AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2014

THURSDAY, MAY 23, 2013

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

The subcommittee met at 10:01 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Mark L. Pryor (chairman) presiding.

Present: Senators Pryor and Blunt.

DEPARTMENT OF AGRICULTURE

STATEMENTS OF:

DOUG O'BRIEN, ACTING UNDER SECRETARY, RURAL DEVELOPMENT

ANN MILLS, ACTING UNDER SECRETARY, NATURAL RESOURCES AND ENVIRONMENT

DARCI L. VETTER, ACTING UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES

ACCOMPANIED BY MICHAEL YOUNG, BUDGET OFFICER

OPENING STATEMENT OF SENATOR MARK L. PRYOR

Senator PRYOR. I'll go ahead and bring the hearing to order. I want to thank everyone for being here. We have a little bit of a new game plan today because the Senate has announced that we're having votes at 10:30 a.m. So what I thought I would do is shorten my opening statement. Senator Blunt has agreed to shorten his opening statement, and we'd ask you to shorten your statements if possible, maybe a couple of minutes. Then of course your statements will be submitted for the record so we'll have the official record.

But let me go ahead and jump in, and our goal would be to actually try to finish the hearing shortly after 10:30 a.m. so the two of us could go make our votes and just try to recess the hearing from there instead of taking a break and coming back.

So I want to thank you for coming. This is our final budget hearing. Today we will hear from: Ms. Darci Vetter, the Acting Under Secretary for Farm and Foreign Agricultural Services; Ms. Ann Mills, the Acting Under Secretary for Natural Resources and Environment; and Mr. Doug O'Brien, the Acting—are you noticing a pattern here——

Senator BLUNT. I am.

Senator PRYOR [continuing]. The Acting Under Secretary for Rural Development. I'd like to welcome each one of you and thank you for being here and thank you for your preparation. In a lot of ways you are the face of the USDA out there in the field. If there is such a thing, you are the boots on the ground in the real world of all the services that you provide. Each of you is doing things that are very, very important for rural America and for agriculture, and for that we want to say thank you.

You continue to do good work. However, we're in a budget-shrinking environment, and I notice that the Rural Development staff, for example, the Rural Development staff has been cut by 18 percent since 2010, and there have been over 20 Farm Service Agency (FSA) office closures in the last couple years and conservation activities have been increasingly limited, and all that's done before the sequester.

So we understand that this is a shrinking environment in you guys have had to make some tough choices. But on a positive note, we see that you've made a lot of progress in the world of technology with the MIDAS system, and I'd like to visit about that in a few moments. I hope that what that does is it makes it easier for you to provide better service to American farmers, and it sounds like you're making progress there.

So with that, I'd like to turn it over to Senator Blunt for his statement.

STATEMENT OF SENATOR ROY BLUNT

Senator BLUNT. Thank you, chairman. Thank you for your leadership of the subcommittee.

We're glad to have all of you here today. I do want to get right to what you want to tell us and then what we want to ask about. Obviously, these have been good times for agriculture, but also challenging times for agriculture. In the State of Missouri, every one of our counties was declared a disaster county in the last year. At the same time, our agricultural production has continued to be astonishing as a State and as a Nation.

Rural development makes a real difference in the rural communities. Valued at $185 billion, the rural development loan portfolio is extensive, it's healthy, and it provides financing to many borrowers that wouldn't be able to obtain loans in other ways.

PREPARED STATEMENT

It's evident that the vast reach of your agency is being managed in new ways because of technology and, like the chairman, I look forward to hearing about that. I think I'll just submit my statement for the record and let's get started.

[The statement follows:]

PREPARED STATEMENT OF SENATOR ROY BLUNT

Good morning. Thank you Chairman Pryor for holding today's hearing on the Farm and Foreign Agricultural Service, Natural Resources and Environment, and Rural Development mission areas of the Department of Agriculture. I am pleased to join you in welcoming the Under Secretaries.

The mission areas we will examine in detail today play an important role in delivering USDA programs. They represent the frontline of USDA efforts to promote agriculture and improve rural communities.

Missouri is home to over 100,000 farms, the second most nationwide, and almost 30 percent of Missouri's population lives in a rural area. The agencies represented here today are critically important to their daily lives. These agencies are responsible for:

—Working with farmers to respond to natural disasters and conserve resources;

—Financing critical infrastructure in rural communities; and

—Promoting agricultural exports by opening foreign markets.

Agriculture supports 16 million jobs nationwide and has been a bright spot in the country's economic recovery. U.S. agricultural exports are expected to break records again this year.

However, challenges remain prevalent. Last year, about 80 percent of agricultural land across America experienced drought. It was the most extensive drought our country has experienced since the 1950s, and all 114 Missouri counties were declared a disaster area.

Many farmers in my State and throughout the country would not have been able to financially weather the drought had it not been for the safety net of the crop insurance program.

Farmers face risk and uncertainty unlike any other industry—unpredictable weather conditions, skyrocketing input costs, and volatile world markets to name a few.

Without a robust safety net in place, farmers would have tremendous difficulty rebounding after a disaster like last year's drought. I commend the Department for its continuous efforts to make these crop insurance products more affordable and useful to producers.

Agencies represented here today play integral roles in solidifying America's leading role in global agriculture production, as well as its preservation of natural resources.

USDA's conservation efforts aim to ensure that future generations benefit from our country's natural beauty and quality resources as we have, and I firmly believe America's farmers are America's best land stewards.

Agriculture remains the cornerstone of rural America, but USDA's reach is much broader than most Americans realize.

Housing ownership loans, rural business start-up grants, and drinking water infrastructure are only a few of the financing opportunities that Rural Development provides to rural communities.

Valued at nearly $185 billion, Rural Development's loan portfolio is extensive, healthy, and provides financing to many borrowers that are not able to obtain loans from private lenders.

It is evident by the vast mission areas of the agencies represented here today that USDA serves a role in nearly every aspect of rural America.

I want to again thank our witnesses for being here today, and I look forward to hearing their testimony.

Senator PRYOR. Thank you.

Mr. O'Brien, you're recognized for 2 minutes.

SUMMARY STATEMENT OF DOUG O'BRIEN

Mr. O'BRIEN. Thank you, Mr. Chairman, Ranking Member Blunt. I want to say thank you for the opportunity to appear before you today, and I will keep my statement very brief.

The Rural Development budget features a mix of grants and loans to help rural families, rural communities, small businesses, and cooperatives capture the historic opportunities in rural America. While certainly difficult choices needed to be made in this budget environment, we believe this budget strikes the right balance by targeting resources where there is greatest need and where there is greatest opportunity. In short, this budget continues the commitment to rural America.

PREPARED STATEMENT

I will stop there and look forward to your questions, and thank you for the opportunity to be here today.

[The statement follows:]

PREPARED STATEMENT OF DOUG O'BRIEN

RURAL DEVELOPMENT

Chairman Pryor, Ranking Member Blunt and members of the subcommittee, thank you for the opportunity to present the President's 2014 budget for the Department of Agriculture's (USDA's) Rural Development mission area. I am accompanied this morning by Mr. Michael Young, USDA's Budget Officer.

President Obama believes that "strong rural communities are the key to a stronger America." USDA Rural Development, as the only Federal Department with the primary responsibility of serving rural areas, takes seriously our responsibility to support the continued revitalization of rural America and the Nation.

Since 2009, President Obama's commitment and this subcommittee's support have brought about significant investment in rural communities that has made them stronger and more vibrant. USDA Rural Development alone has directly invested or guaranteed more than $131 billion over the last 4 years in broadband, businesses, housing, safe water, community facilities and more that have benefited not only the communities our agency serves, but the overall economy.

As you know, rural America has unique challenges and assets. Rural communities are characterized by their isolation from population centers and product markets and benefit most from initiatives that integrate local institutions and businesses with State and Federal agencies that have intimate knowledge of local needs. To address these unique challenges, Congress has provided USDA with a variety of programs that comprehensively attend to the rural dynamic.

The presence of USDA field offices in every State helps us serve the specific needs of local communities. USDA Rural Development employees are able to identify a wide range of community and economic development resources for local elected officials, business owners, families, farmers and ranchers, schools, nonprofits, cooperatives and tribes. USDA Rural Development staff are located throughout the Nation and are members of the communities they serve so they possess expert knowledge of the economic challenges and opportunities that exist in their particular region.

USDA Rural Development assistance includes direct and guaranteed loans, grants, technical assistance, and other payments. We provide assistance to intermediaries that make loans or provide technical assistance to the ultimate beneficiaries. We require or encourage recipients, in several programs, to contribute their own resources or obtain third-party financing to support the total cost of projects, in which case these programs leverage USDA's support with private sector financing.

Through USDA Rural Development's infrastructure development programs, we make investments in rural utility systems that help improve and expand the rural electrical grid, provide clean drinking water to rural communities, and deliver increased Internet service to rural families and to businesses, allowing them to compete in the global economy. In 2012, we provided more than 8 million consumers with new or improved electric service, provided 2.5 million of our borrower's customers with new or improved water or wastewater service, and provided nearly 64,000 rural households, businesses and community institutions with new or better access to broadband Internet service.

Through USDA Rural Development's business and cooperative loan, grant, and technical assistance programs, the agency helped thousands of rural small business owners and agricultural producers improve their enterprises, including those related to renewable energy. Beyond direct assistance to these business owners and producers, financial support from USDA also creates lasting economic development opportunities in the rural communities where the projects are located. Business and cooperative funding created or saved over 52,000 rural jobs in 2012.

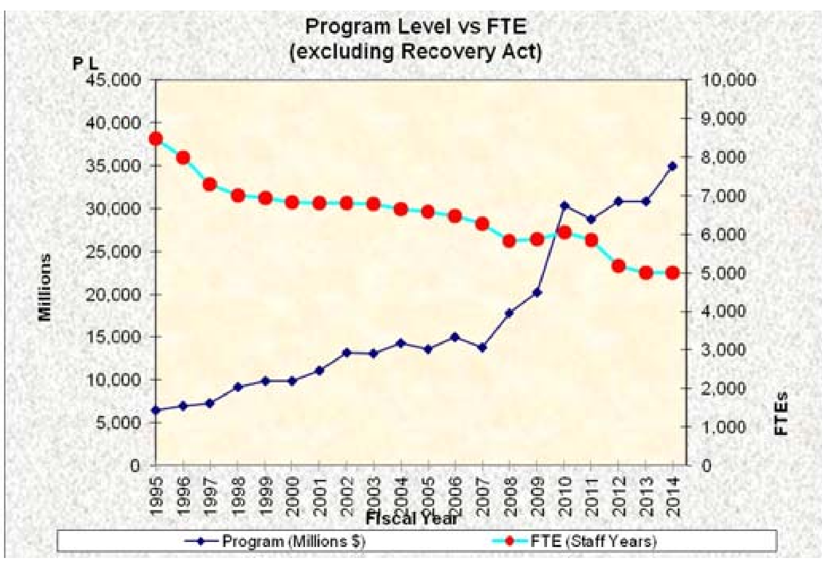
Not only have we supported small businesses, but we also support the social infrastructure that makes rural communities attractive to small business owners and their employees. USDA Rural Development's Community Facilities loan and grant program provided assistance to construct or improve 215 educational facilities, and supported 168 healthcare projects—part of more than 1,400 Community Facilities projects nationwide in 2012. Other key projects included support for local, rural emergency responders.

Finally, the USDA Rural Development housing program ensures that rural families have access to safe well-built, affordable homes. In 2012, more than 153,000 families with limited to moderate incomes purchased homes utilizing our housing programs. We also helped about 7,000 rural individuals or families repair their existing homes under our home repair loan and grant program. More than 400,000 low- and very low-income people were able to live in USDA-financed multi-family housing thanks to rental assistance.

At Rural Development we continue to recognize the responsibility we share to help shoulder the burden of deficit reduction and, as such, have pursued continual process improvements to ensure that our agency operates as a responsible steward of taxpayer dollars. Over the past 10 years, Rural Development's portfolio has more than doubled and now stands at $183 billion.

The agency has also embraced multiple streamlining efforts to reduce operating costs. USDA Rural Development contributed to savings under the Secretary's Blueprint for Stronger Service by consolidating and reorganizing its field office structure, providing projected savings of $758,000 annually. These efforts are continuing and are expected to result in additional savings over the next few years. Rural Development achieved savings of $1.3 million with reductions in printing, supplies and promotional items. Furthermore, the agency anticipates savings from data center consolidation at our National Information Technology Center and using specific services that would cost less money. Those savings are cumulative and have not been broken down by individual agencies.

In terms of staff, since the beginning of fiscal year 2012, USDA Rural Development has decreased its workforce by 18 percent, totaling 1,079 people. Those reductions will save the agency more than $95 million per year in staff costs moving forward, however, at a certain point we risk the integrity of the delivery of the programs and the servicing of a burgeoning portfolio. The chart below illustrates the agency-wide challenge of rapidly increasing program level funding and a steady decrease in staffing resources. This type of dynamic strains the agency's ability to responsibly deliver and service the programs provided for and funded by Congress.



Despite our best efforts to prepare for additional funding reductions through these prudent actions, we cannot prevent the negative impact of the March 1 sequestration or across-the-board reductions in every Rural Development program as outlined in the Consolidated and Further Continuing Appropriations Act of 2013. We will have to cut back on essential services. The reduced level of program funding will mean that rental assistance will not be available for more than 15,000 very low-income rural residents, generally elderly, disabled, and single heads of households, who live in multi-family housing in rural areas. As you know, the Secretary has notified this subcommittee and your colleagues in the House of his intention to use interchange authority to avoid furloughs and minimize the disruption caused by these cuts to rural communities.

We know that American taxpayers expect more, so we are continually looking for ways to improve, innovate and modernize. The Rural Housing Service (RHS) directed each State office to centralize the loan guarantee process for the Single Family Housing Guaranteed program. The purpose of the initiative is to maximize efficiencies that enable a reduction in staff time while still meeting audit requirements and providing States flexibility. Each State was instructed to centralize the guarantee process into one entry point, and then electronically distribute workflow to the appropriate workstation where the designated employee was located. The purpose was not to reassign employees to a central office location, but to deploy technology for a process improvement as a remedy for staff reductions. The result of the centralization initiative has been a success. All States have centralized their guarantee workflow process or are in the process of implementing it. Some States even implemented the same workflow for other Rural Development programs.

RHS hopes to go even further in 2014 with a proposal that will make USDA's guaranteed home loan program a direct endorsement program, which is consistent with Veterans Affairs and Housing and Urban Development's guaranteed home loan programs. This will make RHS more efficient and allow the Single Family Housing staff to focus on other unmet needs.

RHS is also in the process of instituting an automation project known as automated loan closing, or ALC, that will eliminate the need for staff to process paper checks for guarantee fees. It will eliminate the double entry of data and automate the scanning of critical loan closing documents. It will also enable an e-signature feature which will eliminate the need for staff to print and sign a loan note guarantee. The ALC project will begin deployment nationwide this summer.

