

Approved February 23, 1988  
Date

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS

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

9:07 a.m./~~p.m.~~ on February 16, 1988 in room 423-S of the Capitol.

All members were present except: Representatives Roenbaugh, Sallee, and Lacey  
who were excused.

Committee staff present: Raney Gilliland, Legislative Research Department  
Norman Furse, Revisor of Statutes  
Marjorie Brownlee, Committee Secretary

Conferees appearing before the committee: Dr. Stanley Ward, Director, FACTS  
Robert McCollister, Director, Kansas Legal  
Services  
Ronald Schneider, Kansas Rural Center  
Del Jacobsen, Interfaith Rural Life

The main purpose of today's meeting is to review the program of the Farmers Assistance, Counseling, and Training Service (FACTS). Chairman Campbell introduced Dr. Stanley Ward, Director of the FACTS program, Manhattan, Kansas.

Dr. Ward spoke at length about the Farmers Assistance, Counseling, and Training Service (FACTS) program. He indicated a great number of "in-distress" farmers are contacting their office for assistance. About 62% of the calls are concerned with legal assistance, 26% are requesting employment re-training, and 12% are wanting help with family problems.

Dr. Ward pointed out that theirs is not a request for monies for additional staffing but a request for monies to replace that which was eliminated in the Federal funding---and is, in fact, a request for additional State funds in order to maintain the people it now has on staff.

He reiterated the fact that it is expected that we will see a significant decrease in income for the farmer for the next five years. At this time it is felt that FACTS is adequately funded to meet operation needs (other than staffing funds). They see some "land mines" out there in terms of legal services, however.

Roger McCollister, Director of Kansas Legal Services, a non-profit organization, was the next presentor. Their organization has been working with FACTS about three years. This work comprises about 5% of their overall budget. He said he can report that they have delivered everything they promised through this program, i.e., financial counseling to help keep farmers on their farms, legal assistance to qualified clients, etc.

The average farmer with whom Legal Services deals is probably 50 to 55 years of age, farms 700 to 1,000 acres of land, has been involved in farming a long time, and is a good farmer. The problem is he has fallen on hard times---the conditions surrounding him are beyond his control and he needs help. We have tried to aid him so he can retain his land and/or farming operation ---keeping him as a viable participant in his community and family life, as well as being a tax-paying citizen contributing to the economic and tax base.

The crisis is not over! From all reports, the farmers with less than 40% debt to asset ratio are doing fairly well---those with 40% and over continue to falter and get farther behind. There are probably 17,000+ of these farmers in the State. It is predicted that the real net farm income will go down 50% in the next five years---returning to the 1960 level.

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS

room 423-S, Statehouse, at 9:07 a.m./~~p.m.~~ on February 16, 1988

Calculations show us that the average farmer contributes approximately \$120,000 per year to his local economy---through salable produce, farm machinery and all of the other businesses with which his operation comes in contact. We need to try to save some of these farmers---this is a lot to lose.

Legal Services can provide legal assistance for an average of \$500 to \$700 which in private practice would cost the farmer three or four times that amount. We handle about 30 cases per month on the average through our offices. There are 55 lawyers working for the Kansas Legal Services---seven working with FACTS over the State through twelve offices. There is available communication for all farmers all over the State through local offices, Topeka office, or use of WATTS line communication.

Money allotted in the budget for 1986 for legal assistance was \$220,000. In 1987 it was cut to \$193,000, in 1988 it was further cut to \$100,000, and it will probably be \$100,000 in 1989. Historically, as it was originally set up, there should be \$200,000 per year. It is below the level needed. We can save some farmers if we have the money. If there are going to be referral services we have to have funding. (Attachments I and II)

Ronald Schneider, Kansas Rural Center, non-profit organization, praised the FACTS program and felt mandatory mediation important and necessary. (Attachment III)

Del Jacobsen, representing the Kansas Ecumenical Ministries, Interfaith Rural Life Committee, was in favor of the FACTS program and recommended mandatory farmer/creditor mediation. He commented that we have seen some improvement but that there is still "a lot of hurt out there."

