

Approved March 3, 1987
Date

MINUTES OF THE Senate COMMITTEE ON Agriculture

The meeting was called to order by Senator Allen at
Chairperson

10:11 a.m./~~p.m.~~ on March 2, 1987 in room 423-S of the Capitol.

All members were present ~~XXXXX~~
~~XXXXX~~

Committee staff present: Raney Gilliland, Legislative Research Department
Jill Wolters, Revisor of Statutes Department

Conferees appearing before the committee: Sam Reda, State Grain Inspection Department
Joe Lieber, Kansas Cooperative Council
Chris Wilson, Kansas Grain and Feed Dealers Assoc.
Bill Fuller, Kansas Farm Bureau
Evan Swartz, Chairman of Legislative Committee
for County Weed Supervisors Assoc.

Senator Allen called the Committee to order and called on Senator Doyen to comment on SB 304.

Senator Doyen explained that the purpose of SB 304 was to remedy a problem the Noxious Weed Departments are experiencing. Bills are owed the departments by owners that are losing their property and the bills are unpaid when ownership of the land transfers. SB 304 would require any such bills be paid in full at time of change of ownership. Senator Doyen encouraged passage of the bill by the Committee and introduced Evan Swartz to testify and to request amendments to the bill.

Mr. Swartz expressed support for SB 304 and requested the Committee vote for its passage. Mr. Swartz requested an amendment that would require bills for chemicals that are picked up from the Noxious Weed Department by a farmer and then applied by the farmer also be paid at the time of a land ownership transfer. Mr. Swartz also requested an amendment that would require payment, at time of a change in land ownership, for bills owed for chemicals and the application of the chemicals by the Noxious Weed Department.

During Committee discussion Mr. Swartz explained that he files unpaid bills with the County Clerk. It was stated that the bills need to be filed with the Register of Deeds so that during title search for a sale of property the bill owed the Noxious Weed Department could be found. Mr. Swartz stated that the Noxious Weed Department bill could be up to \$16 per acre. It was stated that the Noxious Weed Department should go on a cash and carry basis when a farmer picks up chemicals to spray his own farmland.

Senator Allen declared the hearing closed for SB 304 and turned the attention of the Committee to SB 303 for its hearing. The Chairman called on Mr. Reda to testify.

Mr. Reda gave copies of a written statement to the Committee (attachment 1) and expressed support for SB 303. He stated the bill would increase the required minimum net worth for a warehouse from \$25,000 to \$50,000 and for net worth purposes would increase the bushel value of grain from \$.20 to \$.25. The bill would also reduce the number of required warehouse inspections from 3 every two years to 2 every two years. Mr. Reda explained with less inspections the department expenses would be less because they would need one and maybe two less inspectors.

The Chairman next called on Joe Lieber to testify.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Agriculture,
room 423-S, Statehouse, at 10:11 a.m. ~~XXX~~ on March 2, 1987

Mr. Lieber gave copies of his testimony to the Committee (attachment 2). Mr. Lieber expressed support for the changes requested in SB 303.

The Chairman thanked Mr. Lieber and called on Chris Wilson to testify.

Ms. Wilson gave copies of her testimony to the Committee (attachment 3) and expressed support for SB 303.

After thanking Ms. Wilson the Chairman called on Bill Fuller to testify.

Mr. Fuller gave the Committee copies of his testimony (attachment 4) and expressed opposition for changes proposed by SB 303. Mr. Fuller stated that to decrease the number of warehouse inspections is a move in the wrong direction. He encouraged money from the General Fund be given to the Inspection Department as the fees collected are not enough to finance the department. Mr. Fuller requested that the number of inspections should be increased to two per year instead of decreasing the number of inspections. He said as a compromise that Farm Bureau would agree to the number of inspections that are required at present.

During discussion Mr. Fuller stated that he felt farmers have a false sense of security because the bond for a warehouse really does not protect the farmers.

The Chairman thanked Mr. Fuller and declared the hearing for SB 303 closed. He then called for action on Committee minutes.

Senator Karr made a motion the Committee minutes of February 26 be approved. Senator Warren seconded the motion. Motion carried.

Senator Allen adjourned the Committee at 11:00 a.m.

