

Approved

January 20 1988
Date

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS

The meeting was called to order by Representative Clifford V. Campbell at
Chairperson

9:07 a.m./~~p.m.~~ on January 21, 1988 in room 423-S of the Capitol.

All members were present except: Elaine Wells who was excused.

Committee staff present: Raney Gilliland, Legislative Research Department
Marjorie Brownlee, Committee Secretary

Conferees appearing before the committee: Sam Brownback, Kansas Secretary of Agriculture.

Representative Campbell called the House Agriculture and Small Business Committee to order.

After a few opening remarks he introduced Sam Brownback, Kansas Secretary of Agriculture.

Mr. Brownback addressed the committee with regard to the status of Kansas agriculture and the situation of farmers. (Attachment I) He indicated, in general, that 1987 had been a good year for Kansas agriculture, resulting in improved farm income and a reduction in farmers outstanding debts. Signs showed a stabilization of land values with a potential for some turn around. Debt to asset ratios have improved overall with the exception of those farmers whose debt to asset ratio exceeds 40. They are not faring as well and many are in a worse situation then previously.

Recent advances in the marketing area of farm products was discussed by Mr. Brownback. He elaborated on several products which have evolved as a result of the need for better and more innovative marketing---both for food products and for non-food uses.

The State Board of Agriculture would like the legislature to consider the need for some type of agricultural processing center in the State of Kansas or in conjunction with another state. He also talked briefly about the oil overcharge issue and the area of interest in fee hunting and fee access to land. Contract farming was another area which needs some legislation to be sure it is legal in the State of Kansas---Mr. Brownback reiterating that it is necessary for specialty crops to be marketed in this manner.

After a question and answer period, Representative Campbell thanked Mr. Brownback for his presentation and adjourned the meeting at 9:55 a.m.

The next meeting of the House Agriculture and Small Business Committee will be at 9:00 a.m., Tuesday, January 26, 1988.

Presentation to the Agriculture Committees

Sam Brownback
Kansas Secretary of Agriculture

Thank you ladies and gentlemen for this opportunity to address this distinguished body. It is my honor and privilege to be able to give you some thoughts from the Board of Agriculture regarding the present condition of Kansas agriculture, what is happening at the Board of Agriculture and some issues we are concerned about.

In general terms 1987 was a good year for Kansas agriculture. Most often the weather was quite favorable, prices were frequently better than the previous year and a generally high level of government payments was maintained. The result was that farm income improved with a further reduction in farmer's outstanding debts and signs showing a stabilizing of land values with potential for some turn around. The United States Department of Agriculture projects a record net farm income for 1987 of 54 billion dollars. Farm exports are increasing in both dollar and volume amount. Livestock returns from which Kansas agriculture derives 60% of its cash receipts have been relatively good in 1987. Input costs for agriculture in total have declined each of the preceding three years and the value of the dollar is declining which assists us in being more competitive on world markets for grain sales.

In total I think we can say that the Kansas farm economy improved considerably in 1987 with many Kansas farmers using the increased farm income to pay off debts. Average debt per farm in Kansas at 72 thousand at the beginning of 1987 was 24% lower than the previous year. Debt to asset ratios improved from 33 to 28, meaning that Kansas farmers owed \$28 per hundred dollars of assets at the beginning of the year. However, those farmers with debt to asset ratios exceeding 40 made less progress in debt repayment. Their debt was reduced less rapidly than their assets with a result that their debt to asset ratio increased during 1986 and continued to increase during 1987. A number of them, particularly, those hurt by the bad weather episodes, the March blizzard, dry weather and hail may not have the cash flow to continue their farming operations beyond 1987. These situations are often hidden in the averages of a generally good year for agriculture but need to be kept in mind as we address the economic and people policies pertaining to our state's number one industry.