He stressed the fact that there are many people involved in the problems of the farmer in distress---namely individual members of the family (sons and daughters, brothers, etc., who may also be involved in farming), as well as the businesses of the community. (Attachments IV and V)

Following the aforementioned presentations there was a question and answer session. Chairman Campbell thereafter pronounced the cessation of discussion on this matter.

Minutes of the House Agriculture and Small Business Committee meetings for February 5, 10, and 11 were presented to the members of the Committee for approval. Representative Apt moved that the Committee approve those minutes. Representative Eckert seconded the motion. The motion passed.

The meeting was adjourned by the Chairman at 10:00 a.m.

The next meeting of the House Agriculture and Small Business Committee will be February 17, 1988, at 9:00 a.m., Room 423-S.



KANSAS AGRICULTURE:  
RECENT TRENDS AND FUTURE DIRECTIONS

Kansas Legal Services, Inc.  
Wayne A. White  
Research Specialist

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*ATTACHMENT I*

## SUMMARY

This paper reviews recent evidence and trends related to key aspects of the agricultural economy in Kansas. Although there have been some recent improvements in important indicators, leading some observers to declare the worst of the farm "crises" behind us, these improvements have been accompanied by a worsening of related factors and a continuation of several trends that will have a long-term negative impact on Kansas agriculture if appropriate responses are not enacted.

The average debt-to-asset ratio of Kansas farms declined in 1986, as did the percentage of Kansas farms with debt-to-asset ratios of greater than 0.40. The average debt-to-asset ratio of all farms with debt (67 percent), however, remained very close to the 0.40 threshold for "serious financial problems." Those farms with debt-to-asset ratios greater than 0.40 actually saw their financial situation deteriorate.

There was a widespread decline in assets and net worth among Kansas farms during 1986, continuing a trend that has existed throughout the 1980s. The primary cause of asset and net worth losses - a pronounced fall in farm real estate values - abated somewhat during the second and third quarters of 1987. Land values are not expected to increase substantially and remain at about 50 percent of their 1981 market high.

Kansas farm income was salvaged in 1986 by record high government subsidies. Despite these subsidies, the rate of increase in net income was down from that of 1984 and 1985. Increased dependence on government payments for farm income places Kansas farmers at greater risk. Crop and livestock prices have not improved or stabilized sufficiently to provide the basis for sustained improvement in farm income.

Long-term structural changes in the supply and demand trends affecting the primary agricultural products of Kansas farms must be acknowledged. These trends have profound implications for export volume and domestic demand for grain and red meat products. Government subsidies are also no longer a reliable source of increased income.

Recommendations designed to reduce risks, stabilize income, and adapt to changing conditions are offered. Proposals include: Import Less Food into Kansas, Promote Sustainable Agriculture, and Facilitate Small Scale Economic Development Plans for Small Communities.

## INTRODUCTION

The current status of the 1980s "farm crisis" in Kansas has become a topic of much controversy. Assessments range from 'the crisis is over' to 'things are worse than ever.' A careful examination of relevant evidence and trends reveals a situation characterized by modest improvement in some agricultural indicators and the continuation of fundamental problems and uncertainties facing Kansas farmers and rural communities. This paper provides a summary and analysis of recent evidence and ongoing trends pertaining to several key aspects of Kansas' agricultural economy. Specific recommendations for future action are also offered.

## AGRICULTURAL DEBT

The most commonly cited indicator of farm debt stress is the debt-to-asset ratio. The average debt-to-asset ratio of all Kansas farmers declined from 0.33 in 1985 to 0.28 in 1986 (Johnson, 1987a). The debt-to-asset ratio of Kansas farmers in 1981, however, was about 0.20 and has been lower than the 1985 and 1986 levels throughout the 1980s (Johnson, 1987b). None of those years, despite lower debt-to-asset ratios, could be considered good years for Kansas farmers.

The percentage of Kansas farmers with debt-to-asset ratios greater than 0.40, a level generally considered to be associated with serious financial problems, also declined from 33.5 percent in 1985 to 24.8 percent in 1986 (Johnson, 1987a). This decline of highly leveraged farmers was due in part to the exodus of many of them from farming. Of the approximately 17,400 Kansas farms

with debt-to-asset ratios greater than 0.40 in 1986, the average ratio was 0.77, up from an average of 0.73 in 1985 (Johnson, 1987). Simply put, there were somewhat fewer Kansas farmers with serious debt problems in 1986, as measured by debt-to-asset ratios, but those with problems had extremely high debt-to-asset ratios and saw their situations deteriorate further.

