and sustain agricultural businesses.

One of the main benefits of the RC&D program is the promotion of local economies through the leveraging of Federal dollars. According to the National Association of RC&D Councils, the RC&D program returns \$5.60 for every \$1 the Federal

Government invests to support economic development and resource protection in rural areas. For some RC&D councils the leverage is even greater.

In fact, the administration's budget document cites the program's history of success and ability to attract non-Federal dollars as a reason why Federal funding is no longer necessary. I appreciate that these are difficult budget times, and difficult decisions must be made as to where to allocate limited Federal dollars. I wonder, though, whether it makes sense to eliminate funding for successful programs. Shouldn't we be supporting programs that have a proven track record of being able to attract and leverage non-Federal funds?

Answer. President Barack Obama's budget proposal eliminates Federal technical assistance to the 375 RC&D councils, the majority of which have received Federal support for at least 10 years. Given the current budget situation, we have had to make some difficult funding decisions. As nonprofit organizations, RC&D councils will still exist and we believe that most have the capacity to identify, plan, and address their identified priorities without the need for continued Federal support. The RC&D program is not being targeted due to poor performance or lack of effectiveness. RC&D has been a remarkable program since 1964 and it is expected that many councils will continue to provide services to their communities.

#### INTEGRATED PEST MANAGEMENT

*Question.* Mr. Secretary, the science-based principles of Integrated Pest Management (IPM) have proven to be valuable tools for American agriculture. IPM has allowed American agriculture to address food safety issues by maintaining crop quality, avoiding crop losses, improving pest management strategies, and minimizing negative impacts to the environment. The four regional IPM centers have been invaluable in their effort towards increasing IPM programming breadth and depth throughout the United States. Many of these programs funded via USDA have demonstrated excellent cost-benefit ratios. For example, the University of Maine Cooperative Extension Potato IPM Program showed in 2009 that for every USDA \$1 invested, \$58 in benefits were returned. The UMaine's IPM program Web site is visited thousands of times per growing season, showing how integral it is to the potato industry. Farmers use the program to more appropriately treat their crops, to lessen the impact of chemicals to the environment, and to catch troubling diseases, like late blight and pests sooner.

Given the importance of these IPM programs, how does USDA plan to not only maintain but enhance these valuable IPM programs?

Answer. The National Institute of Food and Agriculture (NIFA) recognizes the importance of IPM in our science portfolio and will continue to provide national leadership for IPM research education, and extension programs. NIFA will continue to support IPM research, extension and education efforts through the Agriculture and Food Research Initiative (AFRI) and other NIFA programs. The consolidation of funding authorities into broader programs such as AFRI enhances NIFA's ability to address issues confronting U.S. agriculture in a more holistic way, and with a scale of investment that is large enough to make a real difference. Consolidation will also reduce transaction costs and improve the efficiency of program management in a climate of limited resources.

In fiscal year 2010, AFRI was restructured so that investments could be focused on five societal challenge areas: global food security, climate change, food safety, sustainable bioenergy, and childhood obesity prevention. The development of IPM methods for plant and animal production systems is a key element of efforts to ensure global food security, respond to climate change, and develop sustainable bioenergy production systems. AFRI supports the development and implementation of IPM approaches that help us address these challenge areas and contribute to the sustainability of U.S. agriculture.

For fiscal year 2012, NIFA will seek to expand the role and influence of science in agriculture through focused, problem-solving research, education, and extension activities related to IPM challenges in plant and animal production systems. The proposed budget consolidates funding for the Expert IPM Decision Support System, Pest Management Alternatives, and IPM and Biological Control into a single program to improve the efficiency of program implementation resulting in research investments with greater focus, more appropriate scale, and enhanced impact. The proposed budget maintains funding for the Smith-Lever 3(d) Pest Management Program, which addresses many challenges facing agriculture and the environment by delivering science-based IPM methods to producers and agricultural professionals. Supplemental programs like the IPM Potato Late Blight project with the University of Maine Cooperative Extension Potato IPM Program further address significant issues and are closely aligned with the Smith-Lever 3(d) program.

