

MINUTES OF THE Senate COMMITTEE ON Agriculture

The meeting was called to order by Senator Allen at
Chairperson

10:13 a.m./~~pm~~ on March 5, 1987 in room 423-S of the Capitol.

All members were present ~~except~~:

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

Conferees appearing before the committee: Sam Reda, State Grain Inspection
Chris Wilson, Kansas Grain and Feed Dealers
Association
Joe Lieber, Kansas Cooperative Council
Jim Maag, Kansas Bankers Association

Senator Allen called the Committee to order and called attention to SB 344; he then called on Sam Reda to testify.

Mr. Reda stated that SB 344 provides for warehousemen two more ways to conform to licensing and bonding requirements by providing either a letter of credit or a certificate of deposit. He questioned if a certificate of deposit would be for over \$100,000 if it should be from two different banks because of the limit of FIDC insurance being \$100,000. Mr. Reda stated that in line 26 and line 32 the word 'selling' should be changed to 'storing' and in line 26 the words 'to the' should be changed to 'with' and in line 32 the words 'to such' should be changed to 'with'. He expressed the need for some clarification in lines 34 thru 39 concerning the director being able to refuse a letter of credit if the director is aware the bank is or may become insolvent; he does not believe the director needs to be determining the solvency of any bank.

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

Ms. Wilson gave the Committee copies of her testimony (attachment 1) and expressed support for SB 344. Ms. Wilson expressed support for deleting lines 34 thru 39 of the bill. As the bill is written, Ms. Wilson asked that in line 34 the bill be amended by the addition of 'Banks for Cooperatives'. This would allow the Bank for Cooperatives to provide a letter of credit.

The Chairman thanked Ms. Wilson and called on Joe Lieber to testify.

Mr. Lieber gave copies of his testimony to the Committee (attachment 2) and expressed support for SB 344. Mr. Lieber requested that in line 34 after the word 'corporation' that an addition of 'or Banks for Cooperatives' be made.

During discussion Mr. Lieber stated he had no problem with deleting lines 34 thru 39.

The Chairman thanked Mr. Lieber and called on Jim Maag to testify.

Mr. Maag stated the wording of lines 34 thru 39 would not work with federal and state banking regulations. Mr. Maag suggested that in section one there needed to be some clarification because a banking institution would not give the certificate of deposit to the Grain Inspection Department but that a bank would need to give a confirmation record of a certificate of deposit to the Grain Inspection Department.

During discussion Mr. Maag answered that if a bank becomes insolvent that FIDC is responsible for a letter of credit.

CONTINUATION SHEET

MINUTES OF THE Senate COMMITTEE ON Agriculture,
room 423-S Statehouse, at 10:13 a.m./~~xxx~~ on March 5, 1987

The Chairman declared the hearing on SB 344 closed and called attention attention to SB 345; he then called on Sam Reda to testify.

Mr. Reda explained that SB 345 would allow the Inspection Department to change their system of licensing; that is, to require a license for each place of operation instead of one license working for all places of operation that are operated by one ownership.

During discussion Mr. Reda agreed this bill amounted to a fee measure. He answered that if this bill is passed that the state inspection fee would be some higher than the federal fee.

The Chairman next called on Chris Wilson to testify.

Ms. Wilson gave to the Committee copies of her testimony (attachment 3); she then expressed support for SB 345.

The Chairman thanked Ms. Wilson and called on Joe Lieber to testify.

Mr. Lieber gave copies of his testimony to the Committee (attachment 4) and then expressed opposition to SB 345. He stated that Kansas is the only state that has a Grain Inspection Department that turns over part of its fees collected to the General Fund of the state. Mr. Lieber stated that, if anything, the General Fund should be helping support the inspection department. Mr. Lieber expressed a desire to work with the inspection department and others to come to an agreement for providing the required funding for the Grain Inspection Department.

During discussion Mr. Reda stated that extra funds are needed because the Grain Inspection Department has been operating in the red for a couple of years thus extra income is needed to get out of the red and to stay in the black.

The Chairman requested the four groups interested in this bill get together and present a compromise acceptable to them at the 10:00 a.m. Committee meeting on March 9. The Chairman then called for action on Committee minutes.

Senator Arasmith made a motion the Committee minutes of March 3 be approved. Senator Gannon seconded the motion. Motion carried.

The Chairman called for Committee action on SB 277.

