

Approved

Date

1-29-85

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS

The meeting was called to order by Representative Lloyd D. Polson at
Chairperson

9:00 a.m./~~p.m.~~ on January 23, 1985 in room 423-S of the Capitol.

All members were present except: Representative George Dean who was excused.

Committee staff present:

Raney Gilliland, Legislative Research Department
Norman Furse, Revisor of Statutes' Office
Mary Jane Holt, Committee Secretary

Conferees appearing before the committee:

Marvin Webb, Director, Kansas State Grain Inspection Department
Sam Reda, Warehouse Division, Kansas State Grain Inspection Department

The meeting was called to order by the Chairman, Lloyd D. Polson who welcomed the members to the Committee.

Chairman Polson stated agriculture is the number one industry in the State of Kansas, and he challenged the Committee to provide initiative in making progress for the industry.

In stating Committee policy, the Chairman plans to use Roberts Rules of Order and anyone wishing to speak should make their wishes known to the Chairman, and in turn will be recognized.

The Chairman introduced Marvin Webb, Director, Kansas State Grain Inspection Department and Sam Reda, Warehouse Division, Kansas State Grain Inspection Department.

Marvin Webb reviewed the history and functions of the Kansas State Grain Inspection Department, (Attachment #1), for the Com mittee.

Sam Reda explained to the Committee during a warehouse examination they look at the quality and quantity of the grain, the warehouse records and the condition of the elevator. He stated the reason shortages occur is usually due to concealed records by the warehouse.

Representative Sallee stated due to the present investigation of the Twombly Grain Company and some legislation he is having prepared, he would reserve his questions for a later date. He said he had called the Grain Inspection Department and reported on the condition of the grain in the Highland facility. He felt the Grain Inspection Department should have moved the grain or turned the electricity on to maintain the quality of the grain.

Sam Reda informed the Committee the estimated loss at the Twombly Grain Company is \$2,000,000. The K.B.I. has hired an auditing firm to see if there is sufficient evidence to start payments under the bond. Kansas has a cumulative bond, however, most states have continuous bonds.

Marvin Webb informed the Committee that sunflowers have become a new crop in Kansas. The last three months 500 cars of sunflower seeds have been graded through the state inspection stations.

The Chairman adjourned the meeting at 9:50 a.m.

The next meeting of the Committee will be at 9:00 a.m. on Thursday, January 24, 1985 in Room 423-S.

THE STATE OF KANSAS



JOHN CARLIN
GOVERNOR
MARVIN R. WEBB
DIRECTOR

GRAIN INSPECTION DEPARTMENT

GENERAL OFFICE

235 S. Topeka, P.O. Box 1918, Topeka, Kansas 66601

INSPECTION DIVISION

PHONE (913) 296-3451

WAREHOUSE DIVISION

PHONE (913) 296-3454

INSPECTION POINTS
ATCHISON KANSAS CITY
COLBY SALINA
DODGE CITY TOPEKA
HUTCHINSON WICHITA

REPORT OF THE STATE OF
KANSAS GRAIN INSPECTION DEPARTMENT

PRESENTED BY MARVIN R. WEBB, DIRECTOR

TO

THE HOUSE COMMITTEE ON
AGRICULTURE AND SMALL BUSINESS

WEDNESDAY, JANUARY 23, 1985

*1/23/85
Attachment #1*

MR. CHAIRMAN AND LADIES AND GENTLEMEN. I WOULD LIKE TO BRIEFLY REVIEW THE HISTORY AND FUNCTIONS OF THE KANSAS STATE GRAIN INSPECTION DEPARTMENT.

IN 1897 THE GRAIN INSPECTION DEPARTMENT WAS CREATED BY THE KANSAS LEGISLATURE AT THE REQUEST OF THE GRAIN INDUSTRY FOR THE SAMPLING AND GRADING OF GRAIN, WHICH HELPED TO FORM THE BASIS FOR DETERMINING THE PRICE FOR GRAIN TRADING.

IN 1907 THE KANSAS LEGISLATURE ENACTED THE KANSAS PUBLIC GRAIN WAREHOUSE LAW AND COMBINED IT WITH THE INSPECTION DEPARTMENT. PRESENTLY WE HAVE THREE DIVISIONS: ADMINISTRATION, INSPECTION AND WAREHOUSE.

THE ADMINISTRATION DIVISION IS RESPONSIBLE FOR THE EFFICIENT OPERATION OF THE DEPARTMENT PROVIDING PERSONNEL, SUPPLIES, DATA PROCESSING AND ACCOUNTING SERVICE FOR BOTH THE INSPECTION AND WAREHOUSE DIVISIONS.