## FOREIGN MARKET DEVELOPMENT PROGRAMS

*Question.* Programs that increase market access for American agricultural products are important to increasing exports and market share for our farmers. In 2008, at the height of the economic downturn, Maine's wild blueberry industry was beginning market development work in China. Although it often can take 5 or 6 years to fully develop a new export market, Maine's wild blueberry industry was able to grow its market in China by 73 percent between 2009 and 2010.

Given the importance of such efforts and the President's National Export Initiative (NEI), why has the administration only provided a 1-percent increase for such programs?

*Answer.* The administration fully concurs that programs to increase market access for American agricultural products are important to increasing exports and market share for American farmers. To that end, the President's fiscal year 2012 budget includes full funding for the Market Access Program, Foreign Market Development Program, Emerging Markets Program, and Technical Assistance for Specialty Crops Programs consistent with the provisions of the 2008 farm bill; total funding for those programs is \$253.5 million. In addition, the fiscal year 2012 request includes an increase of \$20 million to provide additional funding for Foreign Agricultural Service market development efforts in support of NEI.

## FOREST LEGACY

*Question.* Maine has the largest private forest ownership in the country—some 18 million acres of diverse forest covering roughly 90 percent of its land area. These private landowners are the stewards of our forests and the caretakers of the natural resources that are vital to Maine's forest-products industry. In addition, they are the hosts for our increasingly important recreation economy.

One of the most important Federal programs to help forested landowners preserve working forest, protect natural resources, and promote outdoor recreation is the Forest Legacy Program. I appreciate your commitment to this program, and hope we can keep it going for the remainder of fiscal year 2011, as the House's decision to deeply cut Forest Legacy funding will directly affect Maine.

Maine's West Grand Lake Community Forest project, for example, was ranked the No. 1 Forest Legacy project in the Nation for 2011 through a competitive scoring process. This project will ensure sustainable forest management and public recreational access. It will also preserve and enhance Maine's timber economy and Grand Lake Stream's 180-year outdoor recreation heritage. It is a project led by the local community and accomplished in partnership with community, State, Federal, and nonprofit partners. West Grand Lake is a shining example of how the Forest Legacy Program works with local communities to prevent the conversion of forest land to nonforest uses while sustaining and improving both our local timber and recreational economies.

I understand that there is a great deal of uncertainty right now as to what the Department's budget will look like for the remainder of the fiscal year. And beyond fiscal year 2011, there are many worthy projects being proposed for fiscal year 2012. Recognizing that things are still very much in the air, has the Department considered how it might allocate funding within the Forest Legacy Program at a reduced funding level? It is my understanding that the fiscal year 2012 request assumes that the projects that were priorities for fiscal year 2011 are funded this year. How will Department allocate funding among the fiscal year 2011 and fiscal year 2012 priorities should full funding not be provided this year?

*Answer.* Currently, the intent is to adhere to the prioritized list. We are aware that the funded list may be a short one. The Forest Legacy Program prioritization process at the national level is undertaken without a known funding level. The intent is to identify the most important forestland for conservation funding. The relative importance of the projects does not change because of funding levels and we intend to adhere to the prioritized list.

It is true that there are projects on both the fiscal year 2011 and fiscal year 2012 priority lists. Due to the uncertainty of the fiscal year 2011 funding at the time of the fiscal year 2012 call for projects, some States chose to submit, as their priority, projects on the fiscal year 2011 list for consideration in fiscal year 2012. Each funding year represents a distinct national competition of projects. Fiscal year 2011 projects will not be prioritized in fiscal year 2012 as only projects submitted in response to the call for proposals for fiscal year 2012 will be on the fiscal year 2012 project priority list.

SUBCOMMITTEE RECESS

Senator KOHL. Thank you, Senator Pryor.  
And thank you very much, Secretary Vilsack.

We have about 5 minutes left in the vote.

But you've done a great job, been very complete. You've offered a lot of information, and we very much appreciate your coming here today. We're all looking forward to continuing to work with you.

Secretary VILSACK. Thank you.

Senator KOHL. Thank you so much.

The hearing is adjourned.

[Whereupon, at 3:05 p.m., Thursday, March 10, the subcommittee was recessed, to reconvene subject to the call of the Chair.]