1015
copy
3-2

THE STATE OF KANSAS



Mike Hayden
Governor

Gary M. Bothwell
Acting Director

GRAIN INSPECTION DEPARTMENT

GENERAL OFFICE

700 Jackson, Suite 800, P.O. Box 1918, Topeka, Kansas 66601-1918

INSPECTION DIVISION

WAREHOUSE DIVISION

PHONE (913) 296-3451

February 25, 1987

INSPECTION POINTS

ATCHISON	KANSAS CITY
COLBY	SALINA
DODGE CITY	TOPEKA
HUTCHINSON	WICHITA

TO: Gary L. Stotts - Acting Director of Budget
 FROM: Gary M. Bothwell - Acting Director KSGID
 RE: S.B. 303

0064 (c) Raising the maintenance of total net worth, liable for the payment of any indebtedness from \$.20 to \$.25 per bushel, and a net worth of at least \$50,000 to be licensed. Also any deficiency in net worth above \$50,000 minimum may be supplied by a increase in the applicant's bond amount.

Answer: We feel the above recommendations are good for the industry. The above procedure is now being reviewed at the lower rate and the increase would not have any impact on the department.

0175 (g) Changing the examination procedures from (3) times in a (2) year period to at least once in each 12 month period.

Answer: We feel this also is a good recommendation because we feel pressured to do the (3) in (2) years which may cause us to veer from making additional exams on some financially troubled warehouse during the (2) year period. We have at various times performed 4 to 5 exams during a 12 month period on such houses mentioned above.

We feel this also will not have an impact for 1987 fiscal, but if the bill passes, we would not hire the 16th examiner in fiscal 1988. This 16th examiner would drop our expense by \$19,236.38.

<u>Miles</u>		<u>Salary</u>
18,106 x .23¢	= \$ 4,164.38	1 Warehouse Examiner I \$20,274.60
<u>Meals</u>	= 2,652.00	
<u>Motels</u>		TOTAL \$39,510.98
297 nights at \$35.00 per night	= 10,395.00	
45 nights at \$45.00	= 2,025.00	

attachment 1
Senate agriculture

3-2-87

Page 2
Gary L. Stotts

Re: SB 303

We would evaluate our program next year and if we feel we are complying with the statutes of (1) exam per year in a timely manner, we may have an examiner near retirement and may not fill that position. This is only speculation at this time.

GMB:csk

*attachment 1
Senate agriculture
3-2-87*

1004
3-2

Testimony on SB 303
Senate Agriculture Committee
March 2, 1987
Prepared by Joe Lieber
Kansas Cooperative Council

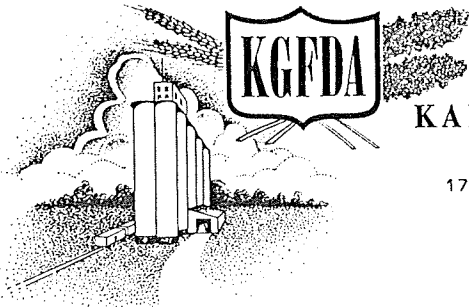
Mr. Chairman and members of the Committee, for the record my name is Joe Lieber, Executive Vice President of the Kansas Cooperative Council.

We support the provisions in SB 303 that increase net worth from \$.20 per bushel to \$.25 per bushel and \$25,000 to \$50,000.

We also support the provision that changes the number of examinations from "at least three times in each twentieth-four month period" to "at least once in each 12 month period."

Thank you.

attachment 2
Senate agriculture
3-2-87



KANSAS GRAIN & FEED DEALERS *Association*

1722 NORTH PLUM, BOX 949

A/C 316 662-7911

HUTCHINSON, KANSAS 67504-0949

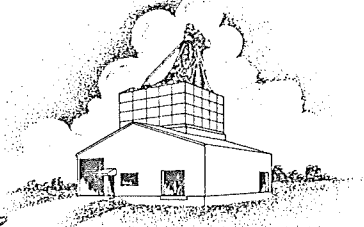
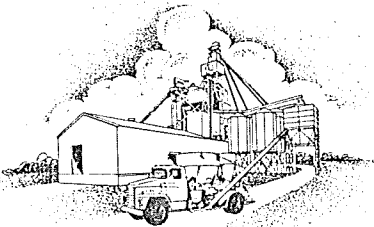
STATEMENT OF THE
KANSAS GRAIN & FEED DEALERS ASSOCIATION
TO THE
SENATE AG COMMITTEE
JIM ALLEN, CHAIRMAN
RE: SB 303
MARCH 2, 1987

Mr. Chairman and members of the Committee, I am Chris Wilson, Director of Governmental Relations of the Kansas Grain and Feed Dealers Association. Our members constitute the state grain warehouse, merchandising, transportation, handling and processing industry.

We support SB 303 regarding warehousemen's net worth requirements and warehouse examinations. SB 303 increases the minimum net worth requirement for public warehouses from \$25,000 to \$50,000 and increases the bushel value for net worth purposes from \$.20 to \$.25. The increases are consistent with recent changes in the federal Uniform Grain Storage Agreement (UGSA). Also, we believe the increase in minimum net worth is appropriate.