It should also be noted that the average debt-to-asset ratio of the approximately 47,200 Kansas farms (67.4 percent) with any debt was 0.36 at the end of 1986, a level of debt very close to the 0.40 threshold for "serious financial problems" (Johnson, 1987a). The 1986 debt-to-asset ratios for Kansas farmers compare favorably only to those of 1985, the year in which debt-to-asset ratios were at their highest point.

A more complete picture of farm debt problems can be gained by supplementing debt-to-asset data with information regarding actual rates of non-performing loans. The percentage of agricultural operating loans of all commercial Kansas banks that were classified as non-performing (more than 90 days overdue, non-accrued or losses taken) increased from 6.41 percent on December 31, 1985, to 7.11 percent on December 31, 1986. This increase occurred despite a reduction in the percentage of all loans that were devoted to agricultural operating expenses (Gibson, 1987).

The Farmers Home Administration (FmHA) recently reported a reduction in the percentage of active farmer program borrowers who were behind schedule in their payments. On September 30,

1987, 20 percent of FmHA farm program borrowers were behind schedule compared to 25 percent on September 30, 1986 (FmHA, 1986; 1987). This decrease, however, was accompanied by a four percent reduction in the number of active farmer program borrowers, an increase in loan accelerations and chattel liquidations, an increase in bankruptcy petitions and a 144 percent increase (from 23 to 56) in the number of borrowers who discontinued farming due to bankruptcy. Overall, the percentage of FmHA borrowers who discontinued farming due to financial difficulties in 1986 was the same (1.8 percent) as in 1985 (FmHA, 1986; 1987).

The Farm Credit Systems' (FCS) Wichita district, which includes Kansas, has experienced financial improvement during 1987. Their improved financial position has been achieved, in large part, by a consistent reduction in loan volume since the first quarter of 1985. The Wichita district's quarterly loan volume decreased by 36 percent from the first quarter of 1985 (\$6.72 billion) to the third quarter of 1987 (\$4.33 billion), (Steimel, 1987).

The volume of agriculture loans made to Kansas farmers by commercial banks, FmHA, and FCS in Kansas has been severely reduced. Since these three sources of agriculture credit account for 70 percent of all farm loans in the state, the availability of capital for new, struggling or potentially expanding farm operations has been restricted. This situation has been exacerbated by a FmHA land sale policy that has resulted in about



60 percent of FmHA's land inventory in Kansas being classified as "surplus" and therefore generally not available to FmHA eligible farmers (Rural Papers, 1987). The amount of land in possession of the FmHA in Kansas increased from 82,924 acres on November 25, 1986, to 86,447 acres on December 8, 1987 (Roediger, 1987). Agricultural interest rates during 1987 have been up sharply after a steady decline that began in 1984 (Federal Reserve, November, 1987).

The combined trends of higher interest rates, restricted availability of FmHA inventory land, and reduced agricultural loan volume by major lenders do not support a conclusion that agricultural credit conditions will be a major contributor to immediate economic recovery in rural Kansas.

The eight Kansas banks that failed during 1987, although fewer than the two previous years, continue the trend of a high bank failure rate caused primarily by non-collectable agricultural loans. Many farmers continue to face problems in renegotiating the loans taken over by the Federal Depositors Insurance Corporation (FDIC) from the twenty-seven Kansas banks that failed during 1985 and 1986. The financial condition of agricultural banks in the midwest continues to pose risks of widespread failure (Medichas, 1987).

#### **FARM ASSETS**

The decline in the average debt-to-asset ratio for Kansas farms from 1985 to 1986 was accompanied by a decline in farm assets and net worth. The average decline in assets for all

Kansas farms was 12 percent during 1986. The average decline in net worth for all farms was 6 percent. For those farms with a debt-to-asset ratio greater than 0.40 (24.8 percent or 17,400 farms), the average decline in assets was 10 percent and the average decline in net worth was a steep 25 percent (Johnson, 1987a). The 1986 asset and net worth losses among Kansas farms represent the continuation of a trend that has existed throughout the 1980s (Johnson, 1987b).