## **MATERIAL SUBMITTED SUBSEQUENT TO THE HEARING**

[CLERK'S NOTE.—The following testimony was received subsequent to the hearing for inclusion in the record.]

PREPARED STATEMENT OF HON. LELAND A. STROM, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, FARM CREDIT ADMINISTRATION

Mr. Chairman, members of the subcommittee, I am Leland A. Strom, chairman and chief executive officer of the Farm Credit Administration (FCA). On behalf of my colleagues on the FCA Board, Kenneth Spearman of Florida and Jill Long Thompson of Indiana, and all the dedicated men and women of FCA, I am pleased to provide this testimony.

Before I discuss FCA's role, responsibilities, and budget request, I would like to thank the subcommittee staff for its assistance during the budget process. Also, I would respectfully bring to the subcommittee's attention that the funds used by FCA to pay its administrative expenses are assessed and collected annually from the Farm Credit System (FCS) institutions we regulate and examine—the FCS banks, associations, and service corporations, and the Federal Agricultural Mortgage Corporation (Farmer Mac). FCA does not receive a Federal appropriation.

Earlier this fiscal year, FCA submitted a proposed total budget request of \$62,299,787 for fiscal year 2012. FCA's proposed budget for fiscal year 2012 includes funding from current and prior assessments of \$62,000,000 on FCS institutions, including Farmer Mac. Almost all this amount (approximately 82 percent) goes for salaries, benefits, and related costs.

The fiscal year 2012 proposed budget is driven largely by two factors:

—stress on FCS caused by conditions in the agricultural and the general economy; and

—the large number of retirements that FCA anticipates in the coming 5 years.

Although FCS remains safe and sound overall, risks have increased across FCS, and conditions in several institutions have deteriorated. As a result, we are hiring additional staff members to provide more intensive examination and oversight. We are also hiring employees to fill the positions of those who will be retiring soon. The funding we've requested for fiscal year 2012 will allow us to provide the additional supervision and oversight required in challenging economic times and to ensure that we maintain a staff with the skills necessary to properly examine, oversee, and regulate FCS.

### MISSION OF THE FARM CREDIT ADMINISTRATION

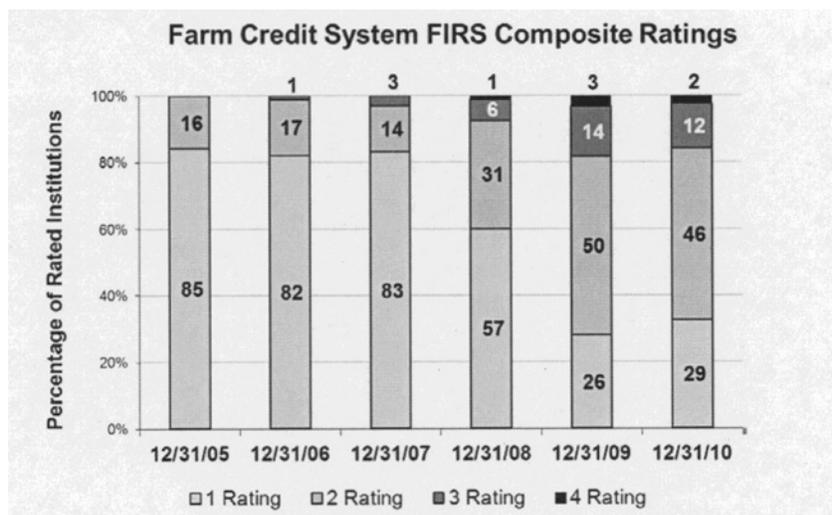
As directed by the Congress, FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. FCA accomplishes its mission in two important ways. First, FCA protects the safety and soundness of the FCS by examining and supervising all FCS institutions, including Farmer Mac, and ensures that the institutions comply with applicable laws and regulations. Our examinations and oversight strategies focus on an institution's financial condition and any material existing or potential risk, as well as on the ability of its board and management to direct its operations. We also evaluate each institution's compliance with laws and regulations to ensure that it serves all eligible borrowers, including young, beginning, and small farmers and ranchers. If an FCS institution violates a law or regulation or operates in an unsafe or unsound manner, we use our supervisory and enforcement authorities to take appropriate corrective action. Second, FCA develops policies and regulations that govern how FCS institutions conduct their business and interact with customers. FCA's policy and regulation development focuses on protecting FCS safety and soundness; implementing the Farm Credit Act; providing minimum requirements for lending, related services, investments, capital, and mission; and ensuring adequate financial disclosure and governance. The policy development program includes approval of cor-

porate charter changes, FCS debt issuance, and other financial and operational matters.