The bill also changes the number of examinations per facility which the Kansas State Grain Inspection Department (KSGID) is required to make to at least one per year. We don't want to move backwards in this area, but what we found was that the three in two years requirement proved to be a detriment to the Department in preventing warehouse failures. Meeting that requirement, with constrained resources, forced the Department to make additional examinations where there are no problems and leave the locations where there are problems.

(Continued)



*attachment 3
senate agriculture
3-2-87*

We therefore believe that this change will 1) insure at least one exam per facility per year and 2) allow the Department to spend more time with warehouses in difficulty. This will help prevent failures and losses to producers.

Thank you for consideration of position in support of SB 303.

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PUBLIC POLICY STATEMENT

SENATE COMMITTEE ON AGRICULTURE

Re: S.B. 303 - Regulation of Public Grain Warehousemen ...
At work requirements; Examinations

March 2, 1987
Topeka, Kansas

Presented by:
Bill R. Fuller, Assistant Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and Members of the Committee. My name is Bill Fuller. I am the Assistant Director of the Public Affairs Division for Kansas Farm Bureau. We appreciate this opportunity to express our views on S.B. 303.

We **oppose** the proposed change in lines 0176-0178 which would **reduce public grain warehouse inspections to one each year.** Current law requires at least three examinations in each 24-month period and at least once in each 12-month period. Current law was approved by the 1985 Legislature on a vote of 39-0 in the Senate and a vote of 124-0 in the House. The bill was requested by the "TASK FORCE ... TO REDUCE GRAIN WAREHOUSE AND DEALER FAILURES." The Task Force was created by the Director of the Kansas Grain Inspection Department and consisted of 21 producer and industry groups. (See Attachment A, Recommendation 1.)

KFB policy states:

"We recommend increasing inspections to a minimum of two each year for licensed warehouses."

That policy prevailed in 1985 and continues today. We believe reducing inspections is a move in the wrong direction.

1
attachment 4
Senate agriculture
3-2-87

During these difficult times in agriculture, the financial stability of a grain warehouse can change quickly. **Grain producers need more protection ... not less!**

Apparently, the proposal to reduce the inspections is a result of inadequate resources in the Kansas Grain Inspection Department. Kansas is the only state which funds the department entirely with fees collected from public warehouses; and without State General Fund revenues. KGID needs additional resources to conduct the quality inspections grain producers expect and demand. (See Attachment A, Recommendations 2 and 8.)

Thank you for allowing us to present the views of the farmers and ranchers of the 105 county Farm Bureaus. We respectfully ask you to **not decrease the number of warehouse inspections.** I will attempt to reply to any questions you may have.

FINAL REPORT



TASK FORCE . . .
TO REDUCE GRAIN WAREHOUSE & DEALER FAILURES

Prepared by:

Bill R. Fuller, Chairman

Frank McBride

Howard W. Tice

William R. Morand

February 8, 1985

P R E F A C E

Grain producers in Kansas are facing record losses from grain elevators and grain brokerage firms filing bankruptcy. In fact, it is projected that one recent elevator failure in northeast Kansas alone will likely result in total losses greater than the combined losses of all failures since 1967 in Kansas. In addition, bankruptcies by three grain dealers is expected to cause even larger losses to farmers, elevators and truckers.

Even though the dollar losses in these recent failures is alarming, we must remember that Kansas has experienced few grain warehouse failures when compared to other states. During the last 19 years, Kansas has experienced 16 closings resulting from bankruptcy or receivership -- 0.8 failures per year.

1970 - 1980:

	United States	Kansas
Number Warehouses	6,322 (avg. 154/state)	700
Capacity	5.9 billion bu. (avg. 143,000,000/state)	515 million bu.
Failures	279 (avg. 2.8/year)	8 (avg 0.8/yr.)

Due to these recent grain elevator and grain brokerage firm failures in Kansas, the Kansas State Grain Inspection Department decided to convene a TASK FORCE for the purpose of discovering viable solutions to the problems at hand.

The economic repercussions from the bankruptcies were severe for the geographical areas involved and it became obvious some kind of remedial action is needed. Hopefully, the TASK Force could develop some practical proposals for submission to the Kansas Legislature for its consideration and subsequent legislative action! Those specific proposals or recommendations are set forth at the end of this report.

