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September 26, 2006

via FAX and via U.S. Mail

The Honorable Mike Johanns
Secretary of Agriculture
U.S. Department of Agriculture
Washington, D.C. 20250

USDA ADVISORY COMMITTEE ON BEGINNING FARMERS & RANCHERS

Dear Secretary Johanns:

This letter is in response to your invitation to governance participation in response to the Agricultural Credit Improvement Act of 1992. The Committee was established in 1998 and most recently met July 12-13, 2006, in Washington, D.C. Under the guidance of Designated Federal Official Mark Falcone, the 20 member Committee is made up of a wide range of volunteer representatives from the farming, ranching, banking, extension education, and non-profit agencies as well as state and federal agency staff who work directly with beginning Farmers & Ranchers. Each one lends a wealth of knowledge and ability to advise the Secretary on areas of concern for the next generation of Farmers & Ranchers.

The Committee commends the Secretary on the Listening Sessions held since your appointment by the Honorable President George W. Bush. Since the Committee meeting in Omaha, Nebraska, in August 2005, the Secretary has also taken into solemn consideration many of the suggestions made in our letter signed by the former Chair David Wirth on September 26, 2005, as have prior Secretaries taken note of recommendations from prior Chairs. It is particularly heartening to a group of volunteers to know that our time and effort is regarded by the Secretary as a serious effort to assist Beginning Farmers & Ranchers. Thank you.

The Committee particularly encourages the Secretary to continue efforts to advertise and communicate with interested citizens as to the availability of the Beginning Farmers & Ranchers opportunities and education. Through Extension Agents, Farm Bureaus and Stock Growers or Cattlemen's Associations, as well as others, such media as RFD TV, radio ads and personalities, and community or non-profit organizations working with Beginning Farmers and Ranchers, the Committee believes persons who can benefit from Beginning Farmers & Ranchers opportunities can be made aware of the awesome power of the USDA to support their entry level efforts to farm or ranch.

The Committee's recommendations from the 2006 meeting are as follows:

Reinforcement of Prior Recommendations:

(1) Request the Secretary reiterate the national precedent that Natural Resources Conservation Service (NRCS) uses for beginning Farmers & Ranchers and the authority to target funds be passed to the state and local level for the Environmental Quality Incentives Program (EQIP).

(2) Commend the NRCS for addressing those recommendations in the Committee's September 26, 2005, memorandum to the Secretary, and request that they further address the following recommendations:

(a) We urge the Secretary to support full funding for the Conservation Security Program (CSP) with no caps or limitations on the program in the USDA budget request or congressional appropriations, and to direct NRCS to make the following changes to the CSP: (1) revert from the selected watershed approach back to a full-scale, national program; (2) if, despite our recommendation, the selected watershed approach is continued, then provide for enrollment on a national basis for beginning Farmers & Ranchers; (3) abide by the 90 percent cost-share, 15 percent cost-share differential provision for beginning Farmers & Ranchers in all states and regions of the country; and (4) encourage states to provide special enhanced payments for beginning Farmers & Ranchers, consistent with the authority granted by Section 2004 of the 2002 Farm Bill.

(b) We recommend the Secretary direct the NRCS to revise the definition of beginning farmer and rancher to include other applicable components of the statutory definition used by the FSA, with appropriate adaptations for use in conservation program implementation. For instance, NRCS could adopt a cap on farm land ownership, but use a much higher percentage of median farm size than the one FSA uses for the purposes of first time real estate credit. Specifically, a "needs" element should be included in the definition, so those who have adequate off-farm or ranch financial resources are not receiving subsidized assistance.

Recommendations for Conservation:

(3) Request the Secretary instruct the Farm Service Agency (FSA) and NRCS do a joint marketing effort to emphasize that FSA can provide bridge financing for EQIP to beginning Farmers & Ranchers until cost share funds become available from NRCS.

Recommendations for Increased Statistics:

(4) We encourage the Secretary to ensure that the National Agricultural Statistics Service (NASS) collects Ag Census data on beginning Farmers & Ranchers before 2012, specifically but not limited to "the year farming began" and "number of years on the present farm".

Recommendations Regarding the Farm Service Agency (FSA):

(5) Subject to also obtaining increased annual appropriations, we recommend the Secretary send Congress proposed legislation to increase loan limits with latitude to split the maximum authority between direct farm ownership loans (DFO) and direct operating loans (DOL) by indexing subsequent annual increases of loan caps for future years to inflation in a manner similar to the method utilized for the guaranteed loan program. As a point of reference, DFO limits were last increased in 1978 to \$200,000 and DOL limits were last increased in 1984 to \$200,000.

(6) Recommend the Secretary propose legislation to Congress to amend the statutory definition of beginning farmer and rancher concerning the owned acreage limitation to be eligible for an FSA direct FO loan. We recommend that the owned aggregate acreage limitation be changed from 30% of the “median” acreage to 30% of the “mean average” acreage to facilitate accurate calculations.

