

Approved

April 26, 1986
Date

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS

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

6:45 ~~xxx~~ p.m. on April 24, 1986 in room 423-S of the Capitol.

All members were present except:

Committee staff present:

Raney Gilliland, Legislative Research Department
Mary Jane Holt, Committee Secretary

Conferees appearing before the committee:

The Chairman announced it was time to submit topics for interim studies. During the 1985 interim the Special Committee on Agriculture and Livestock toured the experiment stations in the western half of the state. He suggested touring the experiment stations in the eastern half of the state.

Representative Hamm suggested there be an interim study concerning agricultural problems. Venture capital and what other states have done were examples he proposed.

Representative Rezac distributed amendments to S.B. 546, Attachment I, and moved the Committee adopt the amendments. Representative Hamm seconded the motion.

Representative Solbach made a substitute motion to amend Substitute for S.B. 347 into S.B. 546 and to delete all of S.B. 546. Representative Dean seconded the motion. The substitute motion passed.

Representative Hamm explained proposed amendments to Substitute for S.B. 347, Attachment II.

Representative Neufeld moved to adopt the amendments. Representative Clifford Campbell seconded and the motion passed.

Representative Solbach moved this bill be drafted as House Substitute for S.B. 546, and the Committee recommend the bill favorably for passage. Representative Eckert seconded and the motion passed.

The Chairman distributed copies of a letter from the Department of Agriculture concerning whole-herd buy-out program, Attachment III.

The meeting was adjourned at 7:25 p.m.

SENATE BILL No. 546

By Committee on Agriculture

2-3

4/24/86 H.A.S.B
Attachment I

0021 AN ACT concerning agriculture; establishing the farm credit
0022 review board; creating the home-quarter purchase fund; mak-
0023 ing appropriations.

0024 *Be it enacted by the Legislature of the State of Kansas:*

0025 Section 1. As used in this act:

0026 (a) "Board" means the credit review board or its authorized
0027 agent where applicable.

0028 (b) "Farm" means a tract or tracts of land suitable for use in
0029 farming.

0030 (c) "Farmer" means a person involved in the production of
0031 an agricultural commodity.

0032 (d) "Fund" means the home-quarter purchase fund.

0033 (e) "Home-quarter" means a single contiguous tract of not
0034 more than 160 acres (64.75 hectares) which serves as the base
0035 unit of a farm and upon which the farm residence and buildings
0036 are located. *A tract of not more than 160 acres, a part of which is*
0037 *separated by a road, shall be deemed a contiguous tract.*

0038 Sec. 2. The governor shall appoint one member to serve as
0039 chairperson of the board. Such member shall be appointed
0040 subject to confirmation by the senate as provided in K.S.A.
0041 75-4315b and amendments thereto. The *president of the senate*
0042 ~~majority leader~~ and the senate minority leader shall appoint one
0043 member each and the *speaker of the house majority leader* and
0044 house minority leader shall appoint one member each. All board
0045 members shall serve ~~four-year terms at the pleasure of the~~
0046 *s appointing authority. Two of the board members shall have*
0047 *financial institution experience and two shall be farmers. The*

or family farm corporation which received more than 80% of such person's or corporation's gross income during the taxable year of such person or corporation, immediately preceding the current taxable year of such person or corporation, from a farming operation owned or operated by such person or corporation, not including the gross income of a spouse from sources other than the farming operation

64.75

or

, or both,

0047 state treasurer shall serve as an ex-officio nonvoting member of
0049 the board.

0050 Sec. 3. The board shall meet at the call of the chairperson, as
0051 is necessary to fulfill its duties under this act. The board shall
0052 serve as a negotiator between a farmer [who is in danger of
0053 immediate imminent foreclosure or] who has received a notice of
0054 foreclosure on a farm ~~and or if the farmer is in bankruptcy and in~~
0055 *any such case, the farmer* has petitioned the board, and any
0056 lender who holds a valid mortgage *or contract for deed* upon the
0057 property. The board may hire staff, subject to appropriations, to
0058 serve as negotiators for the board. Board members shall be paid
0059 compensation, subsistence allowance, mileage and other ex-
0060 penses as provided in K.S.A. 75-3223 and amendments thereto.