The primary cause of asset and net worth losses among Kansas farms in recent years has been a pronounced fall in farm real estate values since 1981 (Federal Reserve, May 1987). During the second quarter of 1987, however, the value of Kansas real estate was up for the first time since the six year decline began. The second quarter 1987 increase included non-irrigated crop land (up 5 percent), irrigated crop land (up 3 percent), and ranch land (up 4 percent). (Federal Reserve, August, 1987.) Improved prices for non-irrigated land (1 percent) and range land (3 percent) continued during the third quarter of 1987, while irrigated crop land declined by about the same amount (3 percent) gained in the previous quarter (Federal Reserve, November, 1987). Overall, farm real estate values at the end of August 1987 were only 51 percent of their 1981 market high and still lower than in August 1986.

## Kansas Farm Real Estate Values

	<u>Non-Irrigated</u>	<u>Irrigated</u>	<u>Ranchland</u>
Market High	(9/30/81) 770	(3/31/81) 1096	(6/30/81) 395
Dec. 31, 1981	742	1059	393
Dec. 31, 1982	677	998	336
Dec. 31, 1983	658	957	321
Dec. 31, 1984	531	831	267
Dec. 31, 1985	428	667	196
Dec. 31, 1986	381	592	169
March 31, 1987	380	585	165
June 30, 1987	399	603	171
Sept. 30, 1987	403	583	176

**Source:** Lynn Gibson  
Federal Reserve Bank of Kansas City

According to research by the Federal Reserve Bank (Salina Journal, November 29, 1987), substantial increases in land values are not expected this year. If values remain stable, as expected, the damage in asset and net worth losses experienced by Kansas farmers in recent years should abate.

### FARM INCOME

Kansas farmers received \$5.42 billion from the sale of their products in 1986, compared with \$5.88 billion in 1985, an 8 percent decrease. Because of an 81 percent increase in government payments, net farm income increased in Kansas by 29

percent, from \$1.15 billion in 1985 to \$1.47 billion in 1986 (Johnson, 1987c). Without the record \$871 million in government payments to Kansas farmers in 1986, an increase of \$389 million dollars over 1985, net farm income would have decreased by about 5 percent.

The rate of increase in net farm income during 1986 (29 percent) was lower than that of 1985 (41 percent) or 1984 (124 percent). The increases in those years occurred, moreover, despite substantial decreases in government payments (Johnson, 1987c). In the context of recent years, therefore, 1986 is most accurately characterized as a year in which net farm income grew at a lower rate and was more dependent on government payments.

Increased dependence on government payments for farm income places Kansas farmers at greater risk. Immediate cuts in federal spending for farm programs have been assured for 1988 (\$900 million) and 1989 (\$1.6 billion) by the recent budget agreement between Congress and the White House. Additional cuts totaling \$6 billion nationally in 1988 are projected by Secretary of Agriculture Richard Lyng, including reductions in crop target prices (Webb, 1987). If Kansas farmers continue to rely on government subsidies to compensate for losses from farm product sales, incomes are likely to fall.

Crop and livestock prices, despite a slight drop in November 1987, generally showed improvement during 1987. The "All Farms Product Index" for Kansas on November 15, 1987, was 145 percent of the 1977 base, compared to a 136 percent reading for November

1986 (Johnson, 1987d). This modest improvement is a precarious one due to the historic tendency of livestock prices to fall during general recessions and the continued instability of world grain markets (Ardy, 1987). Even if a general recession in the U.S. economy is avoided in 1988, record supplies of meat products will make the increased livestock prices of 1987 short lived. Although grain prices are up slightly from a year ago, they remain generally lower than they have been throughout the 1980s. Farm product prices have not improved or stabilized sufficiently to be realistically characterized as the basis for sustained improvement in farm income.

#### **NATIONAL AND INTERNATIONAL TRENDS**

The problems and challenges facing Kansas' agricultural economy and rural communities can be adequately understood only in the context of several trends that are international in scope. Unless the long-term, structural nature of changes in the supply and demand trends affecting the primary agricultural products of Kansas farmers are acknowledged, changes in short-term indicators are likely to be misinterpreted. The practical danger of such a misinterpretation is that appropriate responses to changed conditions will not be developed.