Senator Gannon made a motion the Committee recommend SB 277 favorably for passage. Senator Montgomery seconded the motion. Motion carried.

Senator Allen announced that at the next meeting Committee action would be taken on several bills; he then adjourned the Committee at 10:58 a.m.

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KANSAS GRAIN & FEED DEALERS *Association*

1722 NORTH PLUM, BOX 949

A/C 316 662-7911

HUTCHINSON, KANSAS 67504-0949

STATEMENT OF THE
KANSAS GRAIN AND FEED DEALERS ASSOCIATION
TO THE SENATE AGRICULTURE COMMITTEE

JIM ALLEN, CHAIRMAN

REGARDING SB 344

MARCH 5, 1987

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I AM CHRIS WILSON, DIRECTOR OF GOVERNMENTAL RELATIONS OF THE KANSAS GRAIN AND FEED DEALERS ASSOCIATION (KGFDA). OUR MEMBERS INCLUDE THE STATE'S GRAIN WAREHOUSEMEN.

WE SUPPORT SB 344, WHICH WOULD ALLOW A WAREHOUSEMAN TO PROVIDE A CERTIFICATE OF DEPOSIT OR IRREVOCABLE LETTER OF CREDIT IN LIEU OF THE BOND REQUIRED FOR LICENSING BY THE GRAIN INSPECTION DEPARTMENT. BONDS HAVE BECOME MORE DIFFICULT TO OBTAIN BECAUSE THERE ARE FEWER COMPANIES WRITING BONDS IN THE STATE. ALSO, MANY INSURANCE COMPANIES WOULD PREFER NOT TO WRITE BONDS AND MAY DO SO ONLY BECAUSE A FIRM HAS



*attachment 1
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PURCHASED ALL OF THEIR INSURANCE FROM THAT COMPANY. BECAUSE THE BOND PREMIUM IS SO RELATIVELY SMALL, SOME COMPANIES WANT TO MAKE SURE THEY ARE TOTALLY PROTECTED IN WRITING THE BOND AND HAVE ALREADY BEEN REQUIRING FIRMS TO HAVE A LETTER OF CREDIT BEFORE THEY WILL ISSUE THE BOND. THE GRAIN FIRM THEN PAYS FOR THE LETTER OF CREDIT AND THE BOND. IT MAKES SENSE TO ALLOW THE GRAIN FIRM TO PROVIDE THE LETTER OF CREDIT OR A CERTIFICATE OF DEPOSIT DIRECTLY TO THE DEPARTMENT.

KGFDA MEMBERS BELIEVE THE CONCEPT OF INDICATING FINANCIAL STABILITY WHICH IS THE CHIEF PURPOSE OF THE BOND, IS VERY IMPORTANT. THE BOND DOES NOT PROVIDE TOTAL PROTECTION FOR GRAIN WAREHOUSE DEPOSITORS IN THE EVENT OF A FAILURE. WHAT IS SHOWN IS THAT FAILURE IS NOT LIKELY TO OCCUR. THE CERTIFICATE OF DEPOSIT OR LETTER OF CREDIT WILL REQUIRE THAT THE AMOUNT OF THE BOND WILL DEFINITELY BE AVAILABLE IN EVENT OF A FAILURE. THE DEPARTMENT FURTHER MUST SEE EVIDENCE OF FINANCIAL STABILITY BEFORE A LICENSE IS ISSUED.

KGFDA IS NOT ADVOCATING THIS BILL AS A MEANS OF KEEPING FINANCIALLY UNSTABLE WAREHOUSEMEN IN BUSINESS. ANY FIRM MUST BE ABLE

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TO MEET THE MINIMUM NET WORTH AND OTHER FINANCIAL REQUIREMENTS OF THE DEPARTMENT.

A NUMBER OF OUR MEMBERS RECEIVE CREDIT FROM THE BANK FOR COOPERATIVES, WHICH WOULD BE THE INSTITUTION TO PROVIDE A LETTER OF CREDIT IN THEIR CASES. THEREFORE, WE REQUEST THE BILL BE AMENDED IN LINE 0034 TO ADD THE BANK FOR COOPERATIVES.

WE URGE YOUR FAVORABLE CONSIDERATION OF SB 344. THANK YOU FOR THE OPPORTUNITY TO COMMENT ON THE BILL.