#### EXAMINATION PROGRAMS FOR FARM CREDIT SYSTEM BANKS AND ASSOCIATIONS

FCA's highest priority is to maintain appropriate risk-based oversight and examination programs to ensure the safety and soundness of FCS institutions. Given the increasing complexity and risk in FCS and human capital challenges at FCA, we have undertaken a number of initiatives to improve operations, increase examination effectiveness, and enhance staff expertise in key examination areas. FCA bases its examination and supervision strategies on institution size, existing and prospective risk exposure, and the scope and nature of each institution's business model. FCA also performs nationally focused examinations of specific issues and operational areas to monitor the condition and operations of FCS as a whole. On a national level, we actively monitor risks that may affect groups of FCS institutions or the entire FCS, including risks from the agricultural, financial, and economic environment.

The frequency and depth of examination activities vary based on risk, but each institution receives a summary of examination activities and a report on its overall condition at least every 18 months. FCS institutions are required to have effective loan underwriting and loan administration processes, to maintain adequate asset-liability management capabilities, and to establish high standards for governance and transparent disclosures for shareholder oversight. Because of the recent increased volatility in the agricultural and credit sectors, FCA has increased its on-site examination presence. Also, FCA is closely watching rapidly rising real estate values in certain sections of the country to ensure that FCS lending practices remain prudent.



In certain cases, FCA will use its enforcement powers to effect changes in the institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations. FCA uses FIRS as a key method to assess the safety and soundness of each FCS institution (see chart above<sup>1</sup>). The FIRS provides a general framework for evaluating significant financial, asset quality, and management factors to assign component and composite ratings. FIRS ratings range from 1 (for a sound institution) to 5 (for an institution that is likely to fail). Overall, FCS remains financially strong and adequately capitalized. The FCS does not pose material risk to investors in FCS debt, the Farm Credit System Insurance Corporation, or to FCS institution stockholders.

<sup>1</sup> SOURCE.—FCA's FIRS Ratings Database. The above chart includes only the five FCS banks and their affiliated direct-lender associations. The figures in the bars reflect the number of institutions by FIRS rating.

Although FCS's condition and performance remain satisfactory overall, a number of FCS institutions are experiencing stress and now require special supervision and enforcement actions. These actions reflect the weaknesses in the Nation's economy and credit markets, a rapidly changing risk environment in certain agricultural segments, and, in certain cases, management's ineffectiveness in responding to these risks. We have increased supervisory oversight at a number of institutions and dedicated additional resources in particular to those 14 institutions rated 3 or worse. Although these 14 institutions represent less than 4 percent of FCS assets and do not meaningfully impact FCS's consolidated performance, they require significantly greater FCA resources to oversee. As of December 31, 2010, five FCS institutions were under formal enforcement action, but no FCS institutions are in conservatorship or receivership.

#### REGULATORY AND CORPORATE ACTIVITIES

*Regulatory Activities.*—The Congress has given the FCA Board statutory authority to establish policy, prescribe regulations, and issue other guidance to ensure that FCS institutions comply with the law and operate in a safe and sound manner. FCA is committed to developing balanced, flexible, and legally sound regulations. Some of FCA's current regulatory and policy projects include the following:

- Revising regulations to implement the requirements of the Dodd-Frank Act;
- Revising regulations to ensure that FCS funding and liquidity requirements are appropriate and to ensure that the discounts applied to investments reflect their marketability;
- Revising regulations to require that each FCS institution's business plan includes strategies and actions to serve all creditworthy and eligible persons in the institution's territory and to achieve diversity and inclusion in its workforce and marketplace;
- Enhancing our risk-based capital adequacy framework to more closely align it with that of other Federal banking agencies and the Basel Accord;
- Revising lending- and leasing-limit regulations to ensure that FCS institutions maintain effective policies to measure and manage exposure to single counterparties, industries, and market segments, and to large complex loans;
- Revising regulations to allow FCS institutions to purchase eligible agricultural loans from the Federal Deposit Insurance Corporation;
- Revising regulations to enhance FCS disclosures of senior officer compensation and supplemental benefit programs; and
- Strengthening investment-management regulations to ensure that prudent practices are in place for the safe and sound management of FCS investment portfolios.