0061 Sec. 4. (a) Any farmer may petition the board for aid after
0062 receipt of a notice of foreclosure [or if the farmer is in danger of
0063 immediate imminent foreclosure,] ~~or if the farmer is in bank-~~
0064 *ruptcy*. Upon receipt of the petition, the board or its authorized
0065 agent [shall] enter into negotiations with the lender, on behalf of
0066 the farmer.

may

if the board finds the farmer to be eligible
for assistance under this act

0067 (b) The board or its authorized agent shall negotiate with the
0068 lender in an attempt to extend the term of the loan, reduce the
0069 dollar amount of payments under the loan or otherwise negotiate
0070 a settlement that will allow the farmer to reside in the farm
0071 residence and allow the farmer to continue to produce agricul-
0072 tural commodities. Any change in the terms of the mortgage *or*
0073 *contract for deed* shall be approved by the lender and the
0074 farmer.

0075 Sec. 5. (a) If the board, or its authorized agent, is unable to
0076 mediate a settlement in the negotiation of a farmer's debt, the
0077 board may approve the purchase, refinancing or redemption of
0078 the farmer's home-quarter. If the board approves the purchase,
0079 refinancing or redemption of the home-quarter, it shall subsidize
0080 the interest rate paid by the farmer after credit has been obtained
0081 by the farmer from any governmental or private financial insti-
0082 tution or agency. Other portions of the farm may be considered.

0083 (b) The board may only approve an interest subsidy if the
0084 farmer has the financial ability to meet all payments and finan-

cial responsibilities, including the payment of principal and interest on loans subsidized under this act.

0086 interest on loans subsidized under this act.
0087 Sec. 6. A revolving fund shall be maintained in the state
0088 treasury for the subsidy of interest rates on home-quarter pur-
0089 chases *and administrative costs*, as provided in this act. All
0090 moneys transferred into the fund, interest upon moneys in the
0091 fund and payments to the fund are hereby appropriated for the
0092 purpose of providing subsidies *and administrative costs* in ac-
0093 cordance with this act.

0094 Sec. 7. An interest subsidy may only be approved on the first
0095 \$50,000 of principal loaned to the farmer for the purchase or
0096 refinancing of the home-quarter. The board may set the sub-
0097 sidized interest rate for any loan which shall not exceed the
0098 amount of interest actually charged on the first \$50,000 of prin-
0099 cipal. The board may change the rate of subsidized interest
0100 payments due from the farmer annually, not to exceed the
0101 amount of interest actually charged on the first \$50,000 of prin-
0102 cipal. The amount of any interest payments subsidized by the
0103 board must be added to the principal amount of the loan, and the
0104 lender shall repay this amount into the fund as it is repaid by the
0105 borrower. *Interest subsidy added to the principal amount of the*
0106 *loan shall not accrue interest.* Repayment of the interest subsidy
0107 shall commence no later than five years from the time the
0108 subsidy is approved by the board. Loans approved by the board
0109 shall be amortized and may have terms of up to 40 years.

0110 Sec. 8. The board shall determine the appraised value of
0111 home-quarters for the purposes of this act. In determining ap-
0112 praised value, the board shall receive testimony from either
0113 party on the value of the home-quarter as a single tract of land.

0114 Sec. 9. The board may adopt rules and regulations to carry
0115 out the provisions of this act. The board may prepare forms and
0116 contracts appropriate to carry out the provisions of this act.

0117 Sec. 10. There is hereby authorized the transfer to the
0118 home-quarter purchase fund the sum of \$500,000 from the un-
0119 claimed property receipts in the state general fund. For the
0120 period beginning with the effective date of this act, all interest
0121 earnings on unclaimed property moneys *collected since the*

, after consultation with the farmer and the lender,

2 *enactment of the disposition of unclaimed property act and not*
0123 *subsequently returned to the rightful owner or their heirs or*
0124 *successors shall be credited to the home-quarter purchase fund.*
0125 Any funds transferred under this section are hereby appropriated
0126 to the home-quarter purchase fund for interest buydowns *and*
0127 *administrative costs.*

0128 Sec. 11. This act shall take effect and be in force from and
0129 after its publication in the ~~statute book~~ *Kansas register.*

Substitute for SENATE BILL No. 347

By Committee on Agriculture

4-1

0017 AN ACT establishing a program providing incentives for the
 0018 reduction of rates of interest upon agricultural production
 0019 loans to eligible agricultural borrowers; granting certain tax
 0020 credits to banks and production credit associations making
 0021 such loans; and prescribing certain limitations thereon.