The Rural Utilities Service (RUS) has also undertaken initiatives to improve performance and accountability measures. For example, in fiscal year 2010 we launched a process improvement project to address issues related to the Rural Alaska Village Grant Program. A Steering Committee composed of senior officials from both the national and State offices of USDA Rural Development, Alaska Department of Environmental Conservation, Alaska Native Tribal Health Consortium, Indian Health Service, Environmental Protection Agency and the Denali Commission was formed and convened in Anchorage. In June 2011, the partners, signed a memorandum of understanding outlining a streamlined application process, new grant agreements, improved accountability measures and other critical documents. Today, we are seeing the results of those efforts with projects being built serving Alaskan villages, many for the first time. Based on these successes, we are in the process of codifying the streamlining of this program through a regulation that we plan to announce later this year.

RUS is also undergoing a business process review (BPR) in electric and telecom programs to consolidate and streamline program activities, both in the field and in the national office as a result of exponential increases in the portfolio size, coupled with diminishing staff resources. This activity includes increased use of technology, staff reorganization and retraining, and potential revision of program regulations to increase the efficiency and effectiveness of program delivery.

In Rural Business and Cooperative Service (RBS) we established a field structure, consisting of 10 regions. The structure allows the national office to provide direction and oversight for all RBS programs nationally, with reliance on two regional coordinators (East and West), and 10 RBS team leaders (State program directors) that provide guidance to the State RBS program directors in their regions. This regional structure improves agency efficiency and effectiveness, which is vital as RBS addresses reductions to budget and staffing levels.

With its regional structure, RBS is able to save on travel and training expenses by reducing the number of staff that attend training. Typically, regional coordinators work with national office staff to train team leaders who then provide guidance and direction to the program directors in their region.

This approach also improves communication across the agency, resulting in greater consistency in program delivery. The regional structure provides a network for sharing institutional knowledge, best practices, and solutions to common challenges within a region.

RBS' regional structure also enables offices to address gaps in staffing by sharing human resources. For instance, a team leader can temporarily help with program delivery in a State if a program director retires or leaves the agency. This is especially important now, as RBS has lost a number of program directors over the last several years. Not only do team leaders help fill in where a program director position is vacant they also provide training and guidance to new program directors.

Over the last few years this has been essential to the agency's success in supporting the many programs delivered by RBS, with fewer staff.

Under the budget proposal, we continue to seek efficiencies to better serve the American people. For example, the budget includes $55 million for a new economic development grant program designed to target small and emerging private businesses and cooperatives in rural areas with populations of 50,000 or less. This new program will award funding to grantees that meet or exceed minimum performance targets, and that agree to be tracked against those performance targets. This consolidation will utilize all existing authorities available under the Rural Business Opportunity Grant, Rural Business Enterprise Grant, Rural Microenterprise Assistance Grant, Rural Cooperative Development Grant, Small/Socially Disadvantaged Producer Grant and Rural Community Development Initiative Grant programs. Doing so will enable RBS to leverage resources to create greater wealth, improve quality of life, and sustain and grow the regional economy. The new program is also expected to improve the agency's current grant allocation and evaluation process.

The President's budget reflects his commitment to jobs, growth and opportunity for America. With a proposed budget authority of $2.3 billion and a proposed program level of $35 billion, the three agencies of Rural Development are fully engaged in efforts to increase opportunities and address the challenges unique to rural America. The budget provides $662 million in funding for salaries and expenses needed to carry out USDA Rural Development programs. This level of funding will support an estimated staff level of 5,000 in 2014—many of whom are located in rural areas throughout the United States and Puerto Rico. In addition, the budget requests that $32 million of the total funding provided for salaries and expenses to be set aside for information technology investments for the Comprehensive Loan Program. Investing in modernizing this system will ensure that all loan programs are serviced with up to date technology safeguarding the portfolio from cyber threats and upgrading the management capabilities for the agency.

I should note that our largest programs at Rural Development, the Electric, Telecommunications, Community Facilities Direct Loan, and the Single Family Housing Guarantee programs require no Federal funding and are all operating at a negative subsidy rate. The budget also supports $1.2 billion in Water and Waste Disposal direct loans at no Federal cost due to improved performance of the program. However, I note that as savings from programs have been realized due to program performance and low interest rates, funding for S&E has not kept pace. The S&E request needs to be fully funded in order to realize the full authorized loan levels in these most efficient programs. The execution of these programs, particularly in an extremely challenging economic environment, is a win for taxpayers, rural residents and communities working to enhance their quality of life and increase their economic opportunities.

Rural Development is known as an agency that can help build a community from the ground up. Today, we are assisting rural America prepare for the global challenges of the 21st century by looking not only within a community for defining strengths and opportunities, but to regions and strategic partners, where one community or program can complement and draw upon the resources of another to create jobs and strengthen economies.

We are resolutely pursuing President Obama's vision of an America that promotes the economic well-being of all Americans. In rural communities, we support entrepreneurs and innovators, individuals and families, the youth and the elderly. We support entire communities. We do so by financing housing for individuals, families and the elderly, building schools and emergency centers, connecting leading doctors to rural clinics and hospitals, and encouraging business startups and expansions. We know our investments will pay dividends for years to come.

I appreciate the opportunity to work with members of the subcommittee to build a foundation for American competitiveness. The President has offered a responsible, balanced budget that continues to meet key priorities and includes targeted investments to support long-term job creation and renewed economic expansion. Moving forward will require hard work and sacrifice from everyone, and Rural Development is committed to doing its part. I am confident that the agencies of Rural Development will successfully implement the programs needed for a thriving rural America.

I appreciate the opportunity to testify today before members of the subcommittee. This budget proposal supports our efforts and helps us fulfill the promise of rural communities. Thank you for your support of Rural Development programs. I am happy to answer your questions on the budget proposals at this time.

Senator PRYOR. Thank you.

Ms. Mills.

SUMMARY STATEMENT OF ANN MILLS

Ms. MILLS. Thank you, Mr. Chairman and Ranking Member Blunt. I'm very pleased to present to you the Natural Resources Conservation Service's (NRCS) fiscal year 2014 budget, and we appreciate your ongoing support for voluntary rural lands conservation. NRCS remains committed to helping America's farmers and ranchers achieve their conservation goals while also meeting the challenges and opportunities of the 21st century.

We are using—I want to highlight just a couple things where NRCS is coupling its traditional strengths of on-the-ground assistance with a whole new generation of conservation approaches that will allow America's farmers to remain the most productive in the world. We're using science to help focus our investments. We're supporting the development of nonregulatory incentives, like agricultural certainty in environmental markets, that also help introduce private dollars into the farm economy. We're promoting soil health that is going to boost farmer productivity while at the same time helping them get buffered from extreme weather events. When these weather events do occur, NRCS is there in drought-stricken States, during flooding events, and even yesterday in Oklahoma. Today we're doing damage assessments there.

We're also focusing our efforts to support the Department's Strike Force Initiative to address poverty in persistent poverty counties. This budget reflects tough cuts, but also some strategic investments, such as improving our business functions, where we can continue to deliver excellent services to America's farmers and ranchers.

PREPARED STATEMENT

In a changing climate and high commodity prices, now more than ever America's farmers and ranchers need NRCS to help them protect our natural resource base.

Thank you very much.

[The statement follows:]

PREPARED STATEMENT OF ANN MILLS

NATURAL RESOURCES AND ENVIRONMENT

Mr. Chairman and members of the subcommittee, I am pleased to appear before you today to present the fiscal year 2014 budget for the Natural Resources Conservation Service (NRCS) of the Department of Agriculture. I appreciate the ongoing support of the chairman and members of the subcommittee for USDA's work on voluntary, private lands conservation and the protection of soil, water and other natural resources.

Our Nation's prosperity—particularly the prosperity of our rural communities—is closely linked to the health of our lands and natural resources. USDA remains committed to helping the Nation's farmers and ranchers meet their conservation goals. NRCS is working hard to couple its traditional strengths of site-specific, science-based technical and financial assistance with innovative efforts to leverage funding from private and non-governmental organizations in an effort to extend the value of taxpayer dollars. NRCS is also supporting the establishment of forward-thinking, incentive-based conservation and restoration programs including water quality, wildlife certainty, and environmental markets.

Natural resource conservation does not just protect the water we use, the air we breathe, and the soil that is necessary for producing our food. In many cases, the conservation practices that producers implement, with NRCS's assistance, can reduce production costs and improve productivity, making improvements to a producer's bottom-line and helping sustain rural communities.

The President's fiscal year 2014 budget requests a total of about $4 billion for NRCS conservation programs, including approximately $3 billion in mandatory funding and $808 million in discretionary funding. Although the agency will continue to face budgetary pressures, particularly in discretionary spending, this budget represents a significant investment in conservation programs and related activities.

Secretary Tom Vilsack recently testified that, under President Obama's leadership, USDA has taken significant steps to strengthen rural America and provide a foundation for continued growth and prosperity. Today, I will highlight for you how USDA, through NRCS, is working smarter to achieve natural resource improvements by leveraging resources and modernizing business operations in order to reduce administrative overhead and complexity. USDA employees are setting a tremendous example in this regard, delivering record levels of service to their customers with fewer resources and staff.

RESOURCE ACCOMPLISHMENTS

With implementation of the 2008 farm bill, NRCS and its customers have benefited from historic levels of technical and financial assistance, provided through the agency's dispersed workforce working one-on-one with farmers and ranchers. The agency has remained flexible, allowing for quick and agile responses to acute challenges, such as the Deepwater Horizon oil spill and 2012's historic drought. For example, since 2008, NRCS has:

—Established landscape conservation initiatives in targeted areas such as the Gulf of Mexico, the California Bay Delta, the Everglades, and the Great Lakes. NRCS initiatives in targeted areas address high-priority natural resource concerns and have improved the Federal return on investments in conservation.

—Helped producers adapt to drought conditions. In 2012 farmers and ranchers experienced the worst drought since the 1950s, according to the National Climatic Data Center. As the severity of the drought became apparent, NRCS moved quickly with partners to get technical and financial assistance to farmers and ranchers. Funding was provided to plant cover crops to minimize soil erosion, install livestock watering facilities, and install more efficient irrigation systems to limit impacts on aquifers. In fiscal year 2012 and fiscal year 2013, NRCS provided nearly $44 million for drought mitigation that was used to address drought issues in 22 States.

—Instituted a Working Lands for Wildlife partnership that will allow farmers and ranchers to protect threatened wildlife species while ensuring continued agriculture and forestry production. Working Lands for Wildlife is a new partnership between NRCS and the U.S. Fish and Wildlife Service (FWS) that uses agency technical expertise, combined with financial assistance from the Wildlife Habitat Incentive Program, to combat the decline of seven specific wildlife species whose habitat needs overlap significantly with agricultural landscapes. For example, at one time Longleaf pine forests covered 90 million acres in the southeastern United States. Now only 3.4 million acres remain. By increasing the use of management practices such as prescribed grazing and forest stand improvements, forest landowners can make many of these acres more functional and viable.

—Played a major role in helping Gulf Coast States and landowners address water quality impacts to the Gulf of Mexico. The Gulf of Mexico Initiative (GoMI) provides assistance to agricultural producers in the five Gulf Coast States to improve water quality, conserve water, and enhance wildlife habitat within watersheds draining into the Gulf of Mexico. NRCS obligated approximately $8 million in contracts and easements under the initiative in fiscal year 2012 and will commit up to $30 million more over the next 2 years to provide conservation assistance to farmers and ranchers in priority areas along seven major rivers that drain to the gulf.

—Addressed water quality issues through NRCS's Mississippi River Basin Initiative. This effort builds on the past efforts of producers, NRCS, partners, and other State and Federal agencies in a 13-State area, in addressing nutrient loading in selected small watersheds in the Mississippi River Basin. Excess nutrient loading contributes to both local water quality problems and the hypoxic zone in the Gulf of Mexico. In fiscal year 2011 and fiscal year 2012, NRCS directed over $50 million in financial assistance for this initiative.

—Played a leadership role in emergency responses to natural disasters, including the Deepwater Horizon oil spill and Hurricane Sandy. Responses to these events are ongoing. Many of the producers in the States affected by the oil spill are still providing wintering habitat after their crops are harvested. NRCS is helping private landowners and communities recover from the effects of Hurricane Sandy through the Emergency Watershed Protection Program.

—Instituted a pilot program through the Environmental Quality Incentive Program (EQIP) that will allow producers to comply with EPA regulations by using EQIP financial assistance to prevent on-farm oil spills. The Oil Spill Prevention, Control and Countermeasure (SPCC) pilot is in its third year. In its first 2 years (fiscal year 2011 and fiscal year 2012), it provided more than $4.2 million to over 1,000 producers in nine States to develop professionally prepared and certified SPCC plans and provide for appropriate secondary containment of oil storage facilities.

LOOKING AHEAD—INNOVATIONS IN CONSERVATION

Despite the recent decreases in the NRCS budget, the agency continues to keep pace with changes in conservation approaches and resource needs. Our landscape initiatives, guided by information gleaned from the Conservation Effects Assessment Project (CEAP), are just one example. Below are additional examples of how NRCS will help farmers and ranchers through what we call 21st century conservation.

—CEAP, composed of a series of resource assessment efforts, has enhanced our data-driven capabilities for getting targeted conservation on the ground. CEAP has also helped spawn the next generation of technical tools—such as the Soil Vulnerability Layer and the CEAP Conservation Benefits Identifier—that will take our ability to target conservation to a higher level. A user-friendly version of the APEX model (the field-level model powering CEAP) will help field staff and producers to determine, at a glance, which suites of practices offer the greatest conservation benefit.

—In recent years NRCS has regularly heard from producers around the country that they are concerned that the potential for shifting regulatory requirements will make it difficult to plan their business operations. One solution is to give producers certainty that the rules won't change for them for a set period of time, in exchange for their implementing practices proven to address water quality concerns. USDA has been a staunch supporter of voluntary State certainty programs. In January 2012, Secretary Vilsack signed a memorandum of understanding with the Governor of Minnesota and the EPA Administrator, announcing the establishment of Minnesota's Agricultural Water Quality Certification Program. Other States are pursuing water quality certainty programs, including Virginia and Maryland. NRCS is also supporting the certainty approach for addressing wildlife habitat issues through our Working Lands for Wildlife partnership. Farmers, ranchers, and forest managers have regulatory predictability and confidence that the conservation investments they make on their lands today will not result in regulatory penalties and that they can help sustain their operations over the long term. Our partnership with the USFWS provides landowners with regulatory predictability should the target species be listed under the Endangered Species Act at some point in the future.

—Emerging greenhouse gas, water quality, and wildlife markets present opportunities for agricultural producers to receive compensation for the ecosystem services they generate from certain voluntary conservation practices. NRCS is developing the science and decision tools to help producers quantify the environmental benefits generated by these practices.

Researchers and programmers at the NRCS National Technology Support Center (NTSC) in Portland, Oregon, are working with experts from across the Department to create tools that will quantify the soil carbon footprint of all agricultural activities at the farm gate—from nutrient management to buffer strips. These tools will be used by farmers, ranchers, and USDA field staff to identify practices that result in greenhouse gas emission reductions and carbon sequestration.