*Corporate Activities.*—While the number of FCS institutions has declined over the years as a result of mergers, their complexity has increased, which has placed greater demands on both examination staff resources and expertise. Generally, these mergers have resulted in larger, more cost-efficient, and better-capitalized institutions with a broad, diversified asset base, both by geography and commodity. Thus far in fiscal year 2011, two mergers of associations have become effective. In addition, two banks have submitted a plan of merger for FCA Board consideration. As of January 1, 2011, FCS had 84 direct-lender associations, five banks, five service corporations, and two special-purpose entities.

#### CONDITION OF THE FARM CREDIT SYSTEM

FCS remained fundamentally safe and sound in 2010 and is well positioned to withstand the continuing challenges affecting the general economy and agriculture. Total capital increased to \$33.3 billion at December 31, 2010, up from \$30.0 billion a year earlier. In addition, more than 81 percent of total capital is in the form of earned surplus, the most stable form of capital. The ratio of total capital to total assets increased to 14.5 percent at year-end 2010, compared with 13.9 percent the year before, as strong earnings allowed FCS to continue to grow its capital base.

Loan growth picked up in 2010, especially in the second half of the year when commodity prices increased sharply. In total, loans grew by 6.4 percent in 2010 compared with 2.1 percent in 2009. Nonperforming loans decreased modestly to \$3.4 billion as of December 31, 2010, and represented 10.2 percent of total capital at the end of 2010, down from 11.8 percent at the end of 2009. However, although credit quality is satisfactory overall, the volatility in commodity prices and weaknesses in the general economy have increased risks to some agricultural operators, creating the potential for future declines in asset quality.

FCS reported significantly higher earnings in 2010, with a combined net income of \$3.5 billion, up 22.6 percent from 2009. Return on assets remained favorable at

1.60 percent. FCS's liquidity position equaled 173 days at December 31, 2010, which was essentially unchanged from the 178 days a year earlier and well in excess of the 90-day regulatory minimum. The quality of FCS's liquidity reserves also improved in 2010. Further strengthening FCS's financial condition is the Farm Credit Insurance Fund, which holds more than \$3.2 billion. Administered by the Farm Credit System Insurance Corporation, this fund protects investors in FCS-wide consolidated debt obligations.

Farm income is expected to be very strong in 2011. The U.S. Department of Agriculture forecasts \$98.6 billion in farm net cash income—the highest since 1974, after adjusting for inflation. The high prices that grain, soybean, and cotton farmers will receive for their products will largely account for this increase. High feed costs, however, will present challenges for livestock producers. Already tight supplies of corn and soybeans in the United States could lead to significantly higher feed costs in 2011 and 2012 if growing conditions are unfavorable. High grain prices combined with extremely low interest rates are also propelling farmland values to record highs in parts of the Midwest. Although the current economy supports today's average land prices, some factors, such as higher interest rates, geopolitical developments that could undermine global demand for farm products, and an unexpected decline in grain prices because of a global supply response, could lead to a drop in the value of farm real estate. To address the issue of rising farmland values, FCA organized a meeting with the other Federal financial regulators to discuss concerns and observations regarding agricultural land values and associated risk to loan collateral. Our intent also was to foster a broad-based interchange on the appropriate regulator response to these risks and to develop a productive working relationship among banking regulators. We are considering additional meetings to continue our focus on topics important to agriculture.