THE INSPECTION DIVISION IS LICENSED UNDER THE FEDERAL GRAIN INSPECTION SERVICE AND MUST OPERATE UNDER THE U.S. GRAIN STANDARDS ACT. WE MUST CONTINUALLY OBSERVE QUALITY STANDARDS AND ALL INSPECTORS, SAMPLE WEIGHERS AND TECHNICIANS MUST BE LICENSED BY THE FEDERAL GRAIN INSPECTION SERVICE.

THE OFFICIAL INSPECTION STANDARDS ARE RIGID AND THE FEDERAL GRAIN INSPECTION SERVICE CHECKS OUR WORK ON A REGULAR BASIS TO BE CERTAIN THE STANDARDS ARE ADHERED TO STRICTLY, WHICH RESULTS IN THE KANSAS CERTIFICATE BEING ACCEPTED READILY WORLDWIDE.

THE WAREHOUSE DIVISION IS RESPONSIBLE FOR ADMINISTERING THE KANSAS PUBLIC WAREHOUSE LAW. IN ORDER TO OPERATE A PUBLIC WAREHOUSE IN KANSAS, AN APPLICATION MUST BE SUBMITTED TO THE DIRECTOR FOR A LICENSE, WHICH IS ISSUED ONLY AFTER A REVIEW OF A CURRENT FINANCIAL STATEMENT AND ISSUANCE OF A SURETY BOND. WE REVIEW THE RECORDS OF THE PUBLIC WAREHOUSES PRIOR TO AND SUBSEQUENT TO LICENSING. BEFORE A FINAL DETERMINATION IS MADE ON ISSUANCE OF NEW LICENSES, WE MAKE A PHYSICAL EXAMINATION OF THE FACILITY TO DETERMINE THE ADEQUACY OF INSURANCE, ELEVATOR RECORDS AND DETERMINE IF THE FIRMS FACILITIES ARE SUITABLE FOR AND PROPERLY EQUIPPED TO HANDLE THE PRODUCTS TO BE STORED. THEREFORE, SUPERVISION, FINANCIAL DETERMINATION AND THE WAREHOUSEMAN'S BOND, AFTER DUE CONSIDERATION OF THE WAREHOUSEMAN'S POTENTIAL FOR INTEGRITY, COULD BE AND PROBABLY IS A GOOD GUIDE TO SUCCESSFUL WAREHOUSE LAW ADMINISTRATION.

WE PRINT THE WAREHOUSE RECEIPTS AND ISSUE THESE AS REQUESTED, BUT WE MONITOR THE RECORDS ON ISSUING WAREHOUSE RECEIPTS AND WE REQUIRE THEY BE REGISTERED IN OUR OFFICE IF THEY ARE USED AS COLLATERAL. OUR LAW REQUIRES THAT WE EXAMINE EACH ELEVATOR ONCE A YEAR, BUT WE EXPECT TO DO TWO EXAMINATIONS PER YEAR AND IN THE PAST FISCAL YEAR, WE DID ONE AND ONE-HALF EXAMINATIONS.

I WOULD LIKE TO EMPHASIZE THAT WE ARE A FEE AGENCY AND IN ADDITION TO NOT REQUIRING ANY TAX MONIES, WE CONTRIBUTE \$200,000 PER YEAR TO THE GENERAL FUND. WE PRESENTLY HAVE AUTHORIZED, 186 POSITIONS, WHICH IS A REDUCTION OF 41 POSITIONS OVER THE LAST THREE YEARS. WE HAVE AN OPERATING BUDGET OF NEARLY \$5,000,000.

WE PRESENTLY HAVE 13 WAREHOUSE EXAMINERS, WHICH I FEEL WILL ENABLE US TO MAKE TWO EXAMINATIONS PER ELEVATOR THIS FISCAL YEAR. WE HAVE LOST SOME OF

THE SMALLER ELEVATORS THIS PAST YEAR DUE TO THE INCREASED REQUIREMENTS WHICH CAUSED SOME OF THE OPERATION TO SIMPLY DECIDE NOT TO REQUEST A LICENSE OR TO MERGE THEIR ELEVATOR WITH SOMEONE ELSE'S.