To advance our ability to address water quality concerns, NTSC in Portland is working with experts from across the Department to develop the Nutrient Tracking Tool (NTT). NTT is a Web-based application that allows a farmer to calculate the differences in nitrogen, phosphorus, and sediment runoff and yields at the field scale when current farming practices are compared to conservation practices. This tool will be improved with additional investments by NRCS in its new Edge-of-Field Water Quality Monitoring program that, combined with instream monitoring efforts, will allow us to more accurately measure the effects of our conservation practices and strengthen our APEX/CEAP modeling efforts. Taken together, these tools will help NRCS better understand the benefits of Federal conservation investments, while also supporting producer efforts to pursue new business opportunities and help ensure the integrity of environmental credits used in trading markets.

The agency is also supporting pilot projects that help create market supply for the environmental credits generated by farmers and ranchers, with the goal of acclimating producers to the general requirements for participation in environmental markets. Special Conservation Innovation Grant (CIG) opportunities used greenhouse gas projects (fiscal year 2011) and water quality trading projects (fiscal year 2012). For both of these efforts, NRCS established awardee networks—forums for the awardees to convene regularly and share information and lessons learned.

—NRCS is working on thoroughly integrating soil health into the agency's policies and programs. Partners and stakeholders, recognizing the potential benefits from widespread adoption of soil health management systems, benefits in productivity, natural resource condition and profitability, are stepping up to amplify and support our soil health effort. By focusing more attention on soil health and by educating our customers and the public about the positive impact healthy soils can have on productivity and conservation, we can help the Nation's farmers and ranchers feed the world more profitably and sustainably while also helping them adapt to extreme weather events and new climate patterns.

—NRCS is comprehensively restructuring the Budget and Financial Management, Property and Procurement, and Human Resources functions to improve service and lower costs. The vision of the future is to enable our employees to service more customers. The plan includes functionally aligning the work between the field and headquarters staffs and ultimately looks to streamline functions, reduce redundancies and realize cost-savings.

FISCAL YEAR 2014 BUDGET

In the fiscal year 2014 budget, we propose difficult cuts to some programs, but also strategic investments in other programs to maintain NRCS's position as the country's leading private lands conservation agency. We have been working for some time to modernize our business operations to better serve our customers in a constrained budget environment. Our goals are to deliver effective on-the-ground conservation, maintain the flexibility to address emerging resource issues and protect mission critical strengths including our technical capacity and our ability to work with local partners in addressing resource priorities.

We continue to improve the condition of our natural resources, but more needs to be done. Through CEAP we have learned that approximately 15 percent of the Nation's nearly 300 million acres of cultivated cropland needs a high level of treatment in order to reduce impacts on water quality, while 33 percent needs a moderate level of improvement. Water quality concerns resulting from the subsurface loss of nitrogen through natural pathways or tile drains remain a significant resource concern. Climate change and extreme weather call for better adaptation strategies for producers.

We must find ways to maintain strong ties to local experts who can provide valuable insight into local and regional resource concerns. We also need to maintain investments in the agency's technical strengths that have supported NRCS's operations for over 75 years and—more importantly—that are critical to solving ongoing and emerging conservation challenges. Our technical products and services benefit local economies and are necessary to maintain a viable agriculture sector. They are increasingly used by other sectors of the economy as well. These products include: the National Resources Inventory (NRI), a widely respected source for natural resource conditions and trends in the United States; the National Soils Information System, which provides practical applications of soils data for many audiences and is delivered to more than 12,000 individual customers per day; and the Snow Survey and Water Supply Forecasts which provide reliable, accurate and timely forecasts of surface water supply to water managers and water users in the West. NRCS's water supply data are more important than ever in this time of highly variable precipitation and changing climate patterns.

These services will become more valuable as we seek to address sustainable food production for the world's growing population. In addition to these information resources, our most essential technical assistance component is our capable technical field staff who help our farmers, ranchers, and nonindustrial private forest land owners at the field level. It is in the field where we are going to address the natural resource challenges now and into the future.

CONCLUSION

The President's budget enables NRCS to continue fulfilling its historic commitment to providing assistance to farmers, ranchers and forest landowners. We will continue to work to find solutions that allow us to provide efficient, effective service to all our customers. This budget provides the resources needed to equip NRCS to confront new challenges such as climate change, manage conservation activities while maximizing food production, and reduce loss of open space. As we explore new opportunities for protecting our environment while creating wealth in rural communities, our conservation efforts will continue to make a real difference in the health and prosperity of the Nation. NRCS employees have stepped up time and time again to manage key programs in an effective manner and we will continue to do so.

I thank members of the subcommittee for the opportunity to appear, and would be happy to respond to any questions.

Senator PRYOR. Thank you.

Ms. Vetter.

SUMMARY STATEMENT OF DARCI L. VETTER

Ms. VETTER. Good morning, Mr. Chairman and Ranking Member Blunt. I'm pleased to be with you today. The Farm and Foreign Agricultural Services (FFAS) mission area has reviewed our programs and developed budget proposals for 2014 that streamline agency operations, improve efficiency, and reduce our administrative costs.

Turning first to the Farm Service Agency, or FSA, our total request from appropriated resources is $1.6 billion, which reflects a modest increase of $83 million from the 2013 level enacted after sequester and rescission are factored in, but a $179 million decrease from our 2012 enacted level.

As you know, FSA provides producers with a broad range of services, from disaster assistance and income support payments, the conservation reserve program, and our loan programs to farming families, and the 2014 budget proposes a total program level of about $5.6 billion, an increase of $1 billion from the 2013 enacted level.

For the 2012 crop year, the Risk Management Agency (RMA) provided a record $117 billion in crop protection on a record 282 million acres of farmland. Due to widespread drought, hurricanes, and other natural disasters, RMA paid out insurance indemnities in excess of $17 billion to producers. But our current projections for the 2013 crop year are that total crop protection will decline to about $82 billion, largely as a result of lower commodity prices.

For the Foreign Agricultural Service, we are of course the lead agency for the Department's international trade activities and are at the forefront of efforts to expand overseas markets and to foster global food security. Our 2014 budget is designed to ensure that FAS has the resources needed to continue these activities globally.

For FAS trade expansion and promotion programs, the budget includes $200 million for the Market Access Program. Our other trade programs are subject to reauthorization and their appropriation levels will be set in the next farm bill.

For the international food assistance programs, the budget includes discretionary funding of $185 million for McGovern-Dole and mandatory funding of $255 million for Food for Progress. For Public Law 480, or title II, no funding is requested as part of the USDA budget, a decrease of $1.4 billion from the 2013 level. Rather, the budget seeks to reform our largest food assistance program by providing $1.47 billion into the accounts of USAID. The goal here is to make our food assistance more efficient by moving away from strictly U.S. commodity assistance and including other options, such as local and regional procurement and cash vouchers. However, the proposal requires that at least 55 percent of the International Disaster Assistance funding be used for the purchase and transport of U.S. agricultural commodities.

PREPARED STATEMENT

Mr. Chairman, thank you for the opportunity to be with you today. I look forward to your questions.

[The statement follows:]

PREPARED STATEMENT OF DARCI L. VETTER

FARM AND FOREIGN AGRICULTURAL SERVICES

Mr. Chairman and distinguished members of the subcommittee, I appreciate the opportunity to appear before you today to present the 2014 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA).

My statement will summarize FFAS agencies' budget and program proposals, after which I will be pleased to respond to your questions.

Mr. Chairman, the FFAS mission area carries out a diverse array of programs and services that support a competitive agricultural system and provide the foundation for prosperity throughout rural America. Price and income support, farm credit assistance, conservation and environmental incentives, risk management tools, and trade expansion and export promotion provide a critical safety net for our producers and have spurred record exports. The importance of this safety net has been apparent particularly during the 2012 drought, the worst since the 1930s.

The 2014 budget reflects a number of legislative proposals that would reduce the deficit by $38 billion over 10 years compared to current baseline spending. Several of these proposals affect the programs of this mission area, and lower the deficit while maintaining a strong safety net for American agriculture. The savings would result, in part, from eliminating direct farm payments, decreasing payments to crop insurance companies and premium subsidies to producers, and capping the Conservation Reserve Program (CRP) at 25 million acres. The budget also proposes to extend some disaster assistance programs for the 2014 through 2018 crops and provides additional assistance to dairy farmers through expansion of the dairy gross margin insurance program.

Also reflected in the budget is the Department's Blueprint for Stronger Service. Since 2009, USDA has undertaken historic measures to save more than $700 million in taxpayer funds through the streamlining and modernization of management and operations. These improvements have allowed the Department to strengthen its mission of building a stronger middle class and economy in rural America and to continue the success of American agriculture. The Blueprint for Stronger Service takes a realistic view of the needs of American agriculture in a challenging budget climate, and outlines USDA's plans to renew and accelerate the delivery of services and enhance the customer experience through the use of up-to-date technologies and business solutions. Ultimately, these improvements will help producers and rural businesses drive America's economy and respond to 21st century challenges.

Today, American agriculture is strong, with record income and exports over the past 4 years. During that period, our mission area has worked hard to do more with less, to manage current and future budget challenges, and to ensure that critical investments in rural America continue. Specifically, FFAS has taken a variety of steps to cut costs and improve services, including:

—Saved $4 billion over 10 years with the negotiation by Risk Management Agency (RMA) of a new standard reinsurance agreement for the Federal Crop Insurance Program;
—Cut travel, printing and supplies budgets;
—Cut burdensome paperwork for farmers and administrative costs for RMA and FSA condensing 70 common dates down to 15 for reporting acreage and crop data;
—Consolidated 125 service centers in compliance with the 2008 farm bill while improving high quality service from the remaining 2,100 plus offices;

—Closed two overseas locations while strengthening trade policy, trade promotion, and capacity building efforts in 96 international locations; and
—Implemented employee buy-out and early-out authorities. All three agencies are operating with fewer staff. Staffing levels in Farm Service Agency (FSA) have declined 32 percent since 2003; and, during the past decade RMA staff years declined by nearly 8 percent, while the value of insurance protection has more than tripled.

FARM SERVICE AGENCY

FSA provides producers with a broad range of helpful services, such as farm ownership and operating loans, disaster assistance, income support payments, commodity marketing assistance loans, and certain conservation programs, such as the CRP. FSA administers discretionary programs as well as mandatory programs that are funded through the Commodity Credit Corporation (CCC).

Salaries and Expenses

The 2014 budget requests $1.49 billion for salaries and expenses from appropriated sources, including credit reform transfers. This level is adequate to maintain a staffing level of 4,436 Federal staff years and 7,980 non-Federal staff years.

We are grateful for the subcommittee's support for FSA's efforts to upgrade its aging information technology. FSA continues to implement paperless, Web-based services and more streamlined business applications for more timely, more accurate, and more reliable service to farmers and ranchers. This year, FSA expects to reach its target of 76 percent of FSA programs with Web-enabled applications and plans to boost this to 88 percent in 2014.

The 2014 budget also recommends $65.5 million in funding for the continued development and operation of MIDAS (Modernize and Innovate the Delivery of Agricultural Systems). In 2012, FSA developed the first version of MIDAS and began testing the system to prepare for implementation. The first version of the MIDAS system was released in April 2013 and provides farm records, customer data, and acreage reporting with GIS mapping capability. For the first time, FSA staff now has access to this data through a single operating system, eliminating the need for staff to re-enter data because the systems were not interlinked. This change alone will speed the application process, reduce input errors, and improve program compliance and integrity.

Commodity Credit Corporation

The farm commodity price and income support programs are financed through the CCC, a Government corporation for which FSA provides operating personnel. CCC also provides funding for conservation programs, including CRP and certain programs administered by the Natural Resources Conservation Service. CCC also funds some export promotion and foreign food aid activities administered by FAS. The commodity programs were mandated by provisions of the 2008 farm bill. The American Taxpayer Relief Act of 2012 (ATRA) extended the authority to operate some farm bill programs through 2013.

Under provisions of current law, CCC outlays are projected to be $10.1 billion in 2013 and $9.1 billion in 2014, down from the record high of $32.3 billion in 2000. The reductions since 2000 are due primarily to reduced commodity program outlays, reflecting higher prices for most commodities. Commodity prices are expected to remain relatively robust into 2014 resulting from strong exports and demand for production of bio-based products and bio-energy. The increase in CCC outlays from 2012 to 2013 reflects 2008 farm bill changes which eliminated the option for producers to receive advance direct payments. This shifted some direct payments that would have been paid in 2012 into 2013.

Conservation Reserve Program

CRP is a voluntary program that provides annual rental payments and cost-share assistance to agricultural producers in return for establishing long-term plant cover on highly erodible and other environmentally sensitive farmland. CRP assists farm owners and operators to conserve and improve soil, water, air, and wildlife resources. Since CRP began in 1985, over 8 billion tons of soil has been prevented from eroding, with an estimated 308 million tons in 2012 alone. Approximately 200,000 stream miles are protected with CRP riparian and grass buffers.

Twenty-seven million acres were enrolled in CRP as of March 2013. In 2012, FSA held a general sign-up, accepting 3.9 million acres while contracts expired on 6.5 million acres. The American Taxpayer Relief Act of 2012, provided USDA the authority to enroll new acres in CRP through 2013. Contracts on 3.3 million acres will expire at the end of 2013; however, USDA will hold a general sign-up from May 20 to June 14, 2013. FSA also offers "continuous" signup, which now makes up about 20 percent of total CRP acreage. The budget baseline projects CRP enrollment will end at about 27.6 million acres for 2014.

Farm Loan Programs

FSA plays a critical role for our Nation's agricultural producers by providing a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct and guaranteed loan funds are reserved each year to assist beginning, limited resource, and socially disadvantaged farmers and ranchers. In 2012, 66 percent of direct loan funds went to beginning farmers. To further assist small and socially disadvantaged farmers, FSA recently implemented a streamlined microloan program, under the authorities of the direct operating loan program.

The 2014 budget proposes a total program level of about $5.6 billion. Of this total, over $1.9 billion is requested for direct loans and about $3.7 billion for guaranteed loans offered in cooperation with private lenders. These levels reflect credit usage forecasts at the time the budget was developed. Due to the excellent performance of the farm loans portfolio, we will be able to provide this level of assistance with just $92 million in budget authority. With this funding, we will be able to serve about 34,000 farmers and ranchers.

RISK MANAGEMENT AGENCY

The Federal crop insurance program represents the primary risk-mitigation tool available to our Nation's agricultural producers. It provides risk management tools that are market driven and reflect the diversity of the agricultural sector; including specialty crops, organic agriculture, forage and rangeland, as well as traditional row crops.

Over its 75-year history, the value of the Federal crop insurance program to American agriculture has grown. In 2012, the crop insurance program provided coverage on more than 282 million acres of farm and ranch land and protected nearly $117 billion of agricultural production. This represents a 10-fold increase from the $11 billion in crop insurance protection provided just two decades ago. We currently project that indemnity payments to producers on their 2012 crops will be about $17 billion on a premium volume of about $11 billion. Our current projection for the 2013 crop year shows the value of protection will decline, to about $82 billion. The decline is based on the Department's November 2012 estimates of planted acreage and expected changes in market prices for the major agricultural crops.

The 2014 budget requests an appropriation of "such sums as are necessary" as mandatory spending for all costs associated with the program, except for Federal salaries and expenses. This level of funding will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase. For salaries and expenses of the RMA, $71 million in discretionary spending is proposed to support 455 employees. Compared to 2010's $80 million appropriation that supported 528 employees, it is a reduction of nearly 11 percent and about 14 percent, respectively.