In summary, concerning the Kansas farm economy, it improved substantially in 1987. However, the recovery which is slowly taking place is jagged and precarious. It is jagged in that not all farmers have participated in it. Particularly those in the highly leveraged category, above 40% debt to assets ratio, have actually had a deteriorating financial situation through 1987. Indeed 10% of our farmers are in the double trouble category of over 40% debt to asset ratios and a negative cash flow. This number is an improvement over a year or two ago. That is not to minimize the situation. That is still an unacceptably high number of farmers in financial difficulties. I further pointed that the recovery is precarious in that much of the Kansas recovery is based upon recently good weather, exceptionally high farm program payments and good income from livestock. Any one of these three legs could be pulled out and a substantial number of people involved in Kansas agriculture would be back in the soup. Another hidden difficulty that has not been addressed much is that we

have done a great job of cutting our costs over the past three years in agriculture. However, that means as well we have not done much to replace our capital equipment in agriculture. There is much machinery across the state of Kansas that is in need of replacement. One farm management specialist told me that much of the equipment on the farms he works with is being held together by 900 pounds of welding rod. So, a major expense is looming.

I personally have had an exciting and rewarding year since last January. I have spent a great deal of time traveling, speaking and promoting agriculture and innovation. Since last January I have given 104 speeches and met with lots of people associated with the Kansas agricultural complex.

I believe you have been able to observe some expansion of activity at the Kansas State Board of Agriculture in the area of agricultural development. Regulation will always be our primary focus and where the majority of our employees will be involved, yet we do feel we have a mission in working for agricultural development in the state of Kansas. Some examples of this transition have been forums on agriculture issues that we have held such as the forums on the Farm Credit System, Latin America Debt Crisis, and an upcoming one on Agriculture and the Environment. Furthermore, the Board authorized the Commission on the Future of Kansas Agriculture and its report which we have put a great deal of time and effort into its development and now implementation.

The Board will continue to push agricultural and rural development. We are seeking processors of Kansas agricultural products, both small and large. We are seeking realistic alternatives for Kansas producers such as some poultry production meetings that we have held and contacts that we have made in the poultry industry. We attempted, in conjunction with the Kansas Chamber of Commerce and Industry and the Kansas Department of Commerce to hold a food processors recruitment tour from which we got some leads. We cosponsored a small-scale food processing seminar. The legislature funded and we raised the remaining funds to do a Blueprint on Kansas Agriculture which is available now and is giving all of us in Kansas good solid direction on areas that we can pursue for agricultural processing and we have been working with the community colleges about teaching agricultural diversification in some of their efforts.

I am proud of all of the activities of our various divisions within the Board of Agriculture. I would like to highlight for you the efforts of the Marketing Division and of the Farmer's Assistance, Counseling and Training Service, the FACTS program.

The Marketing Division has gone through some difficult times, however, we point with pride to several accomplishments. We are proud of our "FROM THE LAND OF KANSAS" program which now has 127 business entities associated with it, promoting Kansas agricultural products. (In total the division has worked with and assisted 390 companies, of which 127 are in the trademark program.) A number of these businesses have told us that the "Land of Kansas" program has made their operations go. For instance, quoting from an Associated Press article, Larry Wiens, President of Deutsch Treat, Inc., a Wichita company that makes bite-sized cookies, he stated that, "The Board (State Board of Agriculture) helped turn his company from one with about \$400,000 in annual sales statewide to one that anticipates selling \$6 million worth of cookies throughout the nation in the next year." This article that I am quoting from appeared September 27, 1987. We have had over 500 stores within the state of

Kansas participate in the "From the Land of Kansas" promotion. Our efforts for a major promotion at the Bloomingdale's department store in New York continue with many, many Kansas entrepreneurs seeking to enter that market with specialty food products. We cosponsored with the Department of Commerce, Small Business Administration and Kansas State University a small-scale food processing seminar which helped people who were considering getting into the food business learn how they could do it. We have worked to recruit the poultry industry back to Kansas. We feel we will see growth of this industry in Kansas over the next 3-5 years. Presently, the poultry industry is going through a down cycle where supply exceeds demand, so expansion will be limited short-term but looks good in the long-term. We have worked with the hay industry, the pork industry and other groups across the state of Kansas for promotion and expansion. In the area of overseas marketing we hosted a successful cattle marketing trip for cattlemen from the Sonora province in Mexico.

I also wish to highlight the FACTS program. During the summer months the calls to the program were down from a similar period a year ago, however, this fall the calls have picked back up to a pace similar to a year ago. Even though the farm economy is improving, those in difficulty are actually getting in worse shape and needing more assistance. The FACTS program has received a number of suicide calls. They have been working with groups in urban areas locating job possibilities. They have been working extensively with the Federal Deposit Insurance Corporation to help in mediation and working out loan problems that the farmers have when the FDIC takes over a troubled bank. I couldn't be prouder of the eight dedicated people that work at the FACTS program helping those in difficulty. During the past year they have received over 7,000 incoming calls from distressed farmers and rural citizenry. The program is working and is very much still needed.