I AM CERTAIN ALL OF YOU ARE AWARE WE HAD TWO BANKRUPTCIES IN 1984. THE FIRST ELEVATOR BANKRUPTCY LAST YEAR WAS IN FEBRUARY WHEN THE BUCYRUS GRAIN COMPANY, BUCYRUS, KANSAS, IN MIAMI COUNTY, DECLARED VOLUNTARY BANKRUPTCY. THIS IS WHAT I HAVE TERMED AN HONEST EMBEZZLEMENT. I SAY THIS BECAUSE HE CALLED US AND TOLD US WHAT HE HAD DONE AS FAR AS LOSING IN THE COMMODITY MARKET. HE WAS OVER-EXTENDED TO THE TUNE OF MORE THAN TWO HUNDRED THOUSAND. HE TRIED TO PROTECT THE PRODUCERS AND THEY WILL BE PAID COMPLETELY. THIS WAS AN UNUSUAL CASE, IN THAT HE FILED BANKRUPTCY THEN HE NOTIFIED OUR DEPARTMENT, SO THAT ACTUALLY WE CLOSED OUT THE ELEVATOR FOR THE BANKRUPTCY TRUSTEE.

OF COURSE, THE CASE THAT HAS RECEIVED THE PUBLICITY IS THE TWOMBLY GRAIN COMPANY AT TROY AND HIGHLAND. THIS CONCERN WAS TAKEN OVER BY OUR DEPARTMENT UNDER DISTRICT COURT ORDER ON OCTOBER 4, 1984, AND THEN ON NOVEMBER 5, 1984, WAS DECLARED AN INVOLUNTARY BANKRUPTCY. IT IS BY FAR THE LARGEST AND MOST DIFFICULT CASE WE HAVE EVER HAD. I AM RATHER LIMITED IN WHAT I CAN SAY ABOUT THIS CASE, AS IT IS STILL BEING COMPLETED. BY THAT I MEAN THE K.B.I. IS STILL CONDUCTING AN INVESTIGATION AND THE OFFICE OF THE U.S.D.A. INSPECTOR GENERAL IS STILL INVOLVED IN INTERVIEWING AND RECONSTRUCTING THE RECORDS IN THE CASE.

HOWEVER, I WILL BE HAPPY TO ANSWER ANY QUESTIONS THAT I POSSIBLY CAN, CONCERNING ANYTHING IN OUR OPERATION. I APPRECIATE THE OPPORTUNITY TO BE ABLE TO VISIT WITH YOU THIS MORNING. I AM ALWAYS AVAILABLE ANYTIME ANY OF YOU HAVE A QUESTION. THANK YOU!

For Your Protection... Demand Kansas Inspections

EXPERTISE—BASED ON EXPERIENCE

In 1897, at the request of the grain industry, the Kansas Legislature created the Grain Inspection Department. Initially, the Department was responsible only for sampling the grain and certifying its official weight and grade. The grain certificate formed the basis for determining the grain sale price.

In 1907, the Legislature enacted the Kansas Public Grain Warehouse Law and assigned the duty of enforcing it to the Grain Inspection Department.

Born out of necessity and enacted by Congress in 1916, the United States Grain Standards Act provided for establishment of standards for the grading and certification of grain.

ADVICE AND COUNSEL

The Department is managed by a Director who is appointed by the Governor and confirmed by the Senate. The Director receives advice and counsel from the Grain Advisory Commission. Established by the Legislature in 1953, the Commission is composed of five members from different segments of the grain industry and is appointed by the Governor. Commission members serve staggered three-year terms. The Commission meets quarterly to discuss matters related to certifying grain, administering the warehouse law, and managing the Department.

ORGANIZATION

The Department is organized into three Divisions: Inspection, Warehouse, and Administration.

INSPECTION DIVISION: The Inspection Division operates within the United States Grain Standards Act and is monitored by the Federal Grain Inspection Service.

In order to obtain official designation, the department must meet criteria established by the Federal Grain Inspection Service. All inspectors, sampler-weighers, and technicians must be examined and licensed by the Federal Grain Inspection Service.

An official inspection consists of examining a representative sample, obtained by the proper sampling procedures, and making such tests as are necessary to determine its grade. Protein content determinations are made with the near-infrared reflectance device. With protein analysis capabilities at all stations, the department has a capacity greater than any other group of laboratories under one control. The most accurate and efficient sampling procedure available is the diverter-type mechanical spout sampling method. It affords the shipper the advantage of having the grain sampled and graded before it is shipped.

WAREHOUSE DIVISION: The Warehouse Division is responsible for administering the Kansas Public Warehouse Law. To operate as a public warehouseman in Kansas, a person must apply to the director of the Kansas State Grain for a warehouse license. One inspection is all that is required, although the warehouse division has in past years, as a matter of policy, made an additional inspection at most locations. A license is issued after reviewing a current financial statement and establishing the surety bond amount.