FOREIGN AGRICULTURAL SERVICE

Agricultural trade significantly contributes to the prosperity of local and regional economies across rural America through increased sales and higher commodity prices. USDA estimates that every $1 billion of agricultural exports generates $1.3 billion in economic activity and supports 6,800 American jobs throughout the economy. The Department, with the FFAS mission area in the lead, plays an important role to remove agricultural trade barriers, develop new markets, and enhance the competitive position of U.S. agriculture in the world marketplace.

U.S. farm exports reached $135.8 billion in fiscal year 2012, the second highest total on record, and the agricultural trade surplus reached $32.4 billion. The fiscal year 2013 forecast for U.S. agricultural exports was recently revised to $142 billion—the highest total on record. In 2013, agricultural exports are expected to contribute a positive trade balance of $29.5 billion to the Nation's economy. For U.S. agriculture to continue to thrive, we must continue to open, expand, and maintain access to foreign markets, where 95 percent of the world's consumers live.

Fiscal years 2009 through 2012 represent the strongest 4 years in history for agricultural trade. To achieve this, USDA worked with the Office of the U.S. Trade Representative, the Department of Commerce, the White House, Congress and industry stakeholders to gain approval for new trade agreements with Panama, Columbia, and South Korea. These agreements will result in an estimated $2.3 billion in additional agricultural trade each year and support nearly 20,000 domestic jobs. Since 2009, the United States has also entered into free trade agreements with Jordan, Oman and Peru; and an organic equivalency agreement with the European Union. This progress will be continued under President Obama's National Export Initiative, which has set a goal to double U.S. exports by the end of 2014.

Today, Foreign Agricultural Service (FAS) trade negotiators are involved in two major negotiations: the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). The TPP is an opportunity to shape a high-standard trade agreement in a region that represents more than 40 percent of global trade. Key objectives in the TTIP negotiations are to eliminate duties on agricultural goods and eliminate or reduce trade distorting non-tariff barriers between the United States and the European Union (EU), currently our fifth largest agricultural export market. Expanding markets abroad creates more jobs and boosts the bottom line for companies all along the supply chain.

As we work to open new and maintain existing markets overseas, we face many challenges and barriers that must be addressed. In the past year, FAS and has been instrumental in resolving numerous sanitary, phytosanitary and technical barriers to trade. USDA efforts to remove trade barriers led to billions of dollars in additional U.S. exports around the world in fiscal year 2012. We've expanded beef market access with Japan, Mexico, and Hong Kong. We've removed barriers in the Korean market to U.S. cherries—U.S. cherry exports to Korea for the 2012 season totaled nearly $74 million, compared to $39 million in the previous year. We have also participated in negotiations with the European Union that resulted in the elimination of its ban on the use of lactic acid as a pathogen reduction treatment on beef and discussions that led authorities in Taiwan to adopt and implement a maximum residue limit for ractopamine in beef. Monthly shipments of U.S. beef to Taiwan more than doubled from $2 million to $5 million per month and remain at record levels.

The FFAS mission area also makes a significant contribution to the Department's strategic goal of enhancing global food security. Through foreign food assistance, technical assistance, training, and capacity building activities, we are working closely with other U.S. departments and agencies to address global food insecurity. USDA is well positioned to encourage the adoption of new technologies and production practices that can help increase the availability of food and improve its marketing and distribution.

Salaries and Expenses

FAS is the lead agency for the Department's international activities and is in the forefront of our efforts to expand and preserve overseas markets and foster global food security. FAS carries out its activities through a network of 96 overseas offices and its headquarters staff here in Washington. FAS overseas staff represents American agricultural interests world-wide.

The 2014 budget is designed to ensure that FAS has the resources needed to continue to represent and advocate on behalf of American agriculture on a global basis and to create new market opportunities overseas. The budget provides a program level of $185 million. This level of funding is expected to be sufficient to maintain the agency's overseas presence at current levels. The budget reflects ongoing cost avoidance in headquarters through the continuation of a hiring freeze and further reductions to travel and training.

In 2012, under the Blueprint for Stronger Service, FAS closed two overseas offices. The 2014 budget provides an increase of $1.5 million for higher operating costs at the agency's overseas posts, including increased payments to the State Department for administrative and security services provided at overseas posts. FAS has no administrative staff overseas and, therefore, relies on the State Department for those services.

International Food Assistance

For the McGovern-Dole International Food for Education and Child Nutrition Program, the 2014 budget provides funding of $185 million. The requested level is expected to assist as many as 4.3 million women and children during 2014. About 34 million children throughout the world have now received benefits from the McGovern-Dole program and its predecessor, the Global Food for Education Initiative.

The 2014 budget proposes to replace $1.47 billion in funding for Public Law 480 title II food assistance with an equivalent amount in U.S. Agency for International Development accounts, including International Disaster Assistance (IDA). The proposed reform replaces title II funding with robust levels of flexible emergency food aid and related development funding, with the goal of making food aid more timely and cost-effective. The reform will improve program efficiencies and performance by shifting resources to programs that will allow greater ability to use the right tool at the right time for responding to emergencies and chronic food insecurity. The tools include interventions such as local and regional purchase, cash vouchers and transfers, and cash for work programs. As part of the reform proposal, appropriations language is included requiring that at least 55 percent of the requested fiscal year 2014 IDA emergency food aid funding be used for the purchase and transport of U.S. agricultural commodities.

Food assistance will also be provided through the Food for Progress program that FAS administers. The 2014 budget includes an estimated program level of $255 million for this CCC-funded program, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries.

Export Promotion and Market Development Activities

The CCC export credit guarantee programs (GSM–102 and Facilities Guarantee) provide payment guarantees for the commercial financing of U.S. agricultural exports. The guarantees facilitate sales to buyers in countries where credit is necessary to maintain or increase U.S. sales. For 2014, the budget includes a program level of $5.5 billion for the CCC export credit guarantee programs.

For the foreign market development programs, the budget includes a program level of $200 million for the Market Access Program. The remaining programs, including the Emerging Markets Program, Foreign Market Development Program, and Technical Assistance for Specialty Crops Program are subject to reauthorization and funding levels are expected to be established in the next farm bill.

Mr. Chairman, this concludes my statement. Thank you for the opportunity to present our 2014 budget and program proposals. I would be pleased to answer any questions you and other members of the subcommittee may have.

Senator PRYOR. Thank you.

Let me, if I may, start with you, Ms. Vetter.

Senator BLUNT. Does Mr. Young have a statement?

Senator PRYOR. Mr. Young, you don't have a statement, right?

Mr. YOUNG. Right.

Senator PRYOR. Senator Blunt just wanted to make sure you didn't want to speak your piece before we got under way here.

TRADE BARRIERS

Ms. Vetter, let me ask you, if I may. As you know, you're well aware U.S. agricultural exports are at record levels, and that's great news. That's great news for the country, it's great news for rural America, great news for our farmers. The question is, what are the biggest challenges we face to ensure the competitiveness of U.S. agricultural products as we go forward?

Ms. VETTER. Thank you, Mr. Chairman. We face, frankly, a variety of trade barriers, but as global trade liberalization has advanced those tend to be less on the tariff side and instead tend to be more on sanitary and phytosanitary, or SPS, barriers to our products. In particular, we've seen a number of challenges to the export of our meat and poultry products over the years and are particularly focused now on key barriers with Russia and China, two of our largest markets and with great expansion potential.

Specifically, we're looking at barriers that have been imposed on the use of the veterinary drug ractopamine. We continue to push other governments to adopt the international standard for that and we'll continue to do so and to work closely with industry on ways that we may reopen the Russian market in particular.

We have seen some real progress on the bovine spongiform encephalopathy (BSE) front, where a number of markets have remained closed or partially closed to U.S. beef and beef products. Hong Kong did significant market opening earlier this year. Japan is now accepting our beef products under 30 months of age, and we continue discussions with Mexico as well, who has opened to all of our products under 30 months at this time.

Senator PRYOR. Thank you.

ELECTRIC LOANS

Mr. O'Brien, let me move to you if I can. Your budget proposes significant restrictions on the ability for rural electric cooperatives to use the electric loan program for fossil fuel-related activities. I hear a lot of concern from the Arkansas electric coops, and my guess is you hear that from around the various States, because as it turns out the cooperatives tend to use a lot of fossil fuels in electricity generation.

So approximately—tell us how your proposal would change things and give us a sense of how much of your loan program this year will be used to support renewable fuel activities versus more traditional activities?

Mr. O'BRIEN. Thank you for that question, chairman. You're right, this is certainly something we've heard from a number of cooperatives across the country. The proposal I think recognizes the need to incentivize a change within the energy mix for rural America. We have seen this year—we're working on an 80-megawatt loan right now that does envision using renewable energy, and we're working with industry and with the coops on cultivating some other loans.

The proposal itself would utilize a $3 billion program level for projects that would utilize renewable energy. The proposal also envisions up to $1 billion of financing for environmental upgrades for fossil fuel, fossil fuel plants.

Senator PRYOR. So give me those numbers again?

Mr. O'BRIEN. It's $3 billion for projects that utilize renewable energy, program level of course, and then $1 billion—and that's a floor. I should make that clear. It is a little bit confusing. The $3 billion is a floor. If we have greater demand than that, we can utilize the total $4 billion program level.

The $1 billion is a cap and that cap would relate to improvements, environmental improvements for existing plants.

PLANT MATERIALS CENTERS

Senator PRYOR. Ms. Mills, let me follow up. Let me ask you a question and then I want to turn it over to Senator Blunt. As you know, there are 27 Plant Materials Centers (PMCs) around the country. They do all kinds of different things. Of course, we have one in Booneville, Arkansas, which I'm kind of partial to, and I'm sure other members have them in their States. There's actually broad support for these in Congress.

The budget request, though, has a decrease of nearly $1 million for these PMCs. Is USDA planning to close or consolidate any of those centers?

Ms. MILLS. Thank you, Mr. Chair. I agree with you that these Plant Materials Centers are really important to helping support the mission of NRCS in testing and providing important vegetative and other plants to adapt to changing climate. What has happened since 2011 is we've seen a 22-percent cut in the Plant Material Center budgets. So right now we are going through a process of considering how we're going to absorb those cuts. We are doing that very carefully, with an underlying commitment to making certain that we can continue to service all regions of the country as we go forward.

We're in those beginning stages of making those determinations, but we'd be very happy to work with you and other members of the subcommittee as those decisions are being made.

Senator PRYOR. That would be great. But right now, are you saying there's no plans to close those or you don't know yet?

Ms. MILLS. We don't know yet. We're still going through a deliberative process at this point. But we are committed to ensuring that, whatever path we go down, we are going to continue to ensure that our plant material service centers are going to be able to service those regions and those communities that depend on them.

Senator PRYOR. Senator Blunt.

WATERSHED PROJECTS

Senator BLUNT. Thank you, chairman.

Secretary Mills, on the Watershed Protection and Flood Prevention Act there's a program, Public Law 566, that we haven't funded in 3 years and there's no funding here for that program, though I know there are at least two Missouri projects and I assume a few others that are in the middle of getting done what they wanted to get done and had anticipated that this would be available.

Do you see any future for this program?

Ms. MILLS. Ranking Member Blunt, yes, actually I'm familiar with those two projects and some of the other projects that have been in the process of being developed. I know that NRCS helped in the early stages to develop plans for the two projects.

Unfortunately, as you mentioned, the program has not been funded. So that creates one of those challenges that we're facing with this program and other programs—very tough budget challenges we're facing in the tough decisions we have to make. That said, we would be happy to come up and visit with you to talk about these projects if you would like.

Senator BLUNT. Well, that would be helpful. I think—and Mr. Young, you might know this, or Ms. Mills, you might. Did we put money in the Senate bill last year for these programs and then you had to use it because of the overall cut? I think it was in the Senate bill. I don't know if it was in the final bill.

Ms. MILLS. Mr. Young may be aware of that. I would defer to him, or we could certainly get back to you.

Senator BLUNT. There was a little money in the conference report that we approved, but I think that account has been decided you needed that money worse in other places.

Mr. YOUNG. Well, yes, sir. Actually, Mr. Blunt, it was included within the rural development area.

Senator BLUNT. Right.

Mr. YOUNG. And I believe that the funding level, the program level, was $40 million.

Senator BLUNT. $40 million. But it's no longer—it had to be used for some other purpose, or is it still there?

Mr. YOUNG. It's still there.

Mr. O'BRIEN. Actually, it is still there and we are working with some applicants right now, and we'd be happy to discuss sort of where we are in the process and discuss with your staff or with you.

Senator BLUNT. That would be great, and I'd be very interested about whether those applicants would be people that already you've worked with before, that are well on the way. Approving a new project here, a brand new project, I don't think would be the right thing to do, and that's not just—because there are a handful of these that really, some of them have had local levies, local votes to provide the local money. Really, I'd like to talk about that.

CENTER OF EXCELLENCE

Mr. O'Brien, the big service center for your system is in St. Louis. I think I was out there with the Secretary not too—a couple of years ago when that was expanded. You're working to make that a center for excellence, as I understand it?

Mr. O'BRIEN. The centralized service center in St. Louis, as you say, it's basically our back office. It's our operation that maintains the integrity primarily of that $185 billion portfolio that you mentioned. We do see that as a great asset for the Federal Government and we do envision that it could do more for the Federal Government.

In this year, because of the reduction in staff we've really focused on making sure that the operations at CSC are responding to our burgeoning portfolio and particularly the single family guaranteed loan program, and we do look forward to continuing to examine the possibilities. It is a resource question where we feel like we really need to make sure that we have a very good handle on the current responsibilities we have to protect the integrity of the portfolio and look from there.

Senator BLUNT. And your view is that you could use that facility and the structure you have in place there for other loan service in the Federal Government beyond Rural Development?

Mr. O'BRIEN. We think that there's some opportunity there. As you very well know, there are different operations in locations that the Federal Government, that USDA uses. For instance, in New Orleans there's a group that does a lot of back office work for different agencies even outside of USDA. We think that we could, with the right resources, we could have the expertise and capacity to service other parts of the Federal Government. But at this point we're really focused on sort of making sure that we can take care of the big portfolio that's coming through.

TRADE DISCUSSIONS

Senator BLUNT. Ms. Vetter, in the trade discussions that are out there, what do you think are going to be the biggest challenges for agriculture in those discussions? What you mentioned earlier, the nontariff barriers or the standards?

Ms. VETTER. Those of course will be at the top of the list, although the market access discussion and making sure that we get good access for the full range of U.S. agriculture products will be challenging. But we note that both in the Trans-Pacific Partnership negotiations and in our negotiations that we are launching with the European Union (EU) there is a commitment to making these a comprehensive agreement.

I think for the Trans-Pacific Partnership we are in fact putting more emphasis on regulatory matters and making sure that our partners in that agreement maintain a high degree of transparency and meet their international commitments in acceptance of our products on that level. I would note that in this agreement, the countries that have signed on have again committed themselves to a comprehensive structure. Part of the reason it's so important that we engage in the Trans-Pacific Partnership is that there are a number of other sort of trade agreements of convenience throughout that region where countries have sort of left out hard areas like agriculture. So getting a number of the countries in that very dynamic region to sign onto comprehensive talks, I think, is important in and of itself.

