

Approved April 23, 1986
Date

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS

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

7:00 a.m./~~xxx~~ on April 10, 1986 in room 423-S of the Capitol.

All members were present except: Representatives Freeman, Long and Solbach who were 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:

Harland Priddle, Secretary, State Board of Agriculture
Joan Finney, State Treasurer
Harold Stones, Kansas Bankers Association
Ed Reznicek, Kansas Rural Center
Bill Fuller, Kansas Farm Bureau
Ron Wilson, Farm Credit Council
Howard Tice, Kansas Association of Wheat Growers
Steve Hirsch, State Treasurer's office

Hearing on SCR 1639-Requesting modification of K.A.R. 4-4-2 concerning inspection fees for commercial fertilizers

Harland Priddle explained the request was to restore the inspection fee of commercial fertilizers back to 30¢ per ton where it was prior to last summer when it was reduced to 15¢ per ton. On January 1, 1986 there was a reduction of some 300,000 tons which produced a serious shortfall.

Representative Roenbaugh moved to recommend SCR 1639 favorably for adoption. The motion was seconded by Representative Sallee. The motion passed.

Hearing on S.B. 546-An act establishing the farm credit review board; creating the home quarter purchase fund and making appropriations.

Joan Finney testified S.B. 546 would establish a Credit Review Board which would serve as a negotiator between a farmer who is in danger of imminent foreclosure and any lender who holds a valid mortgage or contract for deed upon the property. If a negotiated settlement is not reached, then the Board may approve the purchase, refinancing or redemption of the farmer's home-quarter. The bill also authorizes the transfer of \$500,000 from the unclaimed property receipts in the State General Fund to the "Home-quarter Purchase Fund", Attachment I.

Harold Stones testified in opposition to S.B. 546. Passing S.B. 546 in addition to S.B. 696 would be decidedly unfair to Kansas bankers, Attachment II. He suggested the state help subsidize the farmer.

Ed Reznicek explained he works with individual farmers and helps them to resolve their debt related problems. He testified S.B. 546 should be passed along with S.B. 696.

Bill Fuller stated many of the benefits proposed by S.B. 546 are already in other legislation. Passing S.B. 546 in addition to S.B. 696 would be going to far. He stated there are five bills, S.B. 696, S.B. 347, S.B. 555, H.B. 2779 and S.B. 735, that will probably be approved this session that will assist the farmer. He suggested the Committee recommend S.B. 546 for an interim study by the legislature, Attachment III.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS,
room 423-S, Statehouse, at 7:00 a.m.~~pm~~ on April 10, 1986

Ron Wilson expressed he appreciated the intent of S.B. 546, however, S.B. 696 accomplishes the larger objective of keeping the farmer on the land. He testified in opposition of passing S.B. 546 in addition to S.B. 696. He estimated the land bank had approximately 400 foreclosures last year.

Howard Tice testified that 17% of Kansas farmers were in financial trouble. He disagreed that passage of S.B. 546 would cause a problem with S.B. 696. He stated that S.B. 546, along with other bills proposed this year would help keep experienced farmers in business, Attachment IV.

Steve Hirsch explained the language in S.B. 546 that states, "the Board shall enter into negotiations with the lender, on behalf of the farmer", does not mean the Board has to go any farther than getting the parties talking together.

The hearing on S.B. 546 was closed.

The Committee meeting adjourned at 10:15 a.m.

The next meeting will be at 7:00 a.m., Room 423-S, Friday, April 11, 1986.

REMARKS PREPARED FOR DELIVERY BY
JOAN FINNEY, KANSAS STATE TREASURER
BEFORE KANSAS HOUSE AGRICULTURE AND SMALL
BUSINESS COMMITTEE