TASK FORCE MEMBERS:

Erwin Schrag, Jr., Alexander & Alexander, Inc.
Larry Holgerson, Holgerson Grain Dealers
Frank McBride, Evans Grain
C. L. Regini, Far-Mar-Co
Ivan W. Wyatt, Kansas Farmers Union
Don Epps, Chairman, Grain Advisory Commission
Bill Fuller, Kansas Farm Bureau
David W. Dewey, Wichita Bank for Co-ops
Jim Bair, Kansas Wheat Commission
Melissa Cordonier, Kansas City Board of Trade
Stanley Little, Farmer & Grange Member
Dwaine Liby, Pauline Farmers Co-op Elevator
Mike Beam, Kansas Livestock Association
Nancy E. Kantola, Kansas Co-op Council
Howard W. Tice, Kansas Association of Wheat Growers
Wm. R. Morand, Collingwood Grain, Inc.
John Larson, Cargill, Inc.
Tom Tunnell, Kansas Grain & Feed Dealers Association
Robert Batte, Bunge Corporation
Joe Gregg, Morrison-Gregg-Mitchell Grain Company
Wayne Johnson, Topeka Mill & Elevator (General Mills)

KANSAS GRAIN INSPECTION DEPARTMENT STAFF:

Marvin R. Webb, Director
Jack L. Sweeney, Assistant Director
Gary Bothwell, Grain Inspection Coordinator
Sam Reda, Chief Warehouse Examiner
Ron Scheibmeir, Warehouse Examiner II

TASK FORCE RECOMMENDATIONS

1. Increase Warehouse Examinations

Currently, K.S.A. 34-228 reads:

Every public warehouse licensee shall be entitled to one complete examination of such licensee's warehouse by the department each year, without further costs.

Recommendation: Amend K.S.A. 34-228 to read as follows:

Beginning October 1, 1985, the Kansas Grain Inspection Department shall examine each state licensed grain warehouse three times in every 24 month period with a minimum of one examination every 12 months.

2. Improve Kansas Grain Inspection Department Warehouse Examination Procedures

Recommendation: Kansas Grain Inspection Department shall seek the assistance of other agencies, including but not limited to, the Office of Attorney General, Kansas Bureau of Investigation and the Office of Inspector General of the United States Department of Agriculture, to review warehouse examination procedures, train personnel and investigate criminal activities including fraud, grain embezzlement, computer crimes, false writings and other crimes which may be associated with the grain business.

3. Require Grain Buyer to Inform Sellers that Deferred Payment Contracts and Delayed Pricing Contracts are NOT Covered by Warehouse Bond

Recommendation: A grain buyer should be required to inform sellers that Deferred Payment Contracts and Delayed Pricing Contracts are voluntary

extensions of credit and are not protected by the warehouse bond.

The contract shall include the following statement prominently displayed in not less than ten point, all capital type, framed in a box with space provided for the seller's signature:

"THIS CONTRACT CONSTITUTES A VOLUNTARY EXTENSION OF CREDIT PAYMENTS TO THE SELLER AND IS NOT PROTECTED BY THE WAREHOUSE BOND."

(must be signed by seller)

4. Increase Prosecution, Strengthen Penalties and Increase Sentences for Grain Crimes

The task Force

- * Insists on timely prosecution of individuals in crimes associated with grain warehouses and grain dealer firms.
- * Recommends increases in penalties for crimes including embezzlement, grain embezzlement, fraud and false writings.
- * Insists on sentences appropriate to the dollar losses as a result of grain business crimes.
- * Recommends extending the current 2 year state statute of limitations to 5 years.

5. Increase Awareness of Insurance Programs

Recommendation: The Kansas Grain Inspection Department and farm organizations should increase the awareness of insurance programs which may be purchased

by grain producers to provide protection from potential losses when dealing with grain warehouses and/or grain dealer firms. Two companies currently offer approved policies.

6. Examine Grain Dealer Firms

Recommendation: The Task Force suggests the legislature conduct public hearings to examine the problems and losses associated with grain dealer firms (brokers, truck buyers, other non-warehouse buyers) to determine the need for licensing, regulating and/or bonding.

7. Study FDIC-Type Program for Grain Warehouses

Recommendation: The Task Force encourages the legislature to conduct a preliminary hearing during the 1985 session to determine the feasibility and potential support for a state administered FDIC-type program for grain warehouses. If there is sufficient support, the Task Force believes an Interim Committee study be conducted.

8. Request State General-Fund Revenues

Recommendation: The Task Force requests the Kansas Legislature appropriate adequate general fund revenues for all expanded responsibilities of the Warehouse Division of the Kansas Grain Inspection Department. (Currently, Kansas is the only state which funds the department entirely by fees and without State general fund revenues.)