In the European Union (EU), I know you're aware that we face a number of nontariff barriers, particularly in biotechnology and in beef hormones, other areas, that really restrict or have restricted our growth in trade. We're going to have to find a way to look at how we normalize trade in those areas under this agreement. Frankly, I don't expect that we will change the EU's whole approach to regulation, but I think we can take a hard look at how they apply those measures and find a way that makes their trading environment a lot more predictable and open to U.S. products.

RACTOPAMINE TRADE BARRIER

Senator BLUNT. You mentioned with ractopamine that our view is that both China and Russia are not looking at the international standard, which we meet?

Ms. VETTER. That's right. Russia has in fact restricted our trade or stopped our trade in our meat and turkey products based on ractopamine. We continue to push at the Government level and note with them that we think in fact those measures are inconsistent with their international trade obligations. We are also working with our beef and pork industries to look at a ractopamine-free program that those in the industry who could meet—that could use to access the Russian market. But we will not stop pushing them for a removal of the barrier.

China on March 1 imposed new restrictions that require a testing result to be sent to China showing the lack of ractopamine in product. But they have not asked for U.S. Government assistance or assurance in this product and we don't actually see it affecting trade at this time. But we continue to consult with China about the safety of ractopamine and encourage them to apply the international standard.

Senator BLUNT. I know you're very familiar with it. Am I right in remembering that, Taiwan, have they decided that ractopamine in beef products is acceptable, but not yet in pork products? And what could the rationale for that be?

Ms. VETTER. Well, you are correct that we're pleased that, after the Codex adopted that international standard for ractopamine this summer, Taiwan did move forward and implement that standard for beef, but not for pork. Frankly, that's largely due to political difficulties with their own pork industry. We continue to push them to adopt that standard for pork as well and provide them with a lot of safety information to provide greater assurance about the safety of our products. But it's a difficult issue for them, and we will continue pushing them to resolve it.

At the Trade and Investment Framework Agreement, the TIFA agreement we have with Taiwan, this was a key agenda item for the United States that we raised with them, and we'll continue to do so.

CHINA POLICY ON DEHYDRATED POULTRY PRODUCTS

Senator BLUNT. On one specific instance that I think we told you yesterday I was going to ask about, there's a company in Springfield, Missouri, International Dehydrated Foods, that we tried to help, because last year China changed its policy on importing dehydrated poultry products, in the case of this company after they already had product en route, and it just sat there for quite a while.

Particularly in the poultry industry, where Senator Pryor and I live, the ability to send some of that product out of the country and even in a dehydrated fashion really matters. I think we wrote you a letter, we wrote a letter, or you wrote a letter to Ambassador Locke about this issue in October 2012. I haven't seen a response to that letter from the Ambassador to you, and I hope you're continuing to try to resolve this favorably.

My guess is that the product went somewhere and may or may not have been destroyed, but I do know that the company lost the value and the control of the product. Do you have any new information on that?

Ms. VETTER. At this point I do not. I was in China in March and our Minister-Counselor in Beijing, Scott Sindelar, briefed me on this problem. He had had some recent discussions and had raised this issue with Chinese officials. I think we are frankly trying to ascertain why the change in policy occurred with China and to try to figure out exactly what their food safety concerns might be with that product and provide them with the information to resolve that.

That has been a bit more difficult than I think we thought might be the case, but we continue to work on it. It is a priority and we will keep you and your team updated on our progress on this issue.

Senator BLUNT. I think where you have trading partners that change the rules after things have been shipped and then wouldn't even let this be shipped back—it was there and it sat there until it lost value—is a problem.

Chairman, I have a couple of other questions, but go ahead if you have some more.

Senator PRYOR. Thank you.

RURAL BUSINESS AND COOPERATIVE GRANTS

Mr. O'Brien, let me start with you if I may. In the world of economic development, your budget proposes consolidating five programs into one. Let me say I have some concerns about that. So let me ask kind of a two-part question. First, this is a new program, new approach, and wouldn't it be better to have that authorized in the farm bill? That would be my first question. Since that's on the floor this week, it makes sense to do that.

My second question would be: If this does occur, how do you ensure that these disparate needs, because these five existing programs are pretty different and serve different needs out there, how do you ensure that all those needs get met in this one big program?

Mr. O'BRIEN. Mr. Chairman, thank you for that question. Certainly there are a number of very important considerations and needs that these grant programs serve. In fact, just earlier this week I had an opportunity to spend a couple days in northwest Arkansas, and I saw some of the fruits of these grants. We utilize a number of these grants within the Strike Force arena in Arkansas in partnership with Heifer in a great farmers market project in Newport.

To get right to your questions, certainly the authorizers are considering some similar strategies to consolidate and streamline the grant programs. Actually, it is in the underlying bill that's being considered right now, some of these ideas.

I think the reason why we thought it was appropriate within the fiscal year 2014 budget is that the way we envisioned this approach is that it would utilize current authorities. There's no new authorities. We'd simply consolidate and streamline the authorities into one grant program, for two very simple reasons. One is to streamline. We have five different grants, five different application periods, five different basically work flows that our State and national staff need to work through.

I think to your most important question, how do we assure that the different areas and the different needs are met, we think that with the proper discretion that we'd be able to craft a program that could continue to focus the grants on those in most need, to make sure to serve the cooperative community, and we'd be able to do that through prioritization and making sure we make clear that the different entities are eligible for the program.

Senator PRYOR. I'd like to just follow up on that after the hearing at some point, because all that's important. I just have concerns there.

WATER AND WASTE PROGRAM

Let me also stay with you, Mr. O'Brien, if I can. I want to talk to you about the USDA's water and waste loan/grant programs. As you know, these are very popular, heavily utilized programs. To me, what I'm seeing in the administration's proposal, it kind of falls into the category of those who need it the most can afford it the least.

So when I look at your numbers I see that the budget cuts the grant level by about $110 million, while the loan level is increased by about $275 million.

Mr. O'BRIEN. Right.

Senator PRYOR. So I guess again a two-part question here. What caused the administration to do such a big change in this popular program and what's the administration's analysis about how that will change the effectiveness of the program?

Mr. O'BRIEN. Thank you for that question. It's a terrifically important program for small communities dealing with their water and waste water issues. To your first question, what caused the change, three things. One, simply the tough budget environment that we all find ourselves in.

Number two, historically low interest rates make it possible for some small communities that otherwise with more traditional interest rates wouldn't be able to access some dollars and have a sustainable financing, that we think they'll be able to do it. In fact, the cohort, the lowest interest rates for the poorest communities, is down to about 2⅛ percent right now, so it's some nice low interest rates.

The third thing is the subsidy score for the direct loan component of the water program went to zero this year, which means that we could grow that program level with no budget authority. So we grew that significantly, as you mentioned. We think that, given the fiscal situation we have, it is the right mix.

You asked about what type of analysis. What we do know is that in fiscal year 2012 over 74 percent of the dollars were loan dollars. So the primary financing mechanism currently is already loan dollars. In that year 80 percent of those dollars went to communities of 5,000 or fewer and 55 percent went to communities of 1,500 or fewer. So we know from the past that we'll be able to continue to serve communities in the future.

I think again it's these historically low interest rates that make this possible to work in 2014. In another year there might have to be another mix. So thank you for that question.

Senator PRYOR. Senator Blunt.

RENTAL ASSISTANCE PROGRAM

Senator BLUNT. Mr. O'Brien, on the rural housing rental assistance, what are you doing with that under the current budget and will there be any impact to people in that program between now and September 30? If you want to go beyond that, what impact then do we have based on what we do this year on next year?

Mr. O'BRIEN. Right. As you know, Senator, it's an issue that's been highlighted by the Secretary when he was here before you recently. It is an area where we're very concerned on the impact of sequester and the rescission from the final fiscal year 2013 appropriations bill. There is an impact, but I think what I can assure you is that, to the tenants who live in those multifamily properties, we do not envision a negative impact on the tenants in the near term.

There will be some—what we need to do with the owners of those properties is—and we've begun to alert people. We sent a letter out over 1 month ago to all the owners to let them know that as we work through the funds, which frankly the funds are not sufficient to meet all the renewals that we project this year—we're short maybe around $65 million—that we will work with those owners that we do not have the resources to do the renewal in a number of workout authorities that we have, such as deferring loan payments, extending the loan, allowing them to use their reserve account.

Come about in June next month, certainly in July, we're going to know exactly which owners are going to be affected and we're going to start working with each of those to make sure that they can get through this fiscal year and be able to renew their contract and keep their properties up.

Fiscal year 2014, the proposed number that we provided you in the budget was based on basically a situation before sequester and before the rescission. So in 2014 some of the numbers, basically that backlog, if you will——

Senator BLUNT. Things that don't get paid in September, that get paid in October?

Mr. O'BRIEN. Precisely. We plan to—very early in October, we're going to renew those contracts, and it will cause sort of a cascading effect into the next fiscal year. We're working through exactly what that number is. We've implemented a number of cost-saving strategies this year, so I don't think—in fact, I'm sure it's not going to be that $65 million. We didn't push the whole $65 million into next year. It's a number somewhat smaller than that. And we'd be happy to work with your staff on exactly kind of what we know and what our best estimate is right now.

ELECTRIC LOANS

Senator BLUNT. On the rural electric coop effort that Senator Pryor talked to you about, can electric cooperatives under the proposal that the President made in this budget, would they be able to finance distribution or transmission projects?

Mr. O'BRIEN. They would for those distribution projects that are related to a renewable energy effort. So it's a qualified yes, I think.

Senator BLUNT. Since 100 percent of the $4 billion could go to renewables, there'd be nothing for anything but renewables in that $4 billion?

Mr. O'BRIEN. There's up to $1 billion for environmental upgrades.

Senator BLUNT. You said unless there was more than $3 billion in requests on the other column.

Mr. O'BRIEN. Yes. I think exactly it probably would be a timing question. But there is up to $1 billion allowed for environmental improvements, and then at least $3 billion allowed for projects related to renewable energy.

Senator BLUNT. Well, I don't agree with that, but we'll talk about that more. I think this is a big mistake for these cooperatives. I assume if it's a one-time mistake that they'll all survive and continue to do the best they can to provide electricity at the level that they can provide it, at the cost that people can afford to pay for it.

But every time we make rules and regulations that are either impossible to comply with or you do have to comply and it's too expensive, the poorest customers are the customers that are most dramatically impacted by this. The people that get the last better windows, the last people to get the better windows, the last people to get the energy efficient refrigerator, the last person to get more insulation in the ceiling, they're the people impacted the most.

When you take a program like this that's been well used—I mean, these cooperatives—72 percent of the geography of the country is served by rural electric coops. I think it's a mistaken policy, but we can talk about it more and look at it more. Putting all the eggs in a renewable basket I believe is a mistake.

EMERGENCY WATERSHED PROTECTION PROGRAM

I had one question, Ms. Mills, on water. We use a lot of it in the Mississippi River. I think of the 13 States that use one of those projects, we would be 2 of them. Was there money available in any of the disaster relief that let's you use that program more effectively?

Ms. MILLS. Sir, we've got—certainly we've got dollars that are allocated for Hurricane Sandy, I believe it's $171 million after the rescission. We have to work our way through that process. In terms of whether or not there's a balance left over after that to repurpose, we will certainly take a hard look at that later.

We have prepositioned money for EWP funds in the Upper Midwest and the Mississippi River Basin in the event that communities need relief assistance there.

Senator BLUNT. Okay.

Ms. MILLS. I'd be happy to follow up with your staff on this question.

MISSISSIPPI RIVER BASIN INITIATIVE

Senator BLUNT. Well, what about the Healthy Watershed Initiatives in the Mississippi River?

Ms. MILLS. Yes. The Mississippi River Basin Healthy Watershed Initiative (MRBI) is one of our most significant and very successful initiatives. The 13 States you mentioned, where we are using our science and our partnerships—we have roughly an average of nine partners per priority watershed there. In States like yours and Arkansas—in fact, Arkansas and Missouri are the two highest receiving States of MRBI dollars, and that's a testament to, frankly, the quality of the projects that are being submitted and the interest in both farmers and ranchers and the strong partner base there.

So we're very excited. We're in our fourth year in the Mississippi River Basin Initiative and it's been extremely effective at putting conservation dollars on the ground in those watersheds, where we're going to see significant water quality improvement.

Senator BLUNT. Okay.

Chairman, I may have some other questions to submit later, but that's what I have today.

Senator PRYOR. Thank you, Senator Blunt.

I too have—actually, I have a long question. I'm just going to submit it for the record, but I'll just tell you about it. Basically, I know what you've gone through with sequestration so far and my guess is you've hit a lot of low-hanging fruit. I mean, it hasn't been easy, but it's going to be easier this year than going forward.

The question is really for each one of you, kind of in your subject areas, what sequestration looks like in the future years. So I'll ask that question in writing because that's a long, detailed answer. But I'd appreciate that.

So let me just say thank you all for being here. I'm sorry for the hurried-up nature of the hearing today. They've called the vote and we're about to walk over and do that.

ADDITIONAL COMMITTEE QUESTIONS

For the members of the subcommittee, any questions that you'd like to submit for that hearing record should be submitted within 1 week, which is Thursday, May 30. We would appreciate USDA's responses within—I'd love to say within 2 to 3 weeks after that, but certainly within 4 weeks of that time.

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

QUESTIONS SUBMITTED TO DOUG O'BRIEN

QUESTIONS SUBMITTED BY SENATOR MARK L. PRYOR

CHANGES TO THE ELECTRIC LOAN PROGRAM

Question. Mr. O'Brien, this budget proposes significant restrictions on the ability of rural electric cooperatives to use the electric loan program for fossil fuel-related activities. Electric cooperatives in Arkansas are concerned that they would not be able to build electric generation with Rural Utilities Service (RUS) loan funds unless it is in conjunction with an intermittent renewable project.

Will you please summarize the restrictions this proposed language would place on eligible program activities?

Answer. The President's budget for fiscal year 2014 proposes a total of $4 billion for the principal amount of new guaranteed rural electric loans under section 306 of the Rural Electrification Act of 1936 (7 U.S.C. 936). The proposal would provide $3 billion to be used for: (1) renewable energy projects; (2) new or existing fossil-fueled electric generating plants with carbon sequestration systems; or (3) new or existing fossil-fuel electric peaking units that operate in conjunction with generating plants that produce electricity from solar, wind, or other intermittent sources of energy. The proposal also would make available up to $1 billion for environmental improvements to fossil-fuel electric generating plants to reduce emission of air pollutants including greenhouse gases.

This proposal recognizes the need to incentivize a changing energy mix in rural America and supports the administration's energy policy. The proposal would allow lending for transmission and distribution system investments associated with renewable generation, environmental improvements and eligible fossil-fuel generation projects.

Question. Approximately how much of your loan program this year will be used to support renewable fuel activities? Do you expect to see $4 billion in demand for renewables in fiscal year 2014?

Answer. At present we are reviewing about 100 megawatts of proposed new renewable electric generation projects that may go to the loan committee next year. We are continuing to work with electric cooperatives, the industry, and potential new borrowers to cultivate additional renewable generation loan applications for fiscal year 2014.