APRIL 10, 1986

HOME QUARTER BILL - SB 546

THIS YEAR, THE FEDERAL LAND BANK ALONE WILL SERVE FORECLOSURE NOTICES TO 850 KANSAS FARMERS. MANY KANSAS FARMERS HAVE ALREADY LOST THEIR LAND AND THEIR HOME, SOME AFTER MISSING ONLY ONE OR TWO PAYMENTS. WHILE IT IS A DEVASTATING EXPERIENCE TO LOSE YOUR BUSINESS, IT IS A TRAGEDY TO LOSE YOUR HOME. FROM THE STANDPOINT OF JOBS ALONE, THE CITIES AND THE STATE CAN ABSORB ONLY SO MUCH. I BELIEVE THAT SB 546 IS AN EXCELLENT COMPANION BILL TO SB 696 AS IT ADDRESSES MAINLY THE PROBLEM OF SAVING THE HOME. IT CAN BE USED IN CASES WHERE JUDGMENT OF FORECLOSURE HAS BEEN IMPLEMENTED AND EVEN IN CASES WHERE BANKRUPTCY HAS BEEN FILED.

IF NEGOTIATION FOR THE ENTIRE ACREAGE HAS FAILED, THE FARMER MAY PETITION THE CREDIT REVIEW BOARD FOR REVIEW OF HIS CASE. DURING THE NEXT 60 DAYS, THE BOARD BRINGS TO THE NEGOTIATION TABLE THE LEGITIMACY AND PRESTIGE OF THE LEGISLATURE AND THE GOVERNOR. THE GOAL OF THE BOARD IS TO RESTRUCTURE AS MANY ACRES AS POSSIBLE, BUT ESPECIALLY CONCENTRATING ON THE HOME QUARTER. PLEASE BEAR IN MIND THAT FORTY PERCENT OF OUR FARMERS RENT A PORTION OF THE LAND THEY FARM. THE BASIC DEFINITION OF HOME QUARTER IS THE 160 ACRES UPON WHICH THE HOUSE AND BUILDINGS ARE SITUATED. IF THIS NEGOTIATION FAILS, WE MOVE TO THE FINAL PHASE.

BY USING THE INTEREST ON THE UNCLAIMED PROPERTY FUND, AMOUNTING TO \$500,000 PER YEAR AND WHICH NOW FLOWS INTO THE GENERAL FUND, THIS PHASE PROVIDES FOR AN INTEREST BUY-DOWN ON THE HOME QUARTER. THE STATE, THROUGH THE CREDIT REVIEW BOARD, WOULD NOT BE LOANING PRINCIPAL, BUT RATHER LOANING

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Attachment I

PAGE TWO

STATE MONEY TO PAY THE INTEREST PAYMENTS OR A PORTION THEREOF. WITHOUT EXCEPTION, EVERY FARMER I KNOW HAS ADVISED ME THAT THEIR GREATEST EXPENSE IS INTEREST PAYMENTS. THE STATE LOANS FOR BUY-DOWN OF INTEREST WOULD APPLY ONLY TO THE FIRST \$50,000 IN PRINCIPAL. ONCE AGAIN, THE STATE IS NOT PAYING ON PRINCIPAL, ONLY INTEREST. THE INTEREST BUY-DOWN COULD OCCUR FOR A FIVE-YEAR PERIOD, AT WHICH TIME THE FARMERS AND THE AGRICULTURAL INDUSTRY, HISTORICALLY, WOULD BE IN A MORE SOUND POSITION. THE INTEREST BUY-DOWN SHOULD HELP THE FARMER'S CASH-FLOW OPERATION AND AID THE LENDER IN RESTRUCTURING THE LOAN. THE PAY BACK TO THE STATE IS AMORTIZED OVER THE TERM OF THE LOAN. AS THE FARMER REPAYS THE LENDER, THE LENDER REIMBURSES THE STATE FOR THE AMOUNT THE STATE HAS PAID IN BEHALF OF THE FARMER. NO INTEREST WILL BE CHARGED ON THE MONEY THE STATE HAS ADVANCED. IF THE PARTICIPATING FARMER IS NOT SUCCESSFUL IN TURNING HIS OPERATION AROUND AND ENDS UP IN FORECLOSURE OR BANKRUPTCY, AN AGREEMENT WITH THE LENDER FOR THE STATE TO RECEIVE A PRO-RATA SHARE OF THE FORECLOSURE PROCEEDS WOULD BE USED.