0022 *Be it enacted by the Legislature of the State of Kansas:*

0023 Section 1. (a) On and after the effective date of this act and

0024 prior to July 1, ~~1986~~, a state bank or national banking association

0025 which extends or renews an agricultural production loan to an

0026 eligible agricultural borrower at an interest rate which is ~~not~~

0027 ~~more than three~~ whole percentage points less than the prime

0028 interest rate then specified by the bank on such loans with

0029 equivalent collateral, and a state bank or national banking asso-

0030 ciation which reduces the rate of interest being charged on any

0031 outstanding agricultural production loan to an eligible agricul-

0032 tural borrower by ~~not more than three~~ whole percentage points

0033 shall receive a credit against its tax liability pursuant to K.S.A.

0034 79-1106, *et seq.*, for taxable years commencing after December

0035 31, ~~1986~~, to the extent hereinafter provided. Such tax credit shall

0036 be allowed for such interest rate reductions upon agricultural

0037 production loans having a total principal amount not exceeding

0038 ~~90%~~ of the amount of such loans reflected in the bank's report of

0039 condition filed with the federal deposit insurance corporation as

0040 of December 31, ~~1985~~

0041 (b) For the purposes of this section, the term "eligible agri-

0042 cultural borrower" means any ~~resident of the state of Kansas~~

0043 ~~engaged primarily in agricultural production who at the time an~~

0044 ~~agricultural production loan is extended or renewed has~~

0045 ~~(1) A ratio of current market value of collateral to the amount]~~

1987

under the provisions of this act

at least one

at least one

1987

15%

1985

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0046 ~~of the loan of less than 1:1; or~~
 0047 ~~(2) has a projected cash inflow from all sources during the~~
 0048 ~~term of the loan in an amount less than 105% of the borrower's~~
 0049 ~~projected cash outflow for all purposes during the term of the~~
 0050 ~~loan.~~

0051 ~~(c)~~ The total credit against tax liability shall be the amount by
 0052 which the interest income to the state bank or national banking
 0053 association on and after the effective date of this act and prior to
 0054 July 1, ~~1986~~, has been reduced on such loans because of such
 0055 reductions in rates of interest, except that the credit allowed as a
 0056 result of an interest rate reduction on any one agricultural pro-
 0057 duction loan shall not exceed an amount equal to ~~3%~~ per annum
 0058 on the unpaid principal balance of the loan. The tax credit
 0059 allowed for any taxable year shall not exceed 1/5 of the total tax
 0060 credit of the bank allowed under this act. Unused tax credit shall
 0061 be carried forward as a credit to the bank's tax liability in each
 0062 subsequent taxable year and shall than be taken into account,
 0063 subject to the limitation that the credit in any one taxable year
 0064 may not exceed 1/5 of the total tax credit.

0065 Sec. 2. (a) On and after the effective date of this act and prior
 0066 to July 1, ~~1986~~, any production credit association chartered under
 0067 section 210 of the farm credit act of 1933, as amended, which
 0068 extends or renews an agricultural production loan to an eligible
 0069 agricultural borrower at an interest rate which is ~~not more than~~
 0070 ~~three~~ whole percentage points less than the lowest rate at which
 0071 the production credit association is making agricultural produc-
 0072 tion loans to its best agricultural loan customers with equivalent
 0073 collateral, and any production credit association which reduces
 0074 the rate of interest being charged on any outstanding agricultural
 0075 production loan to an eligible agricultural borrower by ~~not more~~
 0076 ~~than three~~ whole percentage points shall receive a credit against
 0077 its income tax liability pursuant to article 32 of chapter 79 of the
 0078 Kansas Statutes Annotated, for taxable years commencing after
 0079 December 31, ~~1986~~ to the extent hereinafter provided. Such tax
 0080 credit shall be allowed for such interest rate reductions by a
 0081 production credit association upon agricultural production loans
 0082 having a total principal amount not exceeding ~~20%~~ of the amount

person, partnership or family farm corporation, as defined in K.S.A. 17-5903, and amendments thereto, located in the state of Kansas, having an agricultural production loan which has been classified by any banking regulator or the farm credit administration as substandard or doubtful.

(c) An interest rate reduction may be applied under the provisions of this section only when the eligible borrower can be reasonably expected to service the principal and interest for the term of such person's loan

(d)

1987

2%

1987

under the provisions of this act

at least one

at least one

1987

15%

0083 of such loans reflected in the production credit association's
0084 report filed with the farm credit administration for calendar year

1985

0085 ~~1985~~
0086 (b) For the purposes of this section, the term "eligible agri-
0087 cultural borrower" means any ~~resident of the state of Kansas~~
0088 ~~engaged primarily in agricultural production who at the time an~~
0089 ~~agricultural production loan is extended or renewed has:~~

person, partnership or family farm corporation,
as defined in K.S.A. 17-5903, and amendments
thereto, located in the state of Kansas,
having an agricultural production loan which
has been classified by any banking regulator
or the farm credit administration as substandard
or doubtful.