(7) Recommend that FSA loan programs have more flexibility to allow BF&R participants to buy into established operations, including purchasing a percentage of an operating entity such as a Limited Liability Corporation (LLC), Partnership, Limited Liability Partnership (LLP), etc.

(8) Recommend the Secretary oppose the proposed increase in FSA guaranteed loan fees.

Recommendations Regarding Tax Policy:

(9) We encourage the Secretary to support initiatives to amend the Internal Revenue Code of 1986 to provide an exemption from capital gains for the sale of farmland to a first-time farmer as proposed in H.R. 2034, “The Beginning Farmers & Ranchers Act of 2005”.

(10) We urge the Secretary to support amendments to the Internal Revenue Code of 1986 to improve Agricultural Bonds as proposed in H.R. 651, “The Agricultural Bond Improvement Act of 2005.” The changes to improve the availability of credit to beginning Farmers & Ranchers follow:

- Exempt FSA guarantees from the federal guarantee prohibition on tax-exempt bonds.
- Increase loan limits on agricultural bonds from \$250,000 to \$450,000 and index for future increases.
- Repeal the dollar amount in the definition of substantial farmland.
- Exempt agricultural bonds from the volume cap on industrial revenue bonds.

Recommendations Regarding Health and Welfare:

(11) We recognize that Beginning Farmers and Ranchers have difficulty securing needed affordable medical and health care insurance coverage and that many do not have any insurance protection. We urge the Secretary to require the Economic Research Service (ERS) to research whether obtaining medical and health insurance protection is a barrier to new farm/ranch entry, and if so, how these needs can be met.

Recommendations Regarding the 2007 Farm Bill:

(12) We recommend the Secretary champion beginning farmer and rancher initiatives and perspectives in the run up to the next farm bill. The Committee recommends that USDA, as part of its 2007 Farm Bill proposed policy options, urge Congress to include a new title of the bill to deal with farm entry, farm transition, and farming opportunities, or, if not a separate title, then to at least include a cross-cutting, cross-title initiative to address these beginning farmer and rancher issues, with specific proposals geared to the sections of the farm bill dealing with commodity programs, crop insurance, credit, conservation, research and other relevant titles.

(13) We recommend the Secretary to (a) support reauthorization of the Beginning Farmer and Rancher Development Program, a competitive grant program authorized by Research and Related

Matters title of the 2002 Farm Bill, (b) offer an amendment to specifically include new refugee/immigrant farming concerns, and (c) provide at least a mandatory \$20M per year in farm bill funding for this program.

(14) The 2007 Farm Bill should establish a Beginning Farmer and Rancher Individual Development Accounts (IDA) Pilot Program using a matched savings to assist those of modest means to establish a pattern of savings and promote a new generation of Farmers & Ranchers.

(15) Recommend the Secretary support language in the 2007 Farm Bill to continue and strengthen the existing cost share differential for beginning and limited resource Farmers & Ranchers in EQIP and CSP by clarifying that the 15% bonus is in relation to the underlying regular rate for a particular practice.

(16) Recommend the Secretary support language in the 2007 Farm Bill that continues and strengthens existing authority (Sec. 2004(a) of the 2002 Farm Bill) to provide special incentives to beginning and limited resource Farmers & Ranchers to encourage participation in conservation, to help get new farmers started, and to achieve long lasting conservation improvements. Examples of how this provision could be implemented include:

(a.) Upfront or Accelerated Payments - Provide option for immediate upfront/advanced payments to Beginning Farmers & Ranchers through multi-year contracts entered into for federal conservation programs, e.g., in a multi-year contract for a certain amount of money in annual payments, an incentive provision could provide that all payments are paid upfront, either in a lump sum or on an accelerated basis, with all other provisions of the contract remaining. The Beginning Farmer or Rancher would have a legally binding commitment to implement the conservation practices over the full term of the contract. This would provide capital to establish the farming operation with a larger stream of income during the crucial formative years of the Beginning Farmer or Rancher operation while also making enrollment in conservation programs more attractive.

(b.) Whole Farm Planning Incentive – Offer financial incentive or bonus through conservation programs for Beginning Farmers & Ranchers to develop integrated farm/ranch conservation plans.

(c.) Graduated Cost Share – Graduate the cost share portion attributable to the Beginning Farmer or Rancher over a period of years, e.g., Beginning Farmers & Ranchers could be provided priority for cost-share and technical assistance. Such an initiative would allow for installation or replacement of necessary conservation projects while recognizing the economic situation of many Beginning Farmers & Ranchers.

(d.) CRP Land Returning to Production – encourage retirees or non-farming heirs holding expiring Conservation Reserve Program contracts make arrangements to transfer the land to Beginning Farmers & Ranchers by offering a rental rate bonus in the transition period.