Question. Isn't it true that rural electric systems rely more heavily on fossil fuels than urban systems do?

Answer. Rural electric systems serve almost 75 percent of the Nation's land mass and are concentrated in regions that are more dependent on fossil-fired generation than more urbanized areas. Like all prudent utility systems, rural cooperative borrowers strive to maintain a balanced and diverse portfolio of fossil and non-fossil generation resources and demand side resources to meet the needs of their customers for safe, reliable, and affordable electricity.

Question. This proposal concerns me, because it seems like it may create a regional bias against financing electricity improvements in States like Arkansas, where wind and solar development are not as feasible. I also have concerns about loans to distribution co-ops under this proposal. Rural Utilities Service (RUS) has a 75-year partnership with the co-ops and I hope that partnership continues. Without this partnership I expect to see the costs for these projects to rise which may result in higher electricity costs.

Will you work with me and my staff to find a solution to this so we can hopefully avoid increased electricity costs?

Answer. We look forward to working with you to continue to provide the benefits of our rural electrification loan program and other Rural Development programs to help keep energy affordable for rural homes and businesses.

BROADBAND

Question. Mr. O'Brien, rural broadband providers have relied on access to the Universal Services Fund to be able to extend broadband services to remote rural areas.

Please bring us up to date on the status of Federal Communications Commission changes in rural providers' access to the Universal Services Fund.

Answer. We remain committed to working with the Federal Communications Commission (FCC) to ensure that the promise of section 254 of the Telecommunications Act of 1996 be fully realized. Sufficient, predictable, and specific Universal Services Fund (USF) and Inter-Carrier Compensation (ICC) mechanisms can drive investment, improve the quality of life, create jobs, and increase economic opportunities in rural America. According to the FCC's Eighth Broadband Progress Report, nearly one-fourth of the rural population lacks access to high-speed broadband. Yet, demand for RUS telecommunication loan funds dropped to roughly 37 percent of the total amount of loan funds appropriated by Congress in fiscal year 2012. Current and prospective RUS borrowers have communicated their hesitation to increase their outstanding debt and move forward with planned construction due to the recently implemented reductions in USF support and ICC payments.

Question. What do these changes mean in terms of the credit quality of your existing broadband loan portfolio and the demand for new broadband loans in the future?

Answer. While the USF reforms continue to unfold, RUS is open for business. We want to press forward and continue the momentum of the American Recovery and Reinvestment Act of 2009. As a lender we will have to make conservative assumptions about revenue streams until the USF environment becomes more certain. We continue to focus our attention on addressing the challenges, namely cost, density, distance and economic hardship in delivering affordable, high-capacity bandwidth to the most rural and remote portions of our Nation. Expanding broadband connectivity, increasing capacity, and extending service to the millions of rural communities still lacking affordable access remain our primary objectives.

WATER AND WASTE DISPOSAL LOANS AND GRANTS

Question. Mr. O'Brien, you are aware that USDA's water and waste loan/grant program is one of the most popular programs in your portfolio. This program has a long history of successfully bringing clean water and sanitary waste disposal systems to remote rural communities. Projects are generally financed by a combination of loans and grants, with poorer rural communities receiving a larger grant share.

However, this budget cuts the grant level by about $110 million, while increasing the loan level by about $275 million. As a result, rural communities will be forced to take on more loans to finance needed clean water and sanitary waste disposal projects.

Question. Mr. O'Brien, what caused the administration to propose such a large change to this successful program?

Answer. As a result of low interest rate and historically low levels of defaults, the direct loans can be provided at a negative subsidy rate and do not require a request for budget authority. The current low interest rates also mean that more communities can afford to service higher levels of debt than before, reducing the need for grant funds. Accordingly, grant funding is reduced by about $131 million. Collectively, the 2014 budget provides a total program level of $1.5 billion. Rural Development is confident that this level of funding in the current interest rate environment will allow us to continue to serve small and economically challenged rural communities near historical levels.

Question. Can you describe the analysis used by the Department in determining that this change would not harm the program?

Answer. The 2014 budget includes over $1.2 billion in direct loans and $304 million in grants for water and waste disposal projects, for a total program level of $1.5 billion. The majority of the funds issued through the Water and Waste Disposal Loan and Grant program are loans. In most years, the program maintains a 70-percent loan to 30-percent grant ratio, but as noted before, current low interest rates mean that more communities can afford to service higher levels of debt than before, reducing the need for grant funds. So we expect to provide a similar amount of assistance with more loans and less grants. In addition, through a scoring system and strict underwriting the program has been successful in ensuring that small rural communities have access to funding. In 2012, 55 percent of the projects funded served populations of 1,500 or more and 70 percent of the projects funded were to serve populations of 2,500 or fewer.

Question. What assurances can you provide that remote rural communities will continue to receive the assistance necessary to obtain safe, clean water, and sanitary waste disposal?

Answer. The low interest rates will make loans more affordable for many communities. This will allow Rural Development to ensure that grants are reserved for the smallest, most economically challenged communities. We will also make use of our Special Evaluation Assistance for Rural Communities and Households (SEARCH) program, to provide grants for predevelopment, planning, design assistance and technical assistance for financially distressed communities with 2,500 or fewer residents. In addition, we will continue to partner with other State and local programs to fund projects requiring grants. In cases where sufficient grant funding for a project is not available, we will work with communities to consider other alternatives, such as phasing of projects. About 2.2 million rural residents would benefit from new or improved water facilities alone in 2014.

RURAL JOBS AND INNOVATION ACCELERATOR CHALLENGE

Question. In August, the President announced $9 million for winners of the Rural Jobs and Innovation Accelerator Challenge. The goal of the initiative is to promote job creation and community and economic development in rural regions. The Department of Commerce, USDA, the Appalachian Regional Commission, and the Delta Regional Authority all contributed funding to this initiative.

Will you please explain exactly what this initiative does?

Answer. The Rural Jobs and Innovation Accelerator Challenge is a national multi-agency initiative to support rural partnerships that are critical in attracting new businesses, quality jobs and improving the economic climate and sustainability of rural communities. By leveraging local assets, the selected industry clusters and partnerships can do even more to help entrepreneurs and small businesses foster innovation, increase competitiveness, and employ highly skilled workers, all of which are critical to long-term economic growth in their regions. The Rural Jobs and Innovation Accelerator Challenge is a project of the Taskforce for the Advancement of Regional Innovation Clusters (TARIC) and the White House Rural Council, in partnership with many other Federal partners.

Question. What will be the total amount of Challenge awards made in 2013 and 2014?

Answer. There will not be any awards in 2013 and 2014. The Rural Jobs and Innovation Accelerator Challenge was a one-time multi-agency initiative for fiscal year 2012.

Question. How much will be contributed by USDA in 2013 and 2014, and from what programs?

Answer. The Rural Jobs and Innovation Accelerator Challenge was a one-time multi-agency initiative in fiscal year 2012. As a result, USDA is not contributing to this initiative in 2013 or 2014.

Question. What metrics are you using to measure success?

Answer. The metrics included: (1) jobs created during the project period; (2) jobs retained during the project period; (3) private investment leverage during the project period; (4) businesses assisted during the project period; and (5) engagement and collaboration of regional organizations.

SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM

Question. Mr. O'Brien, in this budget you are requesting "direct endorsement" authority in the guaranteed single family housing loan program.

Under direct endorsement, will the agency turn over the entire responsibility for loan underwriting to private bank participants?

Answer. No. Direct endorsement loans will require electronic submission to the Guaranteed Underwriting System (GUS). GUS is an automated underwriting system currently utilized by approved agency lenders to evaluate proposed loan applications. GUS utilizes a modified version of FHA's Technology Open to Approved Lenders (TOTAL) mortgage scorecard to evaluate the likelihood of loan success based upon measurable underwriting criteria such as credit score. The modified TOTAL scorecard has been validated for agency use based upon thousands of performing and non-performing agency loans. All direct endorsement lenders will be required to receive an acceptable underwriting recommendation from GUS prior to issuing an individual loan note guarantee on behalf of the agency. This will help ensure all eligibility parameters associated with the program are successfully met.

It will also indicate the loan exhibits positive characteristics closely associated with performing loans in the agency's portfolio. The agency has continued to strengthen GUS acceptance standards and portfolio delinquency rates are declining for the fourth consecutive fiscal year. As of March 31, 2013, the portfolio was outperforming its FHA benchmark by 131 basis points.

For the majority of lenders, direct endorsement will not replace the current agency process. It is intended to allow the agency to streamline the issuance of loan note guarantees for high-quality loans underwritten solely by high-performing, low-delinquency approved lenders. Following year 3 of a controlled rollout, it is expected that 40 percent of all loan note guarantees will be issued by direct endorsement lenders (i.e., 10 percent of all loans in year 1, 25 percent of all loans in year 2, and 40 percent of all loans in year 3 and beyond).

Question. Under direct endorsement, how would you maintain underwriting standards and your current (good) loan portfolio quality?

Answer. The agency will reserve direct endorsement authority for select lenders meeting established criteria. Lenders will not qualify for consideration unless they have strong loan performance characteristics as an approved program lender for a period of 2 years or more. Additional prerequisites will be established by the Secretary to further determine a lender's eligibility for direct endorsement authority. For example, the lender would need to demonstrate a proven history of delinquency rates below the national average for all approved lenders. Lenders granted direct endorsement authority will be required to maintain certain credentials and training requirements to retain such status.

The inherent risks associated with direct endorsement authority for lenders will be managed with the establishment of a robust post-closing lender monitoring effort to maintain the integrity of the portfolio. A portion of the single family housing staff previously engaged in the origination function of guaranteeing loans will be reassigned to lender oversight and post-closing compliance reviews. Ten percent of all loans approved by direct endorsement lenders will be reviewed post-closing for compliance to ensure a sufficient population of loans are evaluated for potential weaknesses. The audit sample size can be increased in the event of perceived need.

Current underwriting standards and portfolio performance will be maintained by a four-pronged approach as follows: (1) loans must pass automated underwriting scorecard requirements; (2) direct endorsement authority is reserved for the agency's top lenders with a proven track record of below average delinquency rates; (3) a post-closing lender monitoring effort, which includes a sampling of all loans closed by each direct endorsement lender and the discretion to perform more rigorous investigations as needed; and (4) a controlled rollout to enable the post-closing review team adequate time to acclimate to new processes, streamline review procedures, develop analytical tools, and effectively measure performance.

Question. How much will this save in agency administrative costs?

Answer. When looking at the program by itself, there will be measurable savings in the cost of carrying out the 502 guarantee program. Rural Development (RD) will be able to originate guaranteed loans with fewer full-time equivalents (FTEs). All lenders meeting eligibility requirements for direct endorsement authority will be approved by the agency over a 3-year period (controlled rollout). In addition, there will be a 2-year phase-in period where we will be making IT enhancements. However, it is expected that the FTEs freed up by the efficiencies gained by moving to a direct endorsement structure will address the tremendous number of unmet needs within the RHS field office. Ultimately, this proposal will help RD live within the current constrained S&E budget environment more effectively and efficiently.

Question. Does your current information technology (IT) system have the capacity to handle this process, and if not, how much will IT enhancements costs and how long would that take?

Answer. Modifications to existing IT systems, as well as new system development, will require significant upfront funding for direct endorsement implementation. The projected cost for implementing necessary system enhancements is $5.2 million and this cost will be absorbed within base funding. The cost will be spread out over 2 years for system development and user acceptance testing. An additional cost would be necessary to ensure minor changes to the system can be made following the initial implementation, as is customary with any major system enhancement.

The agency will not realize any cost benefit during the first 2 years of the project. This time period will be dedicated to readying systems for implementation and no delegated authority will be extended to preferred lenders during this time.

EFFECTS OF SEQUESTRATION ON RENTAL ASSISTANCE

Question. Mr. O'Brien, the Department provides rental assistance (RA) for very low- and low-income occupants of about 260,000 affordable rural rental housing units. These occupants are mainly female-headed households, the elderly, or disabled, with annual household incomes under $10,000. Agreements are renewed annually. It has been estimated that over 10,000 poor households will not receive rental assistance this year due to sequestration.

If rental assistance is not available, will these low-income households face rent increases and possible eviction?

Answer. No households will face rent increases due to the 2013 sequestration cuts. We are anticipating that the loss of rental assistance will impact the borrowers only in September of fiscal year 2013. Therefore, no rent increases or evictions will be necessary, as we will be working with affected owners to mitigate the loss of rental assistance through a rental assistance relief plan.

Question. How do you plan to manage the situation to minimize disruptive impacts?

Answer. Rural Development (RD) has developed a relief plan through which we will work with affected borrowers to agree on a plan to cover the anticipated 1-month loss of rental assistance. Participation by property owners is voluntary, but RD is encouraging each affected borrower to work with their loan specialist to develop a plan that works for that property. Relief measures to cover the rental assistance shortfall consist of: (1) allowing the use of funds in the General Operating account; (2) permitting borrower loans to the project with payback at 1 percent interest; (3) allowing authorized Reserve account withdrawals; (4) deferring the return to owner (or asset management fee, if nonprofit); (5) deferring the section 515/514 1st position debt service payments, with no interest charge; and/or (6) suspension of monthly reserve account deposits.

Question. Do you plan to ask building owners to extend forbearance to these households?

Answer. Due to the short-term impact of the rental assistance shortfall, RD does not anticipate that any of the residents of the involved properties will be affected adversely.

Question. What will the loss of rental assistance do to the credit quality of the Government loans securing these multi-family housing projects?

Answer. Since the loss of RA will only be for a 1-month period, RD does not anticipate that there will be any effect to the credit quality of the section 515 direct loans.

DIRECT SINGLE FAMILY HOUSING LOAN PROGRAM

Question. Mr. O'Brien, the Single Family Housing Direct loan program has been the flagship housing program in this Department for years. very low- and low-income rural households are provided homeownership opportunities with no down payment and low interest rates. This is the most efficient Federal homeownership program of its type, with its portfolio credit quality exceeding FHA and VA, and far exceeding the commercial subprime market. Furthermore, this year the cost of the program fell by 54 percent.

This budget cuts this program by 60 percent from the fiscal year 2012 level, from $900 million to $360 million in loans. Is there any other Federal homeownership program that can help families the way that this program does? If not, where will these families go to get housing assistance?

Answer. The Department acknowledges that the Single Family Housing Direct Loan program plays an important role in meeting USDA's commitment to improving the economic vitality and quality of life in rural America, but also acknowledges that difficult choices have to be made, including cuts to the section 502 direct loan program. It is anticipated that at the fiscal year 2014 proposed funding level of $360 million for section 502 direct over 3,100 low- and very low-income families will achieve homeownership.

USDA also intends to continue developing partnerships with qualified nonprofit organizations in rural areas to deliver program funds where it is needed most. We recognize that families living in more rural, poorer communities have difficulties accessing programs and services that promote long-term wealth. The Department anticipates that the assistance from nonprofit groups will provide targeted delivery of program funds to the most economically distressed and lower income communities.