All grain warehouse receipts, issued by state licensed warehouses, are under strict control of the warehouse division. The Kansas Warehouse Receipt is closely monitored and is one of the most complete and prestigious in the country.

Eligibility to operate under the Kansas Public Warehouse Law is determined by conducting an examination which encompasses the following: confirming the adequacy of all kinds of insurance, determining the adequacy of the storage facility and the accuracy of elevator records, measuring the grain in the warehouse, and testing the accuracy of the monthly reports sent in by the grain warehouseman. Warehouse operations are monitored by reviewing monthly reports from the elevators and conducting more detailed reviews (called special examinations) of potential problem elevators.

ADMINISTRATIVE DIVISION: This division is responsible for the executive functions and logistics necessary for the efficient operation of the department and provides personnel, data processing, and accounting services for the two other divisions.

MEETING YOUR NEEDS

The Kansas State Grain Inspection Department is totally supported from fees charged to the grain and warehousing industries. As prescribed by law, \$200,000 of the department's gross revenue is credited to the State of Kansas General Revenue Fund. The balance is used for the operation and maintenance of the department.

The Kansas State Grain Inspection Department enjoys a reputation as the finest official inspection agency in the United States. We feel our expertise in grain grading, weighing, and warehousing can be of real benefit to anyone engaged in grain production or storage and handling.

We welcome the opportunity to discuss how our services can benefit your operation. For further information, we encourage those interested to contact one of our inspection stations or our main office. We extend a cordial invitation to you to visit our offices for a first-hand look at your grain inspection department's operation.

INNOVATIVE

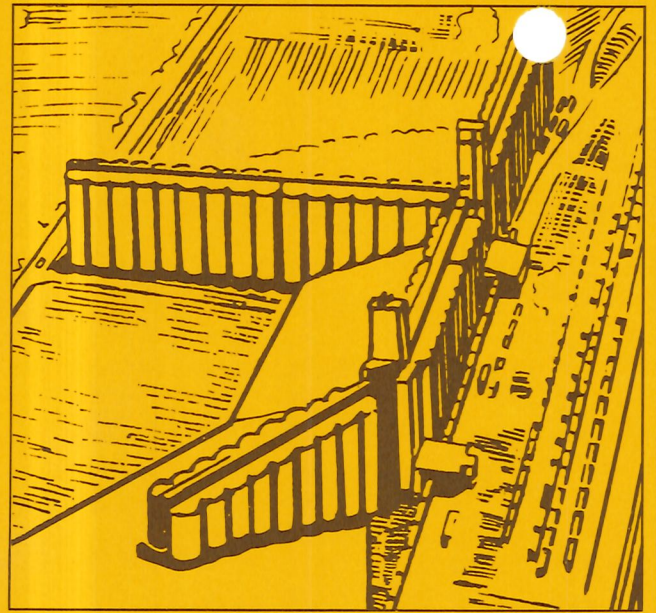
The department has instituted a contract sampler program. Under this program, the department contracts with individuals to perform probe sampling functions at specified locations throughout the state.

The department feels the program holds great promise and, due to present railroad regulations, would be advantageous to many shippers. We urge anyone interested in this program to contact us for more information.



WAREHOUSE DIVISION

- Licensing grain warehouses
- Conducting examinations of warehouses
- Monitoring warehouse operations
- Controlling warehouse receipts



INSPECTION DIVISION

- Certifying the grade, weight and protein content of grain

Inspection Station Locations:

ATCHISON

Inspection Station
718 Kansas
Atchison, KS 66002
Pho: 913/367-2992

DODGE CITY

Inspection Station
203 Woodland
Dodge City, KS 67801
Pho: 316/225-4931

KANSAS CITY, MO

Inspection Station
4800 Main Street
Kansas City, MO 64112
Pho: 816/753-8156

TOPEKA

Inspection Station
1208 North Kansas Avenue
Topeka, KS 66608
Pho: 913/296-3758

COLBY

Inspection Station
345 North Lake
Colby, KS 67701
Pho: 913/462-8347

HUTCHINSON

Inspection Station
3 Williams Street
S. Hutchinson, KS 67505
Pho: 316/662-3318

SALINA

Inspection Station
1700 East Iron
Salina, KS 67401
Pho: 913/827-3671

WICHITA

Inspection Station
863 West 29th North
Wichita, KS 67204
Pho: 316/832-1272

Kansas State Grain Inspection

535 Kansas Avenue, 8th Floor
Topeka, Kansas 66603

Administrative Division

- Personnel, data processing and accounting services,
- Executive offices,
- Phone: 913/296-3451