(e.) Grazing Land Improvement Incentives – provide financial incentives, payment bonuses and technical assistance to Beginning Farmers & Ranchers to develop/improve grazing land.

(f.) Farmland Preservation – encourage farmland preservation initiatives that ensure continuity as working farmland with strong conservation practices.

(17) Urge the Secretary to support reauthorization and full funding for the Outreach and Technical Assistance for Socially Disadvantaged Farmers & Ranchers (Section 2501) Program. The 2002 Farm Bill authorized funding of \$25 million each fiscal year. The Committee recommends the Secretary support mandatory funds of \$25 million each fiscal year.

(18) Recommend the Secretary seek authority for flexibility to operate an Intermediary Re-lending program.

It is the extreme pleasure of the members of the Secretary's Advisory Committee on Beginning Farmers & Ranchers to forward these recommendations for consideration of the Secretary. Thank you for providing the opportunity to do so.

Sincerely,

Linda Prentiss
Chair
USDA Advisory Committee on Beginning Farmers & Ranchers

Cc: Floyd D. Gaibler
Acting Under Secretary
Farm and Foreign Agricultural Services

(via US Mail and fax 202.720.8254)



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

DEC 22 2006

Ms. Linda Prentiss
Estralita Springs Ranch Company
Post Office Box 55
Camp Nelson, California 93208

Dear Ms. Prentiss:

Thank you for your letter dated September 26, 2006, to Secretary Mike Johanns with regard to providing a list of recommendations that the Secretary's Advisory Committee on Beginning Farmers and Ranchers formulated at its last meeting held in Washington, D.C., in July 2006. As you know, the Secretary has mentioned on many occasions his desire to see more assistance provided to beginning farmers and ranchers. He certainly appreciates all the time and effort committee members spend on discussing ideas that may assist the next generation of farmers and ranchers.

Your letter includes seven recommendations for inclusion in the Department of Agriculture's (USDA) 2007 Farm Bill proposed policy options (recommendation numbers 12-18) and numerous others that would require statutory changes (recommendation numbers 2(a), 5, 6, 7, 9, and 10). Some of these recommendations were addressed as possible Farm Bill options in USDA's fifth and final Farm Bill Analysis Paper released on September 13, 2006. The Secretary and other USDA officials are in the process of discussing and drafting 2007 Farm Bill proposals. All of these issues will be reviewed and considered as we continue to work on our proposals.

The Secretary released a comprehensive analysis of general themes, key factors and policy alternatives to current USDA programs in a series of five Farm Bill Analysis Papers, including one on conservation and the environment that was released on June 8, 2006. All five Farm Bill Analysis Papers are available at www.usda.gov/farmbill. In considering any proposed changes, one major concern is the impact such changes would have on future fiscal year (FY) budgets. USDA anticipates reduced funding in many of its mission areas over the next few years.

I would like to specifically address some of your recommendations that USDA has discretionary authority to implement. They will be addressed in the order they appear in your letter.

- 1. Request the Secretary reiterate the national precedent that the Natural Resources Conservation Service (NRCS) uses for beginning farmers and ranchers and the authority to target funds be passed to the State and local level for the Environmental Quality Incentives Program (EQIP).**

NRCS periodically reviews the operational dynamics of conservation programs to ascertain whether measures similar to the national targeting of EQIP funds to limited resource and beginning farmers can be used effectively in other programs. In addition,

performance incentives to State and local leaders are provided to achieve positive results. Further, NRCS State Conservationists currently have the authority to target EQIP funds to best meet the needs at the local level.

- 2(b). The Secretary direct NRCS to revise the definition of beginning farmer and rancher to include other applicable components of the statutory definition used by the Farm Service Agency (FSA), with appropriate adaptations for use in conservation program implementation. For instance, NRCS could adopt a cap on farm land ownership, but use a much higher percentage of median farm size than the one FSA uses for the purposes of first time real estate credit. Specifically, a “needs” element should be included in the definition, so those who have adequate off-farm or ranch financial resources are not receiving subsidized assistance.**

The definition of a beginning farmer or rancher is used to deliver program benefits by a number of USDA agencies in addition to NRCS and FSA. To the extent possible, USDA tries to ensure that common definitions are used throughout the Department. Following passage of the 2002 Farm Bill, USDA took a close look at FSA’s statutory definition and adopted the elements of that definition that made sense for the broad range of USDA programs providing assistance to, or conducting research on, beginning farmers and ranchers. Consequently, any effort to revise the definition of a beginning farmer or rancher for NRCS will need to consider the potential for adverse impacts on the programs of other USDA agencies.

