STATEMENT

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NATURAL RESOURCES AND ENVIRONMENT

UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE

COMMITTEE ON NATURAL RESOURCES

UNITED STATES HOUSE OF REPRESENTATIVES

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CONCERNING

"OVERSIGHT OF THE OBAMA ADMINISTRATION'S QUESTIONABLE APPLICATION OF SEQUESTRATION TO THE SECURE RURAL SCHOOLS PROGRAM AND THE COSTS TO STATES, LOCAL ECONOMIES, AND RURAL SCHOOL CHILDREN"

Chairman Hastings, Ranking Member DeFazio, and members of the Committee, thank you for the opportunity to appear before you today to discuss the implementation of the sequestration ordered on March 1, 2013, in accordance with the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended, within the Department of Agriculture (USDA) specific to Secure Rural Schools payments.

The Secure Rural Schools and Community Self-Determination Act of 2000 (SRS) has provided more than a decade of transitioning payments to eligible states and counties to help fund public schools and roads and provided predictably declining payments to states to transition to the 25 percent payment. In addition, it has also created a forum for community interests to participate collaboratively in the selection of natural resource projects on the National Forests, and has assisted in community wildfire protection planning. Between 2001 and 2013 the SRS program has made over $5 billion in payments through Titles I, II, and III. The Forest Service values the program's contribution to rural communities through providing critical local services, supporting income and employment opportunities, and resolving disputes over management of our National Forests.

Payments under Titles I and III of the SRS were made in early January 2013 to fulfill our commitment to rural communities and in accordance with the Act's requirement that payments be made as soon as practicable after the end of the fiscal year in which the receipts were collected. As Members are aware, the President was required by law to issue a sequestration order on March 1, 2013, canceling $85 billion in budgetary resources across the Federal government for the fiscal year.

The BBEDCA provides requirements on how sequester reductions were to be calculated by the Office of Management and Budget (OMB) and applied equally across the Department's programs, projects, and activities (PPA) within budget accounts that were not specifically exempt in the BBEDCA. OMB calculated the sequestration percentage that applies to each account. The statute then required the reductions to be applied equally to each PPA within a budget account. The statute defines PPAs as the items delineated in an appropriations Act or accompanying report, or, for items not provided for in an appropriations Act, in the President's Fiscal Year (FY) 2013 budget.

Given the broad scope and varied nature of USDA programs and funding accounts and the unique nature of sequestration, its application was complex and has involved significant effort working closely with agency budget officers, the Office of the General Counsel, and OMB.

In the case of the SRS payments, the relevant account is the Forest Service Permanent Appropriations account, which includes two PPAs for SRS: one comprising the FY 2013 budget authority from receipts in FY 2012 (the "receipts PPA"), and the other comprising additional FY 2013 budget authority provided from the general fund of the U.S. Department of the Treasury to cover the shortfall in receipts necessary to make the full SRS payments (the "Treasury payments PPA"). While the FY 2013 amount of SRS payments was based on the level of receipts collected in FY 2012, section 102(e) of the statute directs that the funds be paid as soon as practicable after the end of the fiscal year. Therefore, these funds constituted budget authority for FY 2013 and were subject to sequestration under the BBEDCA.

In calculating the sequestered amount, the BBEDCA repeatedly refers to the amounts for a "fiscal year" or "that year" (2 U.S.C. 901a). Thus, consistent with the application of sequestration across programs of the USDA, and across the government as a whole, the amount of the sequestration as calculated in March was based upon the full budgetary authority in the receipts PPA and the Treasury payments PPA for the entire fiscal year, not on the amount remaining available as of March 1, 2013, the date of the sequestration order.

Secure Rural Schools payments are made from both PPAs. The funding sources are not tied to a particular Title, so for the purposes of sequestration, it does not matter which Title's funding stream is cut in order to meet the full sequestered amount, as long as the required reductions are taken from each PPA. Since Title I and Title III payments already had been made in January in accordance with Section 102 (e) of the SRS Act, the only funds remaining to satisfy the sequestration order were the Title II funds. Applying the sequester to the Title II funds alone would have resulted in a net reduction of Title II funding by 50.6%, resulting in impacts of millions of dollars to some States' Title II allocations. Applying the sequester in this fashion would have been inconsistent with USDA's goal in implementing sequestration---to administer reductions in the most equitable and fair manner possible. Accordingly, in this instance USDA determined that in order to ensure equity in the treatment of States, the same percentage reduction would be applied to each State.

As USDA pursued alternatives to create flexibility, the Department was faced with an unconventional situation. Unlike other USDA agencies, the administrative provisions for Forest

Service in the Interior, Environment and Related Agencies Appropriations Act prohibit the Forest Service from using the Department's 7 percent interchange transfer authority to transfer funds to and from amounts available to the agency. Accordingly, the Forest Service notified States on March 19, 2013, that the SRS program was subject to sequestration, and that payments would be reduced by 5.1 percent. Since payments for Titles I and III had been made in January, this created an overpayment. In the March 19, 2013 letters, the Forest Service notified each State of the amount of overpayment and gave States, where applicable, the option of meeting obligations either by reducing Title II funds that counties had elected to use for Resource Advisory Committee (RAC)-recommended projects on the National Forests in their State, or by being billed for the sequestered amount from Title I and III funds. Those States with counties that did not elect to use a portion of their payment for Title II projects were informed that they would be billed for the overpayment. States were asked to advise the Forest Service by April 19, 2013, of how they preferred to comply. Some States advised the Forest Service by the deadline and those requests were honored.

On August 5, 2013, the Forest Service issued notification of billing to 16 States and the Commonwealth of Puerto Rico to collect $582,000 in payments made from the Forest Service Permanent Appropriations Account for the Secure Rural Schools payments. These States either did not receive Title II funding or did not have sufficient Title II funding to meet the sequestered amounts. In addition, the Forest Service sent letters to three states to pay their special acts sequestration amount of $306,000. The letters outlined the legal rationale for the application of sequestration and identified the State's right to petition for administrative review. Further, by letter of August 19, 2013, States that had sufficient Title II funds were notified of the amount that Title II allocations reserved by counties in the State would be reduced to cover the full amount of sequestration for that State.

USDA and the Forest Service regret that the SRS payments were reduced by sequestration. The Agency has strived to minimize negative impacts and has acted to ensure that all States were treated fairly in accord with the expectations made by their communities. Since SRS was first enacted 13 years ago, the Forest Service has strongly supported the program and has made timely payments to counties. In addition, Resource Advisory Committee projects have helped to bring different community interests together and have reduced polarization surrounding the management of federal lands. Despite the unfortunate impacts of sequestration, the Forest Service looks forward to the continued benefits of SRS and its support for local communities.

Mr. Chairmen, I hope that this overview is useful to the Committee. I would be glad to answer questions you and members of the Committee may have.