FISCAL NOTE

THE MAJORITY OF CASES SHOULD BE RESOLVED BY FACTS PROGRAM UNDER THE BOARD OF AGRICULTURE OR BY THE PROVISIONS OF SB 696 OR BY THE CREDIT REVIEW BOARD.

MAXIMUM COST ABOVE WHAT IS CURRENTLY BUDGETED FOR THE FACTS HOT-LINE SERVICE IS ESTIMATED AT \$479,000 PER YEAR. THE INTEREST BUY-DOWN AND CREDIT REVIEW BOARD NEGOTIATION COULD SERVE AT LEAST 450 FARMERS IN ADDITION TO AN UNDETERMINED NUMBER THAT COULD BE SUCCESSFULLY RESOLVED IN EARLIER STAGES. THE BREAKDOWN IS AS FOLLOWS:

PAGE THREE

SUCCESSFUL NEGOTIATIONS FOR 300 HOME QUARTERS AT \$160.00 PER NEGOTIATION (\$8.00 PER HOUR X 20 HOURS)	\$ 48,000.00
NEGOTIATIONS WHICH ARE UNSUCCESSFUL FOR 150 FARMERS	24,000.00
5% INTEREST PAID (ON THE AVERAGE) FOR 150 FARMERS	375,000.00
CREDIT REVIEW BOARD ADMINISTRATION	<u>32,000.00</u>
TOTAL ANNUAL COST	\$479,000.00

(A MEAGER AMOUNT INDEED WHEN COMPARED TO THE GOVERNOR'S
PROPOSAL OF \$15 MILLION LAST YEAR.)

CONCLUSION

FARMING IS OUR HERITAGE AND OUR ECONOMIC BASE. THESE ARE OUR
PEOPLE. WE MUST DO WHAT WE CAN TO HELP THEM.

KANSAS BANKERS ASSN.

707 MERCHANTS MTL. BLDG -- TOPEKA KS 66612

April 10, 1986

TO: HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS

FROM: Harold Stones, Kansas Bankers Association

RE: Senate Bill 546

Thank you, Mr. Chairman, and Members of the Committee for allowing us to appear in vigorous opposition to Senate Bill 546.

As you know, the KBA has recommended to its membership that we not strongly oppose Senate Bill 696, even though it singles out the financial agricultural lending community for significant sacrifice.

We have become greatly concerned about public statements by certain officials who seem to believe that somehow, legislation such as this magically lifts the burden of debt off the shoulders of the farmer, and makes it magically evaporate into nothingness. I have heard many officials say, "And the good thing is, it doesn't cost the State a penny!"

Well, who does it cost? It certainly is true that the State is not joining in the sacrifice of Senate Bill 696. Or in any other program which would allow for joint buydown program! But bankers are doing their level best to be responsible Kansans, and work for the well-being of this State. We have heard of insurance companies who have announced they will not lend one dime further in Kansas. This concerns us greatly, because capital is badly needed if our land values are ever to rebound. But your Kansas banks will not start "going out of state" with their business. They will continue to live with and depend upon the residents of their local communities, and will continue to do all they can to rebuild those communities.

Senate Bill 696 allows eligible farmers to pay less than half of their agreement! And gives them three years to reorganize. Senate Bill 546 would add another two years in litigation alone. There has to be a limit, as to the level of burden the Legislature asks one industry to shoulder. Adding SB 546 onto SB 696 is, in our view, decidedly unfair!

We oppose any further legislation this session which further disturbs the lender-borrower relationship. Your local banks have to survive too, or all the people in our community are hurt. If this type of legislative activity continues, the KBA will have no option but to oppose the entire package of legislation with all the intensity we can muster, consistent with good taste and high ethics. We feel like the family that has already given one member to the war effort, while so many others remain untouched, and now the government wants more, long before others have given a fair share!

We respectfully urge you not to pass this unfair distribution of burden.

Harold Stones

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Attachment II

MEMO ON SB 546

The following are just a few of the problems with the bill:

Section 1 - The definitions of "farm" and "farmer" are wide-open and could include far more than the family farming operation.

Section 2 - No designation as to who gets to appoint the "financial institutions" people and who gets to appoint the "farmers". What if they all want to appoint farmers? Who has first choice?