FCS's access to capital markets returned to normal during 2010, which helped FCS further augment its solid overall financial strength, serve its mission, and maintain the Insurance Fund. FCS, as a Government-sponsored enterprise (GSE) with solid financial performance, benefited from monetary policy actions that helped to foster historically low domestic interest rate levels. Tepid investor demand for longer-term FCS-wide debt securities in 2009 improved appreciably in 2010, particularly for those with maturities of more than 5 years. Also, FCS continued to enhance its domestic marketing and internal liquidity reserve requirements. For 2011, FCS expects that the capital markets will continue to meet all of its financing needs.

#### FEDERAL AGRICULTURAL MORTGAGE CORPORATION

The Congress established Farmer Mac in 1988 to establish a secondary market for agricultural real estate and rural housing mortgage loans. Farmer Mac creates and guarantees securities and other secondary market products that are backed by agricultural real estate mortgages and rural home loans, USDA guaranteed farm and rural development loans, and rural utility loans made by cooperative lenders. Through a separate office required by statute (Office of Secondary Market Oversight), FCA regulates, examines, and supervises Farmer Mac's operations.

Farmer Mac is a GSE devoted to making funds available to agriculture and rural America through its secondary market activities. Under specific circumstances defined by statute, Farmer Mac may issue obligations to the Department of the Treasury, not to exceed \$1.5 billion, to fulfill the guarantee obligations on Farmer Mac Guaranteed Securities. Farmer Mac is not subject to any intra-FCS agreements and is not jointly and severally liable for FCS-wide debt obligations. Moreover, the Farm Credit Insurance Fund does not back Farmer Mac's securities.

Farmer Mac made continued financial progress during 2010. Although net income was down significantly from 2009, this decline was largely the result of unrealized gains and losses; however, core earnings, a measure based more on cash flow, was up by 56 percent. As of December 31, 2010, Farmer Mac's core capital totaled \$460.6 million, which exceeded its statutory requirement of \$301.0 million. The result is a capital surplus of \$159.6 million, up from \$120.2 million as of December 31, 2009. The total portfolio of loans, guarantees, and commitments grew 14 percent to \$12.2 billion.

In January 2010, Farmer Mac raised \$250 million in capital from a private offering of shares of noncumulative perpetual preferred stock of Farmer Mac II LLC, an operating subsidiary in which Farmer Mac owns all of the common equity. Farmer Mac used the proceeds to repurchase and retire \$150 million of Farmer Mac's outstanding series B preferred stock, with additional proceeds available for other corporate purposes. The new preferred stock has a lower net effective cost than the retired capital and has improved Farmer Mac's ability to generate new capital through earnings.

Farmer Mac's program-business portfolio shows stress in certain subsectors but remains manageable. Stress in the ethanol industry, as well as certain crop and permanent planting segments, contributed to an increase in the nonperforming loan rate. The nonperforming loan rate was 1.90 percent at December 31, 2010, compared with 1.41 percent at December 31, 2009. Loans more than 90 days delinquent increased from 1.13 percent at December 31, 2009, to 1.63 percent at December 31, 2010.

Regulatory activity in 2011 that will affect Farmer Mac includes an interagency joint Notice of Proposed Rulemaking to implement provisions of the Dodd-Frank Act relating to capital and margin requirements for over-the-counter derivatives that are not cleared through exchanges; a Notice of Proposed Rulemaking on nonprogram investments and liquidity at Farmer Mac that would, among other things, reduce reliance on credit ratings as required by section 939A of the Dodd-Frank Act; and an Advance Notice of Proposed Rulemaking that will request public input on how to reduce reliance on credit ratings in the methodology underlying the Risk-Based Capital Stress Test. In addition, FCA plans to finalize a rule to update the stress test to address Farmer Mac's new rural utility financing authority and make other technical changes.

#### CONCLUSION

We at FCA remain vigilant in our efforts to ensure that FCS and Farmer Mac remain financially sound and focused on serving agriculture and rural America. It is our intent to stay within the constraints of our fiscal year 2012 budget as presented, and we continue our efforts to be good stewards of the resources entrusted to us. While we are proud of our record and accomplishments, I assure you that FCA will continue its commitment to excellence, effectiveness, and cost efficiency and will remain focused on our mission of ensuring a safe, sound, and dependable source of credit for agriculture and rural America. This concludes my statement. On behalf of my colleagues on the FCA Board and at FCA, I thank you for the opportunity to share this information.