Finally, the section 502 guarantee loan program will provide a source of financing for low-income families. Since 2008, about 32 percent of our guarantees have been to low- and very low-income families. We project that more than 33,000 lower income families will meet their housing needs with a loan guarantee through USDA. This is roughly the same total as all direct loans we obligated in the previous 4 years (2009–2012). The section 502 guarantee program will soon be publishing a final rule which will enable local community-based lenders, such as credit unions and small community banks, to participate in the program with the purpose of reaching the smaller, poorer and more remote rural communities.

Question. What is the current backlog of applications?

Answer. As of May 23, 2013, there are 8,851 section 502 direct loan applications on hand totaling $1,118,047,513.

Question. Why are you proposing to slash this program, in the face of its long history of documented success in making low-income families successful homeowners?

Answer. The Department acknowledges the importance of the section 502 direct loan program in providing low- and very low-income families an opportunity to attain homeownership in rural America. However, with budgetary constraints the Department has had to make difficult choices which include reductions in the section 502 direct program. Current low interest rates and the great success of our guaranteed program assure that rural families in need of mortgage financing will not be unserved. The 2014 request will still provide families in self-help and those with greater needs access to credit.

Question. A $360 million program level would only fund 60 loans in each State. How would you allocate such a small program in the face of huge demand in rural areas?

Answer. At this time, we expect to allocate available funding as required in regulations of 7 CFR, the 1940–L. Under these regulations, funds are distributed according to formula that takes in to account rural population, area income, substandard housing, and those in areas with populations below 2,500.

Depending on the amount of the final allocation, consideration will also be given to targeting funding to isolated groups most in need of housing financing or obligated by participation in other Rural Development programs. This includes Mutual Self-Help Housing Loan participants, those in areas such as colonias and Native American reservations, and those underserved.

The national office also will have an option to reserve funds for those in greatest need, such as homeless, veterans and those needing additional funding to assume a current loan.

Question. The only other USDA rural homeownership program available is the guaranteed loan program, which does not provide subsidized interest rates, and charges origination and annual fees. Do you believe the guaranteed program can adequately offer the homeownership opportunities that the direct program provides?

Answer. The fiscal year 2014 budget request continues the administration's commitment to rural areas by targeting resources to citizens in greatest need and where there are economic opportunities. We capitalize on beneficial subsidy rates in a number of our programs, including the Guaranteed Single Family Housing Loan program, to provide historic program levels. For the seventh consecutive year, the total amount of rural guaranteed home loans has increased from $2.9 billion in 2006 to $19.2 billion last year. The 2014 budget request proposes a program level of $24 billion for the Single Family Housing Guaranteed program, which could provide more than 171,000 homeownership opportunities.

Since 2008, about 32 percent of our guarantees have been to low- and very low-income families. We project that more than 33,000 lower income families will meet their housing needs with a loan guarantee through USDA. This is roughly the same total as all direct loans we obligated in the previous 4 years (2009–2012). In addition, the section 502 guarantee program will soon be publishing a final rule which will enable local community-based lenders, such as credit unions and small community banks, to participate in the program with the purpose of reaching the smaller, poorer and more remote rural communities.

Question. The success of the Mutual Self-Help Housing Loan program, in which families can reduce their housing costs through their sweat equity, relies on sufficient direct single family housing loan funds. This budget cuts the Mutual Self-Help Housing Loan program by 67 percent.

Does the administration now believe that the direct single family housing program, and the Mutual Self-Help Housing Loan program are no longer effective and efficient programs to support homeownership opportunities for rural households?

Answer. The Department continues to believe both the section 502 direct loan program and the self-help program are viable programs that meet the needs of many low- and very low-income families. The Department does not expect the 2014 budget request reduction to adversely affect the overall viability or productivity of the section 523 Mutual Self-Help Housing Loan program. The proposed $10 million for the fiscal year 2014 funding along with the proposed $360 million for the section 502 direct single family housing will ensure continued success of the program. The mutual self-help housing program has a high level of dedicated supporters from community and faith-based organizations who offer in-kind services to participating families. The self-help grantees and regional technical assistant providers have assisted in maintaining the integrity of the program by soliciting and securing other funding resources. Based on the positive response and support for the self-help program, we believe both the direct loan and self-help programs will continue to provide the opportunities for low-income families to secure homeownership and develop strong communities.

QUESTIONS SUBMITTED BY SENATOR TOM UDALL

RURAL DEVELOPMENT PROGRAMS IN NEW MEXICO

Question. Mr. Doug O'Brien, in New Mexico, the Rural Development (RD) office is down to 39 employees, 6 months ago the New Mexico office had 44 employees, and in 2011 the office had 53 employees. This decline in employees is resulting in programs being shut down as the 2-year hiring freeze continues. I understand that these are difficult times, and that the sequestration is making budgets even tighter. My concern, however, is about the disparity between the number of employees in western States compared to those east, and whether or not the resources we do have are reaching the rural and poor communities that they are intended for.

According to your staff, in May 2012 about 12 States each had over 100 Rural Development employees, while States like Nevada, Alaska, Colorado, Utah, Wyoming, and New Mexico had well under 50. These are some of our country's most rural States.

Could you help the subcommittee understand how this disparity in Rural Development efforts has come to be, and what the agency is doing or can do to ensure a more equitable distribution of resources?

Answer. When faced with sequestration of funds, Rural Development considered several options when looking for ways to meet the funding levels. One of those options was offering RD employees early retirement and not filling many positions. As a result of these retirements and the freeze on hiring, Rural Development lost approximately 18 percent of its workforce. Unfortunately, these losses were not equally divided by program or geography. We recognize that many States are struggling to provide services and or looking at ways to correct these inequities.

Among the options being considered is a regional sharing of employees which would allow States to work together to provide services. Also, now that the first round of sequestration has passed and RD has been given the opportunity to move funds between programs, we are looking at making strategic hires in those areas where the need is greatest.

In the last year, RD has also reexamined its full-time equivalent (FTE) allocation formula and adjusted it to provide greater weight to States with deeper poverty. We continue to examine this formula.

Question. Mr. Doug O'Brien, I am concerned about whether or not Rural Development resources are reaching the rural and poor communities that they are intended for. In New Mexico there are many very small and very rural communities that have a hard time accessing grants and loans through Rural Development because they do not have the personnel and even infrastructure, like Internet service, to successfully apply for and manage grants and loans.

Could you share with the subcommittee how the President's budget would ensure that Rural Development funds in fiscal year 2014 make it to the small and very rural communities who need it most?

Answer. Rural Development is working closely with the USDA Office of Advocacy and Outreach to make sure that the citizens and communities who need assistance the most are aware of what our programs can do and how to apply. Also, in 2010, the Department implemented the StrikeForce Initiative to increase participation in USDA programs in high poverty counties. Many of the RD programs provide additional points to the smaller communities competing for funding.

Question. What kind of technical assistance is available for communities who may not have a full-time employee to write a grant application or manage a loan?

Answer. Most Rural Development programs are administered through our State and area offices, and the majority of direct support and assistance in preparing a grant application will come from these offices. However, while RD staff can provide support and guidance in developing and application, they do not participate in the actual writing of the grant or loan proposal.

Through existing programs, Rural Development supports a number of University and nonprofit organizations who provide direct technical assistance to prospective program applicants. Through a variety of methods (e.g., business incubators, cooperative development centers), recipients of funding from this program have delivered technical assistance and other services to individuals and communities seeking to apply to RD programs.

Further, several existing programs contain components that can provide application development assistance. For example, the Agricultural Marketing Resource Center (AgMRC) which is funded out of the Value Added Producer Grant (VAPG) program is a free, virtual resource for producers looking to get into a value added agricultural business. The AgMRC Web site provides an array of resources, including business planning tools, budget templates, and marketing plans that can be used to address requirements in a grant application.

QUESTIONS SUBMITTED TO ANN MILLS

QUESTIONS SUBMITTED BY SENATOR MARK L. PRYOR

CONSERVATION DELIVERY STREAMLINING INITIATIVE

Question. Ms. Mills, NRCS's budget proposes an increase of nearly $9 million for the Conservation Delivery Streamlining Initiative. When fully implemented, some of the goals of CDSI are to allow NRCS staff to spend 75 percent of their time with customers in the field; eliminate over 80 percent of time that field staff devotes to clerical tasks; and shorten the time between when customers apply for a program and when they are awarded contracts to less than 2 weeks.

Can you talk a little more about CDSI?

Answer. In fiscal year 2010, NRCS leadership formally initiated an agency-wide effort called the Conservation Delivery Streamlining Initiative (CDSI). The initiative's goal is to define and implement a more effective, efficient, and sustainable business model for delivering conservation technical and financial assistance. Three overarching objectives were identified:

—*Simplify Conservation Delivery.*—Conservation delivery must be easier for both customers and employees.

—*Streamline Business Processes.*—The new business model and processes must increase efficiency and be integrated across agency business lines.

—*Ensure Science-Based Assistance.*—The new business model must reinforce the continued delivery of science-based products and services.

CDSI is currently implementing five broad strategies under this effort. These include: (1) redesigning NRCS's business processes; (2) aligning its information technology with these redesigned processes; (3) integrating science technologies to enhance the quality and effectiveness of NRCS programs; (4) simplifying and standardizing the delivery of financial assistance; and (5) providing ways for clients to work with NRCS that are more convenient and efficient.

Question. I understand it is now being tested in four States, and your new estimates are that it will be implemented nationally by November 2014. How is the current testing going? Is your timeline still achievable?

Answer. In October 2012, NRCS began testing the Conservation Desktop application-version 1. NRCS deployed version 1 as a beta release to four States in March 2013. Upon completion of the four-State beta test, additional assessments were performed that included agency quality assurance tests and an independent assessment from a leading information technology research and advisory firm. Based on these tests and assessments NRCS decided to revise its deployment timeline and path forward.

NRCS is working closely with USDA and the Office of Management and Budget to finalize these revisions. The updates include a more modular development approach that focuses on smaller and more frequent releases. This approach splits the functionality of the Conservation Desktop into three separate releases that focus on: (1) financial assistance; (2) replacement of the current conservation planning software; and (3) providing enhanced conservation planning support. The first nationwide release of the Conservation Desktop is now tentatively planned for the first half of calendar year 2015.

Question. What are the total cost estimates for the program?

Answer. The overall lifecycle cost for the entire CDSI investment, spanning fiscal years 2012 through 2021, is estimated at $187,883,300. The lifecycle cost includes business process reengineering, business requirements development and the development, enhancement, and maintenance of the three main CDSI applications, their supporting databases and computer services: (1) Conservation Desktop, (2) Mobile Planning Tool, and (3) Client Gateway.

Question. What is the current wait time for customers from the time they apply for a contract to when it's awarded? How will this be sped up?

Answer. The average amount of time from when a customer applies for a financial assistance program and when they sign a contract is 2 to 6 months. NRCS plans to decrease this time by standardizing its financial assistance business processes, providing centralized program support staff, and implementing alternative technologies such as:

—Electronic signatures for customers;
—Automated geospatial application scoring and ranking;
—Automated workflows and electronic tasking;
—Electronic document storage;
—Streamlined funding selection using a threshold concept; and
—A customer-facing Web site to provide access to USDA–NRCS programs and services.

PLANT MATERIALS CENTERS

Question. Ms. Mills, as you know, there is broad support in Congress for the work of the Plant Materials Centers (PMCs). I have a special fondness for the one in Booneville, Arkansas.

The budget request proposes to decrease funding for the PMCs by nearly $1 million.

Is USDA planning to close or consolidate any of those centers?

Answer. USDA plans to restructure its Plant Materials Centers (PMCs) operated by the Natural Resources Conservation Service (NRCS) this calendar year consistent with USDA's Blueprint for Stronger Service. Reorganization is necessary considering PMC funding has declined by over 22 percent since 2010. This, coupled with years of rising costs, has necessitated decreases in staffing and increases in facility and equipment maintenance and replacement, thus reducing efficiency. However, final decisions as to which, if any, locations will be closed or consolidated have not been made at this time.

STAFF CUTS

Question. Ms. Mills, the budget for Conservation Operations assumes a cut of 273 staff. This is spread across all of your activities, but the largest decrease is in the Conservation Technical Assistance account.

In an operation where face time with your customers is an important part of what you do, how will you absorb this FTE reduction?

Answer. NRCS certainly recognizes that time spent in the field working with producers and landowners on conservation plans are central to the mission of the agency. As we have stated before, getting more boots on the ground for conservation is vital for that mission. At the same time, the agency must manage its resources during a period when the funding available for our programs may be constrained. Therefore, NRCS is also committed to becoming more efficient and to maximizing conservation assistance in the field by streamlining the agency's structure and processes, and by looking for ways to increase the agency's flexibility in providing technical assistance.

For example, the agency has already started to update and streamline its administrative processes, which should remove some of the administrative burdens from the State offices and free up more staff resources to deliver conservation. The agency is also looking for ways to simplify and efficiently deliver conservation assistance to customers, which should ultimately increase the amount of staff time devoted to direct conservation efforts.

The agency will also explore opportunities to provide greater flexibility in its ability to deliver conservation technical assistance through partnerships and agreements with technical service providers. These partnerships provide the agency the flexibility to increase or decrease technical service capacity as demand for those services changes, helping to ensure the agency is able to provide assistance where and when it is needed.

The reduction in FTEs represents approximately 4.6 percent of the staff funding through the Conservation Operations account. This is not an insignificant reduction, but the agency will work to maximize the amount of conservation technical assistance that is available to our customers by becoming more efficient and by increasing capacity without increasing staff.

QUESTIONS SUBMITTED TO DARCI L. VETTER

QUESTIONS SUBMITTED BY SENATOR MARK L. PRYOR

FOREIGN AGRICULTURAL SERVICE

Question. As you know, U.S. agricultural exports are at record levels. In fiscal year 2012 exports reached $136 billion.

Can you briefly discuss some of the things Foreign Agricultural Service (FAS) is doing to develop new foreign markets as well as making sure our agriculture products remain competitive in the world marketplace?

Answer. FAS deploys a global market development strategy that integrates trade policy, monitoring and enforcement, trade promotion, and trade capacity building/food security. FAS resources and tactics are tailored to country markets that range from fragile market economies, to high-growth markets with a rapidly expanding middle class, to mature maintenance markets to achieve our overarching goals of enhancing U.S. market access and expanding U.S. agricultural exports while improving global food security and food safety. FAS trade policy work is aimed at negotiating and enforcing market-expanding trade agreements for U.S. exports of food and agricultural products, and preventing or resolving foreign measures that hinder U.S. food and agricultural exports.

The United States continues to negotiate the Trans-Pacific Partnership (TPP) with Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. From the beginning of TPP negotiations, USDA negotiators have been actively involved in aspects of the negotiations related to agriculture including market access, rules of origin, sanitary and phytosanitary measures, technical barriers to trade, regulatory coherence, competition, and trade capacity building. USDA's goal, with guidance from the U.S. industry, Congress, and other stakeholders, is to create a TPP agreement that increases U.S. agricultural exports and supports U.S. jobs by addressing tariff and non-tariff barriers.