Section 3 - Who determines when a farmer is in danger of "imminent foreclosure" (or did they really mean in "imminent danger of foreclosure")?

Section 4 - How much time does the farmer have to "petition" the board?

Evidently the board has no authority to reject any petition (see line 65). How long can the negotiations by the board go on? If hundreds of petitions are received it could be months or years before any board action is taken. There is no indication that any of redemption period would be reduced by the time spent in negotiations. THIS IS A MORATORIUM BILL IN DISGUISE.

Section 5 - What does the last sentence on line 82 really mean? What happens if the farmer defaults on the subsidized loan? Does he have to pay the interest subsidy back to the board?

Section 7 - How do you create a loan agreement where an outside party (i.e., the board) has the authority to change the terms of the agreement? It says all subsidized interest payments must be added to the principal and repaid starting no later than 5 years after the subsidy is approved and yet the board has the right to change the amount of the subsidy on an annual basis.

Section 8 - When does the board determine the appraised value of the home-quarter - before or after the negotiations? What about appeals on their decision?

Section 10 - How much will have to be transferred from the general fund if all interest earned on the unclaimed property since 1979 has to be credited to the home-quarter fund?

Is any farmer really being helped by the interest subsidy if it is restricted to the first \$50,000? Even if the board subsidized the interest rate as much as 4% it would be an insignificant amount. The real impact of this bill is the potentially lengthy time delay each foreclosed farmer would gain.



PUBLIC POLICY STATEMENT

HOUSE AGRICULTURE AND SMALL BUSINESS COMMITTEE

Representative Lloyd Polson, Chairman

RE: S.B. 546 - Establishing the Farm Credit Review Board and the Home-Quarter Purchase Fund

Presented by:
Bill R. Fuller, Assistant Director
Public Affairs Division
KANSAS FARM BUREAU

Mr. Chairman and Members of the Committee:

I am Bill Fuller, speaking on behalf of the farmers and ranchers who are members of Kansas Farm Bureau.

S.B. 546 was introduced early in the Legislative Session ... in fact, on February 3. At that time, this bill was viewed as a possible proposal that could help a farmer who was experiencing financial problems save a part of his operation. However, at this eleventh hour of this 1986 Session, we believe many of the benefits proposed by S.B. 546 **have been or are nearing completion** in other legislation. It appears five bills will be approved this Session which will become the framework of meaningful legislation to assist Kansas farmers and ranchers struggling to survive this agricultural crisis. As we consider S.B. 546 today, we believe it is important first to take stock of where we are and review this five bill package:

We believe much of S.B. 546 has been accomplished in S.B. 696. In fact, we believe S.B. 696 is a better "mousetrap" ... providing more assistance to a large number of farmers, yet providing some protection to lenders. The bill allows a farmer who

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Attachment III

is foreclosed upon by his lender up to three years to continue his operation and work through his financial difficulties. S.B. 696 is a state alternative to the federal bankruptcy procedure. Farmers are considered for participation in the program after applying to the District Court and having the ability to pay interest to the lender at a lower rate (treasury bill plus 2 percent) on lower property values based on current values, rather than the face amount of the original mortgage. Under the program the farmer can buy back his operation at the end of three years based on the value of the property at that time. The lender has some protection in that he may file a judgment on the deficiency and receive interest on that deficiency. You are all aware of the lengthy hearings, spirited debate and numerous amendments on the proposal. After a great deal of negotiations by both sides of the political arena, lenders and farmers, House and Senate, a compromise was achieved and S.B. 696 was approved:

38-1 Senate

124-0 House

Frankly, it is feared that the passage of S.B. 546 in addition to S.B. 696 may go too far and may jeopardize the likelihood of S.B. 696 becoming law. If that happened, we believe that would result in a real loss to farmers and ranchers after weeks of work and compromise by all parties involved.

In fact, the voting delegates at KFB's Annual Meeting adopted a resolution expressing the continued need for a partnership between farmers and lenders:

AGRICULTURAL CREDIT

"...In these difficult times neither farmers nor lenders will succeed by themselves if the other fails. We need credit programs that are mutually beneficial for farmers and lenders, programs that will assist farmers and ranchers to maintain viable operations, and programs that will give lenders sufficient latitude to work with producers who have credit or debt difficulties..."