The FACTS enabling legislation needs a change if we are to provide mediation services as is required of the FmHA in recent federal legislation. We are requesting a law change to allow FACTS to provide federally funded mediation services.

The State Board of Agriculture is very interested in several issues facing the Legislature in 1988 which will have impact on the Kansas agricultural complex.

Two separate studies now have identified the need for some type of an agricultural processing center in the state of Kansas or done in conjunction with another state. We need to get serious about doing this. The best possibility for Kansas in the area of economic development is in processing of our agricultural products. We grow the stuff here, and we have a good work force to process it. This would be doing economic development by building on our strengths.

I hasten to add here that I am not simply talking about food processing but total agricultural processing. Many experts view the growth markets for agriculture to be based upon two potential markets; one being developing countries improving their per capita income and diets thus demanding more grains from the United States, and a second area is non-food uses for our agricultural output. Things such as plastics, fuels, ink, building materials and all other sorts of industrial products being made from agricultural outputs. This is an exciting area of development. The Board has appointed a task force on

industrial use of Kansas agricultural commodities to come forward with specific areas that need emphasis and that have realistic potential as commercial operations.

A second area of interest to the Board are the monies received by the state of Kansas on the oil overcharge litigation against several of the major oil companies. In previous years Kansas has received over 47 million dollars in the settlement of litigation against certain companies for oil overcharges in the state. Kansas agriculture contributed over 6 million dollars of these funds that are part of the oil overcharge. We feel agriculture should receive its share of these funds for agricultural energy conservation type of projects and other programs in agriculture that can assist us in energy conservation, water conservation, and protection of the environment.

A third area of interest that has developed considerably across Kansas over the past year has been fee hunting and fee access to land. This is seen by many in rural communities as a supplemental income source. It is an additional way to use the Conservation Reserve Program land in that the USDA does allow land owners to sell recreational use rights to their land for a fee. This is one of the very, very few other uses that the CRP land can be put to. We see this as a good potential for additional tourism in the state of Kansas and that if more land is available more people will come to the rural areas and hunt or otherwise enjoy the outdoors. However, there are a couple of key barriers to this happening and the most difficult one to landowners is the duty of care that they have when they charge a fee to someone for coming on to their land. We would like to see the legislature review the Recreational Use Statute and decrease the duty of care that the landowner owes to those who pay to come on his land for recreational purposes. We believe this will increase the availability of land for recreational use across the state of Kansas and additionally put more money in the pockets of farmers. That is certainly something that would be beneficial to the agricultural community.

Another area that is very difficult but we believe needs to be addressed is that of contract farming. Contract farming has increased substantially across the state of Kansas. I have no figures to substantiate that, only a "hood ornament" view, and reflection on the number of people who have told me they are growing crops under contract. A recent Attorney General's Opinion raises a question of whether this is legal in the state of Kansas given our Farm Corporation Law. In many cases people do grow under contract for corporations. Sunflowers in northwest Kansas are frequently grown under contract with a corporation, as are most specialty crops and some row crops. Many farmers sell their crop ahead of time under a contract with a local grain buyer. Is this legal or illegal now in the state of Kansas? It is our belief that this issue needs to be addressed and rectified. It is the recommendation of the Board of Agriculture that contract farming be allowed in the state as it presently is going on in a significant amount. To limit this activity would detrimentally affect Kansas agriculture. One must also be aware though that if the contracting party defaults, there presently is no safeguard to the farmer other than under the contract. This may be something that the legislature would choose to examine to see about enacting safeguards for producers operating under production contracts. It is our belief that this issue should be looked at in total and action taken before major problems begin occurring.

Agricultural practices and their impact on the environment has demanded much of our time and looks to us to be an area requiring increasing time and staff commitment.

Again, it has been my honor to address you. The Board of Agriculture stands ready and willing to work with the legislature in any capacity that we can. I would be happy to submit to questions. Thank you Mr. Chairman.