Testimony on SB 344
Senate Agriculture Committee
March 5, 1987
Prepared by Joe Lieber
Kansas Cooperative Council

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Mr. Chairman and members of the Committee: for the record, I'm Joe Lieber, Executive Vice President of the Kansas Cooperative Council.

The Council wholeheartedly supports the intent of SB 344.

It has been brought to our attention that for various reasons bonding companies are becoming more particular, and it is harder for some elevators to get bonded.

Some of these elevators may be financially unsound and probably should not be in business. But others are sound enough that they could get a letter of credit or Certificate of Deposit.

The intent of SB 344 is to allow the Grain Inspection Department to accept letters of credit or CD's in lieu of bonds for the sound elevators that cannot get bonded. This is why we support the intent of SB 344.

Elevators would obtain these letters of credit from the banks they do business with. In the case of cooperative elevators, this would be the Bank for Cooperatives, which is part of the Farm Credit System.

Because of this, we would like to add the following words on line ³⁴~~35~~ after the word corporation: "or Bank for Cooperatives, that is an instrument of the U.S. Government."

This would ensure that cooperatives would be able to apply for letters of credit from their bank.

Again the Council supports the intent of SB 344 and feels it is important that the intent be approved. Thank you.

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KANSAS GRAIN & FEED DEALERS

Association

1722 NORTH PLUM, BOX 949

A/C 316 662-7911

HUTCHINSON, KANSAS 67504-0949

STATEMENT OF THE
KANSAS GRAIN AND FEED DEALERS ASSOCIATION
TO THE SENATE AGRICULTURE COMMITTEE

JIM ALLEN, CHAIRMAN

REGARDING SB 345

MARCH 5, 1987

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I AM CHRIS WILSON, DIRECTOR OF GOVERNMENTAL RELATIONS OF THE KANSAS GRAIN AND FEED DEALERS ASSOCIATION (KGFDA). OUR MEMBERS INCLUDE THE STATE'S GRAIN WAREHOUSEMEN.

SB 345 WOULD ASSESS WAREHOUSE LICENSE FEES ON THE BASIS OF FUNCTIONAL UNIT, RATHER THAN COMBINED CAPACITY, OF A GRAIN FIRM. AS YOU KNOW, THE KANSAS STATE GRAIN INSPECTION DEPARTMENT (KSGID) IS A TOTALLY FEE FUNDED AGENCY. WHILE THE WAREHOUSE DIVISION OF THE DEPARTMENT IS LOSING MONEY, OUR INDUSTRY PAYS THE HIGHEST LICENSE FEES OF ANY STATE IN THE COUNTRY. SO, WHILE WE RECOGNIZE THAT THE DEPARTMENT MUST ADDRESS THIS FUNDING PROBLEM, WE ARE HESITANT TO

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SUPPORT INCREASED FEES. HOWEVER, AS WE LOOK AT THE ALTERNATIVES, OUR MEMBERS HAVE DECIDED TO SUPPORT THIS BILL AND HB 2246 (WHICH WOULD ELIMINATE TWO POSITIONS, SAVING APPROXIMATELY \$77,000).

IN A RECENT SURVEY OF OUR MEMBERS, ABOUT 1/3 (ONE-THIRD) FAVORED FUNCTIONAL UNIT FEES, 1/3 (ONE-THIRD) OPPOSED, AND 1/3 (ONE-THIRD) HAD NO PREFERENCE. AFTER MUCH DISCUSSION, OUR BOARD OF DIRECTORS HAS TAKEN A POLICY OF SUPPORT FOR FUNCTIONAL UNIT FEES. THEY BELIEVE THIS IS THE FAIREST WAY TO INCREASE THE DEPARTMENT'S INCOME. AS THERE HAVE BEEN MERGERS AND ACQUISITIONS IN THE INDUSTRY, THE DEPARTMENT HAS TAKEN ON MORE WORK IN EXAMINING AN INDIVIDUAL FIRM WITH ADDED BRANCH STATIONS WHERE PREVIOUSLY THE DEPARTMENT WOULD HAVE RECEIVED MORE FEES FROM A GIVEN BRANCH STATION WHEN IT WAS STANDING ALONE, IT IS NOW INCLUDED IN THE TOTAL CAPACITY OF THE HEADQUARTERS FIRM. YET, THE DEPARTMENT EXAMINERS STILL HAVE TO DO ALL THE WORK FOR EXAMINING IT AS A SEPARATE FACILITY.