- 3. FSA and NRCS do a joint marketing effort to emphasize that FSA can provide bridge financing for EQIP to beginning farmers and ranchers until cost share funds become available from NRCS.**

FSA and NRCS officials have met to discuss this recommendation and have drafted a Cooperative Agreement that will be sent to NRCS State Conservationists and FSA State Executive Directors in the near future addressing this issue. While local offices in some States have been providing such bridge financing, we agree that a joint marketing effort will be beneficial and will likely result in increasing the number of beginning farmers and ranchers that receive EQIP assistance. I will also instruct FSA officials to include information in their monthly newsletter to notify producers of the availability of FSA loans for this purpose.

- 4. Encourage the Secretary to ensure that the National Agricultural Statistics Service (NASS) collects Ag Census data on beginning farmers and ranchers before 2012, specifically, but not limited to “the year farming began” and “number of years on the present farm.”**

Questions relating to “number of years on the present farm” have been included on the census questionnaire for many decades and will be included on the 2007 Census questionnaire, due to be mailed in December 2007. In the past, NASS has considered

requests to replace this question with one relating to the “the year farming began.” After careful deliberation, these requests were denied because of the value of maintaining the historical sequence. NASS received feedback from a number of other users of these data that the historical trend was the most important and valued component of these data. NASS has also considered adding a new question for the 2007 Census, “the year farming began,” but decided against doing so. This decision was based on two reasons.

First, the two questions are very similar. NASS has had to address Congressional and Office of Management and Budget questioning about the respondent burden of the Census, and has had an important goal of looking for "offsets" when any additional questions are added. It was also found that respondents tend to get very annoyed if they appear to be asked repetitive questions. Thus, it was concluded that two questions, worded so similarly, should not appear on the Census.

Second, NASS restricts questions on the Census to items where information is needed at the county level. If this level of detail is not required, then the Census is not the best vehicle for collecting the information. NASS has not seen arguments for including an additional question relating to “the year farming began” at the county level, particularly since a very similar question is already present. Currently, the question, “the year farming began,” is asked on the annual Agricultural Resource Management Survey (ARMS) and has been for several years. The ARMS survey provides a more detailed economic profile of responding producers and, since it is conducted annually, better enables the examination of trends in numbers of beginning farmers. With the Census, data points are at 5-year intervals. Therefore, the ARMS survey may be a better vehicle for this question.

Deliberations for the content of the 2012 Census of Agriculture will begin in 2010. NASS will be glad to again review the need for additional questions at that time and appreciates any additional insights that the USDA Advisory Committee on Beginning Farmers and Ranchers may bring to the analysis of this situation.

8. Oppose the proposed increase in FSA guaranteed loan fees.

While our desire is to minimize the impact on imposing additional costs on farmers and ranchers, including beginning farmers and ranchers, in the FY 2007 President’s budget, USDA was faced with the need to make some difficult decisions to help reduce Federal budget deficits. Although USDA is operating under a continuing resolution through February 15, 2007, both the House and Senate Appropriations Committees funded the guaranteed loan program for FY 2007, indicating a rejection of the proposal to raise fees. FSA will, of course, follow the statutory requirements on this issue.

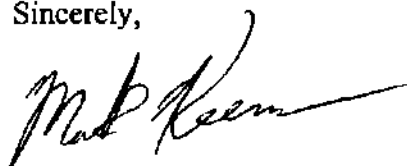
11. **Urge the Secretary to require the Economic Research Service (ERS) to research whether obtaining medical and health insurance protection is a barrier to new farm/ranch entry, and if so, how these needs can be met.**

ERS supports the Research, Education, and Economics mission area goal to enhance economic opportunity and quality of life for rural Americans. One ERS objective is to enhance understanding by policy makers, regulators, program managers, and those shaping the public debate of economic issues affecting rural development, including factors related to farm finances and investments in rural people, businesses, and communities. ERS recognizes that the costs and availability of health care services in rural areas is a growing concern.

In 2004, ERS initiated a research program to study health and health care of rural residents and farmers. The goal of the program is to present current indicators of health status and analyze access to health care in terms of availability and costs of medical resources. An initial study was done on the demand for health insurance by farm families using the National Health Interview Survey. These data will also be used to compare *farm and non-farm families in rural areas with respect to household medical expenses and insurance costs*. In addition, the ARMS survey was expanded to include questions concerning the health insurance coverage for each member of a farm operator's household, the medical and insurance expenses for the household, and the age and years of farming for the operator. The data are being prepared for analyzing several issues, including the exploration of whether the type of coverage or insurance expenses differ for beginning farmers compared to older, more established operators.

Again, thank you for the committee's recommendations. In working with Congress on passage of the next Farm Bill, the Secretary and his staff will address the need to provide adequate assistance for the next generation of farmers and ranchers.

Sincerely,



Mark E. Keenum
Under Secretary
Farm and Foreign Agricultural Services