(c) An interest rate reduction may be applied
under the provisions of this section only when
the eligible borrower can be reasonably ex-
pected to service the principal and interest
of such person's loan

0090 ~~(1) A ratio of current market value of collateral to the amount~~
0091 ~~of the loan of less than 1:1; or~~

0092 ~~(2) has a projected cash inflow from all sources during the~~
0093 ~~term of the loan in an amount less than 105% of the borrower's~~
0094 ~~projected cash outflow for all purposes during the term of the~~
0095 ~~loan.~~

0096 ~~(c)~~ The total credit against tax liability shall be the amount by
0097 which the interest income to the production credit association on

(d)

0098 and after the effective date of this act and prior to July 1, ~~1986~~

1987

0099 has been reduced on such loans because of such reductions in
0100 rates of interest, except that the credit allowed as a result of an

2%

0101 interest rate reduction on any one agricultural production loan
0102 shall not exceed an amount equal to ~~2%~~ per annum on the unpaid

0103 principal balance of the loan. The tax credit allowed for any
0104 taxable year shall not exceed 1/5 of the total tax credit of the

0105 production credit association allowed under this act. Unused tax
0106 credit shall be carried forward as a credit to the production credit

0107 association's tax liability in each subsequent taxable year and
0108 shall than be taken into account, subject to the limitation that the

0109 credit in any one taxable year may not exceed 1/5 of the total tax
0110 credit.

0111 Sec. 3. This act shall take effect and be in force from and
0112 after its publication in the Kansas register.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

APR 17 1986

Honorable Lloyd D. Polson
Chairman, House Agriculture and
Small Business Committee
Kansas House of Representatives
Topeka, Kansas 66612

Dear Congressman Polson:

Thank you for your letter concerning the market impact of the dairy whole-herd buy-out program. I appreciate your concern and am well aware of the recent market reaction. This imposed a further hardship to the livestock industry at a time when many livestock operations are struggling to earn a profit.

Slaughter of animals under the dairy whole-herd buy-out program will add about 250-275 million pounds (carcass weight), or about 4 percent, to second-quarter beef production. It also will add about 160-190 million pounds, about 3 percent, to third-quarter production. However, the longer-term outlook, from fourth-quarter 1986 through third-quarter 1987, is for smaller supplies due to the dairy whole-herd buy-out.

The Department of Agriculture will use all tools at its disposal to lessen the impact on the livestock markets of this additional beef. On March 28, at the time the dairy program was announced, USDA announced it would buy 400 million pounds of red meat in addition to amounts normally purchased for the school lunch and other domestic feeding programs. One half, 200 million pounds, will be used domestically for school lunches and in charitable institutions, with the remaining 200 million pounds to be exported. All possible measures will be taken to coordinate the purchases of this meat with the timing of the slaughter of the additional animals. On April 15, the Commodity Credit Corporation (CCC) purchased 5,762,880 pounds of canned beef at prices ranging from \$1.1699 to \$1.2028 per pound. These purchases will continue every week. Bids are due again on Monday, April 21. Weekly purchases of frozen ground beef and smoked fully cooked shankless hams are scheduled to begin with bids due on April 21 and May 5, respectively. The CCC also will begin buying high quality boneless beef roasts. The first offers from the industry are due on May 14.

On April 4, USDA announced its intention for the Commodity Credit Corporation to receive bids and to sell high quality beef to the European Community (EC). This will allow the United States to fully utilize the 10,000-ton annual quota granted by the EC during the 1979 Tokyo Round of the Multilateral Trade Negotiations. In addition, active negotiations are underway with the Department of Defense and targeted countries for sales of red meat.

The potential exists for the export of some of these animals. On April 9, the Secretary authorized \$50 million in credit guarantees to be available for the export of dairy cattle to Mexico. USDA has also

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Attachment III

announced the scheduling of 14,000 dairy cattle under the export enhancement program (EEP). There will be additional EEP initiatives announced.

These actions should largely offset the market impact of increased cattle slaughter under the dairy whole-herd buy-out program.

Sincerely,

A handwritten signature in cursive script that reads "Robert L. Thompson". The signature is written in black ink and is positioned above the typed name.

ROBERT L. THOMPSON
Assistant Secretary
for Economics