Our primary goal is to keep farmers on the farm! We believe S.B. 696 can achieve this goal in many cases.

Quickly, let's review the other bills in this "Farm Bill" package:

Sub. S.B. 347 - Providing an interest rate buy-down of three percent for qualified production loans for customers of banks and PCA's. This proposal will lower farm production expenses and increase net farm incomes. We believe it will provide significant assistance to keep farmers on the farm.

S.B. 555 - Allows banks five years to amortize loan losses. This proposal will allow lenders to work with farmers more fully. We believe this bill will also help keep farmers on the farm.

Unfortunately, in the "real world, we have lost some farmers ... and may lose more. Two bills in the package will assist farm families in rebuilding their lives:

H.B. 2779 - Exempts capital gains tax to assist farmers, who often at no fault of their own, lost or turned land back to their lender.

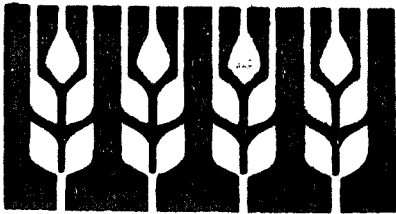
Sub. for S.B. 735 - Provides education grants for displaced farmers. The proposal would be applicable to vocational technical schools, community colleges, colleges and universities.

We believe this package of five farm assistance bills should be given the opportunity to work. S.B. 546 may be used as a "back up." Perhaps at this late hour you may want to request the topic for Interim study. At that time you could look at the problems associated with the drafting and language in the bill, including the definition of "farmer" and the application of such terms as "if the farmer is in danger of imminent foreclosure."

In closing, I must point out that we have earlier testified on this bill, as we have on a number of other bills this Session ... not as a proponent or opponent, but rather in a role with you the Legislature, to analyze and search with an open mind for proposals or variations of proposals to meet the needs of farmers and ranchers during this very critical time. We commend Treasurer Finney for her compassion and desire to assist agriculture, not only by this proposal but the other initiatives she has implemented. However, we believe at this late hour this Session, the dye has been cast and it would be difficult to properly work S.B. 546 into the components of the "package" of the agricultural bills I have reviewed with you.

Thank you for this opportunity to express our views. Are there any questions?

KANSAS ASSOCIATION
OF WHEAT GROWERS



HOUSE AGRICULTURE COMMITTEE

Representative Lloyd Polson, Chairman

SENATE BILL 546

April 10, 1986

Mr. Chairman and members of the committee, I am Howard Tice, Executive Director of the Kansas Association of Wheat Growers. I appreciate the opportunity to appear today in support of Senate Bill 546.

We have examined several ideas this year aimed at helping one area or another of the ailing farm economy. This committee, and the Legislature as a whole have, indeed, tried to accept a degree of responsibility for helping keep our number one industry healthy. Putting tax dollars into agriculture is no different than authorizing tax credits to businesses who consider locating in our state. They bring jobs, and help the economy by generating cash flow in our communities. Farmers supply the food we all eat, and through no fault of their own, and in an environment where they have no real alternatives, these farmers lose money on every crop they produce. This amounts to subsidizing the consumer who enjoys the world's cheapest food. The farmer also supplies a product which is sold in the state's economy, generating cash flow for the communities in the same manner as the manufacturer.

Agriculture is an important asset to Kansas. One that is well worth preserving. Senate Bill 546 seeks to help farmers through establishment of a farm credit review process, and by backing that program up with the Home Quarter Purchase Fund. The fund would use unclaimed property receipts, so the cost to the state would only be the interest on those funds.

One big question that is asked concerning this proposal, is "How will it help a farmer, to help him keep only 160 acres?" The answer is quite simple. The program will enable the farmer to negotiate a settlement that will free him from otherwise impossible payments on larger tracts of land, keep his home and base of operations, and in some cases immediately, and in other cases, in the future, expand the operation by lease or rental agreements.

In short, this bill, along with others proposed this year may help us keep experienced professionals in business.

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Attachment IV