THEREFORE, WE SUPPORT SB 345.

Testimony on SB 345
Senate Agriculture Committee
March 5, 1987

Prepared by Joe Lieber
Kansas Cooperative Council

Mr. Chairman and members of the Committee: for the record, I'm Joe Lieber, Executive Vice President of the Kansas Cooperative Council.

The Council is opposed to the exorbitant increase of fees SB 345 would create. Some of our members' fees would double and triple if SB 345 is passed, and that is why we oppose it.

Examples:	<u>Current Fees</u>	<u>SB 345</u>
St. Marys Co-op	\$1,100	\$1,975
Goodland Co-op	850	1,225
Sharon Springs Co-op	1,100	2,000
Farmway Co-op, Beloit	1,500	4,650
Lewis Co-op	850	1,400
Dodge City Co-op	750	3,625
Brown County Co-op	1,100	2,200
Hillsboro Co-op	725	1,600

How does this work? Please turn to the last page of this testimony.

Let us now state that we can appreciate the budget problems the Grain Inspection Department is experiencing. However, we would like to remind the Committee of certain facts.

First of all, the Kansas Grain Inspection Department is the only grain inspection department in the country that has to support itself.

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Secondly, the department has to give the state's general fund 20 percent of what it collects. It is our understanding the department has payed the general fund the maximum of \$200,000 for the last several years.

34-102b. Moneys received by director; disposition; grain inspection fee fund. The director of the state grain inspection department shall remit all moneys received by or for the director from fees, charges or penalties to the state treasurer at least monthly. Upon receipt of any such remittance the state treasurer shall deposit the entire amount thereof in the state treasury. ~~Twenty percent (20%) of each such deposit shall be credited to the state general fund and the balance shall be credited to the grain inspection fee fund,~~ except that the entire amount of moneys received under K.S.A. 34-101c, as amended, shall be credited to the grain inspection fee fund. All expenditures from such fund shall be made in accordance with appropriation acts upon warrants of the director of accounts and reports issued pursuant to vouchers approved by the director or by a person or persons designated by the director.

We hope you can see the problem we have when it comes time to increase fees because the department is hurting but still forced to remit \$200,000.

Finally, and we feel this is the most important point of our testimony, the Kansas Cooperative Council is willing to sit down with the Grain Inspection Department and other members of the industry to work out a fee and licensing structure that would enable the department to function properly, yet at the same time be equitable to the industry.

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It would be much easier to explain to our members the budget limitations of the department and why certain fees must increase than it would be to tell them that their fees have been doubled or tripled as a result of the department's budget problems.

Let me repeat that we would like to work with the department and not against them. But the fees in SB 345 are not the answer.

Thank you.

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25-4-4. Fees and charges; warehouse division. The annual fee for a public warehouse license shall be computed as follows, based on the capacity of that public warehouse:

Capacity in Bushels	Annual Fee
1 to 100,000	\$250.00
100,001 to 150,000	275.00
150,001 to 250,000	300.00
250,001 to 300,000	325.00
300,001 to 350,000	350.00
350,001 to 400,000	375.00
400,001 to 450,000	400.00
450,001 to 500,000	425.00
500,001 to 600,000	450.00
600,001 to 700,000	475.00
700,001 to 800,000	500.00
800,001 to 900,000	525.00
900,001 to 1,000,000	550.00
1,000,001 to 1,750,000	725.00
1,750,001 to 2,500,000	850.00
2,500,001 to 5,000,000	1,100.00
5,000,001 to 7,500,000	1,350.00
7,500,001 to 10,000,000	1,550.00
10,000,001 to 12,500,000	1,700.00
12,500,001 to 15,000,000	1,850.00
15,000,001 to 17,500,000	2,000.00
17,500,001 to 20,000,000	2,150.00
Over 20,000,000 bushels	add \$150
	for each 2,500,000 bushels or fraction

Example A

Elevator has three branches (functional units), each with 1,000,000-bushel capacity for a total capacity of 3,000,000 bushels.

It now pays \$1,100. Under SB345, it would pay \$550.

550
550
1,100
\$1,650 (65% increase)

Example B

Elevator has six branches, each with 500,000-bushel capacity. It holds a total of 3,000,000 bushels.

It now pays \$1,100. Under SB 345, each of the six branches would pay \$425, or a total for the elevator of \$2,550. This is more than double its current fees.

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