On March 20, 2013, the administration notified Congress of our intent to enter into negotiations with the European Union (EU) on a Transatlantic Trade and Investment Partnership (TTIP). We are currently conducting consultations with Congress and the public to help refine our objectives and priorities for these negotiations. A public comment period on priorities and issues for the negotiations was open from April 1–May 10, 2013. The first round of negotiations took place in July in Washington, DC. USDA was, and continues to be, very active in the preparatory work for the initial and subsequent rounds of negotiations. The European Union is our 5th largest agricultural export market, valued at $10.1 billion in calendar year 2012. Key export products include soybeans, tree nuts (especially almonds) and alcoholic beverages. We will continue pressing for full elimination of tariffs and substantial progress on reducing non-tariff barriers.

FAS continues to monitor and enforce trade agreements with 20 countries, with particular attention to agreements with South Korea, Colombia, and Panama that were implemented in 2012. FAS participates with the U.S. Trade Representative in regular meetings with all three trading partners. For example, a Korean Free Trade Agreement (KORUS) Sanitary and Phytosanitary (SPS) meeting occurred in Washington on February 19, 2013. FAS staff regularly provide technical assistance to Colombian and Panamanian Government officials in tariff rate quota (TRQ) administration which has resulted in smooth TRQ implementation. U.S. agricultural exports to Korea exceeded $6 billion in fiscal year 2012, making it our sixth largest market. U.S. agricultural exports to Colombia topped $1 billion in fiscal year 2012, and are expected to be 46 percent higher in March–May 2013 after the Colombia Trade Promotion Agreement goes into force than for the same time period a year earlier, totaling over $1.2 billion. U.S. agricultural exports to Panama reached almost $490 million in 2012. Products that have increased export markets include corn, rice, and chicken leg quarters.

FAS market development programs focus on cooperation with program participants to help U.S. producers, exporters, private companies, and trade organizations promote U.S. agricultural products in priority countries. These partnerships are supported by FAS staff facilitating in-country relationships, providing market analysis, and approving use of program funds for activities to maintain and expand market share and target new opportunities in foreign markets. Market development programs are administered on a cost-share basis with participating industry partners using Market Access Program (MAP), Foreign Market Development (FMD) program, Technical Assistance for Specialty Crops (TASC) program, Emerging Markets Program (EMP), and Quality Samples Program (QSP) funds to help U.S. food and agricultural exporters maintain a competitive edge. For example, FAS overseas offices in China provide information on opportunities in secondary and tertiary cities and encourage U.S. agriculture, fish and forest products industries to develop relationships and activities with a broader spectrum of potential customers. Nearly all of our MAP and FMD partners conduct activities in China. The programs also are used to conduct critically important outreach activities to small- and medium-sized enterprises (SMEs) and new-to-export food and agricultural businesses, to broaden and expand the base of U.S. agribusinesses exporting for the first time or to more markets. FAS has provided additional MAP funding to expand export readiness training of SMEs across the country. An upcoming FAS initiative is leveraging resources to organize a regional African market development conference, in conjunction with a U.S. trade mission to South Africa this September, to highlight market opportunities in the rapidly growing economies of South Africa, Kenya, and Ghana. A recent study found that other countries are increasing their use of market development funds, increasing the need for U.S. producers to remain active in overseas markets.

FAS trade capacity building efforts focus on less-developed countries that have good governance, economically enabling environments, and high potential as full trading partners with the United States. FAS-led technical assistance programs, with substantial funding from USAID and State Department, strengthen SPS systems and reduce technical barriers to trade (TBTs) for current and potential trading partners, while building regulatory capacity. The aim is to eliminate import-restrictive policies and regulations, and create a policy environment that values transparent and science-based food regulations and agricultural policies consistent with international standards and favorable to U.S. food and agricultural interests.

Question. What are some of your biggest challenges to ensure the competitiveness of U.S. agriculture products?

Answer. The USTR's Report on Sanitary and Phytosanitary Measures (SPS Report) and the Report on TBT highlight challenges that have the potential to negatively affect trade and pose significant market losses for the United States.

The leading cross-cutting SPS barriers arise in connection with export certification requirements, agricultural biotechnology, bovine spongiform encephalopathy (BSE), avian influenza (AI), and maximum residue levels (MRLs) for pesticides. USDA diligently attacks each of these barriers. For example, USDA efforts have contributed to the reopening of export markets for U.S. beef and beef products closed as a result of the BSE-related trade bans. As a result, U.S. beef and beef products exports recovered to a record $5.5 billion in fiscal year 2012.

USDA worked hard to lead the Codex Alimentarius Commission to finally adopt an international MRL for ractopamine in beef and pork in 2012. This was the culmination of more than 9 years of work by USDA. Adoption of the standard for beef by Taiwan has provided significantly improved market access for U.S. exports. The international standard is important in our continuing efforts to reduce barriers to U.S. pork in Taiwan and barriers to meat and poultry in China and Russia.

Similarly, the TBT Report provides illustrations of technical barriers with the potential to negatively affect trade and pose significant market loss for the United States. For example, Chile and Peru are important in this regard because of their stringent nutritional labeling requirements for processed foods high in fats, sugar, sodium, and trans-fats content. Additionally, Peru maintains mandatory labeling and a moratorium on foods derived from genetic engineering. Turkey and India are also highlighted in the TBT Report for their trade restrictive measures on genetically engineered products.

Slow acceptance of biotechnology-developed crops and products is one of the biggest challenges to U.S. agricultural exports. The United States is the world's largest producer of biotechnology crops, and the bulk of our biotechnology exports enter commodity streams alongside conventional varieties. Many new crops and products derived through modern technologies are likely to enter the market in the next few years. However, concern about these products persists in some regions and has led to long approval processes overseas and the proliferation of regulatory barriers to U.S. trade in biotechnology derived products. For example, China's asynchronous approval for biotech products continues to delay the commercialization of new products globally. In order to improve our bilateral agricultural relationship with China and to deepen our cooperation on tackling global challenges, USDA hosted the first United States-China High Level Agricultural Symposium (symposium) in February 2012. The first symposium facilitated many agricultural trade successes in 2012, including China's agreement to participate in a pilot program to address its asynchronous biotechnology approvals.

FARM LOAN PROGRAMS

Question. Can you discuss how your budget request benefits beginning farmers and ranchers?

Answer. The 2014 budget request for Farm Service Agency (FSA) farm loan programs will support funding for loans that will allow several thousand beginning farmers and ranchers to begin or continue farming or ranching. Many beginning farmers and ranchers have difficulty obtaining credit due to limited equity, collateral, or experience. FSA farm loan programs are required by statute to reserve a portion of the direct and guaranteed loan funds for beginning farmers and ranchers. Under the targets, 75 percent of direct ownership funds, 50 percent of direct operating funds, and 40 percent of guaranteed operating and ownership funds are reserved for beginning farmers for at least the first two quarters of the fiscal year. Based on these targets, the fiscal year 2014 budget request will provide funding for over 2,600 direct and 2,000 guaranteed farm ownership loans to beginning farmers, facilitating in most cases a first-time farm purchase. The 2014 request will also provide funding for over 11,300 direct and 3,400 guaranteed operating loans for beginning farmers. These loans provide critical operating capital to beginners who cannot obtain credit from other sources.

Question. In your testimony you discuss a recently implemented microloan program. Can you go into further detail about that program? What farming population is this program targeting?

Answer. The microloan program is administered under FSA's existing Operating Loan (OL) program. The program streamlines the process for producers obtaining loans under $35,000 by reducing the paperwork and simplifying the loan application process. The program includes additional flexibility in certain loan eligibility requirements, reduces documentation requirements, and provides for simplified financial planning to align with the less complex structure of small farms. Producers can use microloan funds to pay for initial start-up expenses such as land rent, essential tools, livestock and farm equipment, and annual expenses such as seed, fertilizer, utilities, marketing, and distribution expenses.

—Microloan repayment terms may vary, but typically will not exceed 7 years for intermediate-term purposes. Interest rates are based on the regular OL rates that are in effect at the time of loan approval or loan closing.

—The program is designed to increase credit opportunities for smaller and beginning farmers, particularly producers who sell through farmers markets, roadside stands, and community-supported agriculture (CSA) programs, although almost any type of farm production is eligible. The limited documentation requirements and less rigorous farm managerial experience requirements are intended to make microloans more accessible for first-time farmers.

MC GOVERN-DOLE PROGRAM

Question. For a relatively small amount of money, this program has a huge impact on the lives of some of the world's poorest children.

Ms. Vetter, can you briefly discuss some of the ways the McGovern-Dole program has positively affected children around the world?

Answer. The McGovern-Dole program focuses on improving literacy and improving dietary and health practices in recipient countries. The program encourages parents to send their children to obtain a primary school education, when they might not have otherwise done so, and to utilize these skills as they progress in life to become productive members of society. USDA regularly sees between a 3- and 10-percent increase in attendance rates per school year, teachers regularly comment that children have more energy, and the promotion rates of children to the next grade are often over 80 percent in USDA assisted schools. A key focus of the program is improving literacy outcomes and the quality of education provided to the children. This involves more consistent teacher attendance, better access to school supplies, improved instructional materials, increased skills and knowledge of school administrators, and improved awareness of educational value and attainment by parents (who may themselves be illiterate). For example, USDA's project in Mali with Catholic Relief Services (CRS) is focused on education in collaboration with USAID in the area of education quality and literacy. Program activities include working with the PTAs, local school management committees, and locally elected officials to inform parents and communities about the support that is available and to ensure that teachers in the targeted areas are able to access trainings and resources to promote improved educational outcomes and literacy in the classroom.

McGovern-Dole projects also build the capacity of recipient country governments and civil society with the ultimate goal of transitioning the management of school feeding programs to recipient governments and local communities. In Bolivia, for example, 12 more municipalities graduated from McGovern-Dole funding in 2012. These municipalities started to manage their own programs and continued to feed over 21,000 school children ensuring these children receive a nutritious meal so their hunger does not detract from their learning. In Nepal, USDA is working with the Government of Nepal to develop a national school feeding framework. In February 2013, USDA hosted a delegation of government representatives from the Nepalese Ministry of Agriculture and Department of Education to learn about the U.S. school feeding experience. FAS and FNS worked together to arrange visits to U.S. schools, and the delegation left the United States with a better understanding of school feeding programs, the need for clear budget allocations, and the importance of good program monitoring.

We are field testing new and improved micronutrient-fortified food aid products developed in the United States to best meet nutritional needs of populations served by McGovern-Dole. In Guinea-Bissau, we are field testing a dairy paste containing iron, vitamin A, vitamin D, and zinc that are critical for child growth and mental development. In Cambodia, the effectiveness of a rice product fortified with Vitamin A and iron is being evaluated. We are working with Kansas State University on new formulations of three, fortified blended foods (FBFs). These FBFs (sorghum-soybean, sorghum-cowpea, and corn-soy blends) will be made into porridge mixes for McGovern-Dole beneficiaries in Tanzania.

Question. Do you see a correlation between a higher standard of living for girls who participate in the program and girls that do not?

Answer. Studies by the World Bank, World Economic Forum, and the Organization for Economic Cooperation and Development have found a correlation between educating girls and the rate of economic improvement of countries. Educating girls has been found to help break the cycle of poverty because girls who attend school tend to delay having babies, and are healthier and better prepared as mothers when they do have children, and are better able to be productive members of society. This increases a country's overall productivity and income level. Educating girls has also been found to improve the health of populations, help reduce disease incidence, and reduce the incidence of violence against women. The McGovern-Dole program targets girls and provides many health interventions aimed at teaching them the importance of good hygiene, nutrition, and sanitation. Girls incorporate these lessons into their future families and pass these teachings on to their own children. This results in stronger family units. The McGovern-Dole program also targets girls for education interventions, tailoring activities to reduce or eliminate gender disparities in school attendance and achievements. Additionally, USDA often works with the mothers of school children, teaching them lessons in nutrition, hygiene, and the importance of education.

During the fiscal year 2012 solicitation cycle, FAS began a comprehensive results-oriented management (ROM) system to strengthen the delivery of more efficient and effective food assistance programs through a greater focus on results and accountability of taxpayer resources. This approach also provides a platform for more meaningful program evaluations and opportunities to learn which interventions work well and which ones do not. Through this ROM system and associated initiatives, USDA expects to improve its ability to measure the impact of the McGovern-Dole Program by: (1) clarifying program strategy; (2) identifying expected results; (3) linking measurable indicators to results; and (4) mapping program objectives and results back to the agency's strategic plan. In turn, implementing partners are expected to identify project results and report achievements of the identified results. These organizations must report twice a year as well as have a midterm and final evaluation performed.

FARM SERVICE AGENCY—MIDAS

Question. I was pleased to learn that you recently launched MIDAS. Can you give us an update on how things are going?

Answer. The MIDAS Program is the largest automated system ever implemented by the Farm Service Agency. It is a complete re-engineering of business processes and information technology (IT) systems and software that will replace outdated technology used in FSA county offices since the 1980s. MIDAS is in week 15 of system stabilizing and these new systems phasing in nationwide. During this deployment, the challenges such as availability, reliability and responsiveness of the systems are closely monitored and addressed so that the performance can be improved and ensured. MIDAS operates with many complex interdependencies, with attributes in commercial-off-the-shelf software, custom-developed Web farm applications, and geospatial imagery. Components of MIDAS are hosted in three separate data centers across USDA's network. As this comprehensive new system is implemented, any reports of performance dips or needed improvements are closely examined and addressed to ensure the continuation of customer service as effectively as possible during this transition period.

The number of issues has stabilized over the last few weeks indicating the system is improving, and in the past 5 weeks, the rate of resolved issues has exceeded the number of issues reported.

Through these and related actions, MIDAS is moving forward towards full stabilization and integration into the everyday business practices of FSA offices.

Question. What have you done to educate farmers and ranchers on using the new system?

Answer. The initial MIDAS system launched in April 2013 provided capability for the FSA service center employees to administer Farm Records information with full geospatial imagery integration, and to maintain customer profile and product information. At this time there is no direct access to MIDAS by farmers and ranchers. Robust training was provided to over 9,000 FSA employees on the new system to maintain the high level of customer service provided to farmers and ranchers. Additional functionality planned in fiscal year 2015 will enable farmers and ranchers to access the new system online and conduct business with FSA in a self-service fashion.

Question. The budget requests $65 million for supporting MIDAS. Do you expect the cost of maintaining the system to decrease over the next few years?

Answer. The $65 million budget request submitted for fiscal year 2014 provides operations & maintenance support for the production system and limited funding for system enhancements. FSA is currently working on a re-baseline of the MIDAS project to define the final operating capability, total project cost, and project timeline plan for the remainder of the project's lifecycle. The costs will increase in fiscal year 2015 as the final operating capability is delivered and begin decreasing in the out years as the system moves into full sustainment.

CONCLUSION OF HEARINGS

Senator PRYOR. As I mentioned earlier, this is the final budget hearing, and I appreciate the work that everyone at USDA and FDA, because they were the subject of our first hearing, in preparing their witnesses. The testimony presented during these hearings was very helpful and that constant flow of information back and forth has been very good and it will help us write the fiscal year 2014 bill.

The subcommittee's next markup—meeting will be a markup of the fiscal year 2014 bill and that date has not yet been determined. It's something that I'm waiting to get the okay from Senator Blunt over here. No, actually we're just trying to get the room availability and what-not. But we're going to do that soon and we look forward to it.

With that, this hearing will be recessed. Thank you.

[Whereupon, at 10:45 a.m., Thursday, May 23, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

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