We now live in a world where the commercial demand for many farm products is already fully met and major surpluses of grain and livestock products have accumulated (Kahn 1987; Avery 1985). This oversupply is the result of an ongoing surge in world agricultural productivity, due in large part to the successful

exportation of agricultural technology by multi-national corporations. Rising world productivity will place long-term pressure on farmers' incomes and on government policies designed to protect them. In short, world agricultural productivity is rising fast enough to feed the growing world population and the established trade and investment policies of the developed countries will continue to keep prices for basic commodities relatively low (Kahn 1987).

The affects of rising world agricultural productivity on U.S. exports have already been felt. From 1981 through 1986, U.S. agricultural export income plummeted 40 percent from \$43 billion in 1981 to \$26 billion in 1986 (Chambers, 1986). Of particular relevance to Kansas farmers, the U.S. share of the world wheat market has declined to below 40 percent, down from the approximately 45 percent share it once held (Schmitz, 1986). These trends are likely to be continued and possibly intensified due to a sustained expansion of grain production now occurring in the Soviet Union, India, and China. In addition to long-term reductions of U.S. grain exports to these once major world markets, the Latin American nations are no longer reliable buyers of agricultural products because of excessive international debt (Avery, 1987).

U.S. farmers now export about 20 percent of their production, compared to about 25 percent during the "boom" years of the 1970s. The current level of exports is not likely to expand on a sustained basis because of the trends summarized

above and because of the high costs (about \$3 million in farm subsidies for each \$1 million in increased exports) of recent policies designed to enhance exports (Breimyer, 1987). Since Kansas wheat producers currently export about 50 percent of their production, limited future export volume will subject them to pronounced risks.

The effects of increased world productivity and surplus supply of grain and red meat products are compounded by a changing domestic market. The U.S. has a low rate of population growth and is experiencing a shift in age composition toward older age groups. A slowly growing population, a preponderance of older consumers who have reduced dietary requirements, and growing dietary and health concerns have lead to a reduced domestic demand for feed grains, red meat, and dairy products. At the same time, there has been an offsetting increase in per capita demand for poultry meat and "salad type" vegetables in the U.S. (Raunikar et. al., 1985)

#### **RECOMMENDATIONS FOR ACTION**

Reducing risks and stabilizing farm income will require a shift from excessive dependence on exports and government subsidies. Both exports and government subsidies will remain important sources of farm income in the future but income from these sources combined is likely to decline. Both are also largely determined by national and international factors and are not subject to control by Kansas farmers and policy makers. Organizations and individuals concerned about Kansas agriculture

should continue to work to improve federal farm policy and maintain income from exports. The long-term viability of Kansas farmers and rural communities, however, will require the development of sustainable sources of income that are less dependent on distant forces and more subject to state and local control. Several specific recommendations for such development are offered below.

### **Import Less Food into Kansas**

Kansas imports at least \$770 million in food per year (Rural Papers, 1986). It is possible to grow a wide range of edible fruits, vegetables, and grains in Kansas. The Kansas Department of Commerce estimates that the value of Kansas Agricultural Production multiplies an average of 2.2 times when introduced into local economies. The Kansas economy could benefit from infusion of approximately \$170 million if only 10 percent of the food that is now imported was grown in Kansas. The food and vegetable growers in Kansas are already organized and could prove to be a valuable resource if the state were to encourage food production for consumption within the state.

Marketing avenues for food grown in Kansas are currently limited. Direct marketing techniques such as farmers markets, marketing cooperatives, road-side stands, and direct contracts between producers and retailers can be developed far beyond their current potential. If a major portion of the food consumed in Kansas is to be grown in Kansas, major supermarket and restaurant franchises must eventually carry Kansas products. This is a goal



that holds immediate and long-term rural development potential. It is also a development strategy that the state of Kansas could facilitate in several ways. Some possible actions are listed below:

1. Encourage and provide funding for an expanded research program at Kansas State University on commercial fruit and vegetable production methods appropriate for Kansas. Research on commercial marketing of fruit and vegetable products might best be funded through the State Board of Agriculture's marketing division, in order to assure that such efforts will be well integrated with the division's other activities.
2. Facilitate the continued development of direct marketing avenues for food products grown in Kansas. If small producers are to continue or expand their operations, it is essential that they have knowledge of marketing avenues. The marketing division has already begun to develop such knowledge. A small budget for publicizing information about direct markets might prove to be a sound investment in future development.
3. Sponsor additional test marketing projects at grocery stores and restaurants. A past project undertaken by the State Board of Agriculture involving Dillons' stores indicated the potential receptiveness of major grocery chains. These and related issues will require

relatively inexpensive research and information dissemination.

4. Provide tax incentives to grocery stores or restaurants that purchase food products grown in Kansas. The economic value of retaining additional food dollars within Kansas should make this a non-controversial piece of legislation. This action can serve multiple purposes: It would provide incentive for merchants to work with local producers, it would provide Kansas producers a small price advantage, and it would signify a significant state commitment to encourage food production and marketing in Kansas.

#### **Promote Sustainable Agriculture**

State university research and extension service publications on farming methods that conserve soil and water resources and eliminate the need for commercial inputs have been very limited in Kansas. Kansas State University could model its sustainable agricultural programs on those of other major universities: University of Nebraska at Lincoln, University of California at Santa Cruz, University of Wisconsin at Platteville, North Carolina State University, Virginia Poly-Tech Institute and State University, University of California at Davis, University of Maine at Orono, University of Vermont, and Pennsylvania State University. Kansas universities do not have to start from scratch to start serving this critical need for the future. Kansas has at least three established organizations that have

persons very knowledgeable in various aspects of sustainable agriculture. They are the Kansas Organic Producers, the Land Institute, and the Kansas Rural Center. There is rapidly accumulating evidence that environmental constraints will require a gradual long-term shift to these newly emerging farming methods (Francis and Harwood, 1985).

During the past year, U.S.D.A. has recognized the importance of encouraging low input and sustainable farming practices. They have developed a nation wide information service to further this development (Successful Farming, 1987a). Demand for crops, meat, and produce grown without man made chemicals is increasing rapidly (Tevis, 1987). The state of Wisconsin recently set aside \$2 million of oil overcharge money to encourage and promote sustainable agricultural techniques (Sinclair, 1987).

#### **Facilitate Small Scale Economic Development Plans for Small Communities**

The state of Kansas could specify that a portion of any legislative funding for research on food processing, agricultural diversification, and market development at Kansas universities be directed toward the development of projects on a scale that can be implemented in small communities (less than 10,000 population). Examples of such projects might include: the feasibility of small scale meat processing plants that specialize in low-fat meats, especially poultry; small mills; and vegetable processing plants.

A number of state governments have approached the task of rural development by encouraging the creation of Local Development Organizations (LDO). These are small scale, community based efforts aimed at local economic development. The evidence suggest that the most successful efforts have built on resources already in the local economy: "natural resources, the existing businesses and, most important, the talents, skills, and energies of the local population" (Malizia and Rubin, 1985).

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**FACT SHEET ON KANSAS LEGAL SERVICES' FARM ADVOCACY PROGRAM**

1. Since July, 1985, Kansas Legal Services, Inc. (KLS), under a grant from the Kansas State Board of Agriculture, has been providing legal assistance to Kansas farmers through referrals from the Farmers Assistance, Counseling, and Training Service (FACTS).
2. There are currently seven KLS farm specialist attorneys providing service in every county of the state. The Farm Advocacy Project attorneys provide both advice and legal representation to eligible applicants.
3. From the time the program began through December, 1987, 793 cases were advised or opened. During this period, legal services were provided to about 663 families (a number of clients were advised or represented more than one time). The families served include approximately 1,790 people.
4. The following data are derived from 306 returned surveys of a total 465 mailed to KLS farm clients during the past two years. That is a return rate of 66%.

**Legal Problems**

1. Difficulties with lending institutions - 82%
2. Miscellaneous - problems with grain elevators, landlords, lawsuit defense in general - 18%
3. Foreclosure defense as subject of initial inquiry - 37% of all cases.

**Client Evaluations**

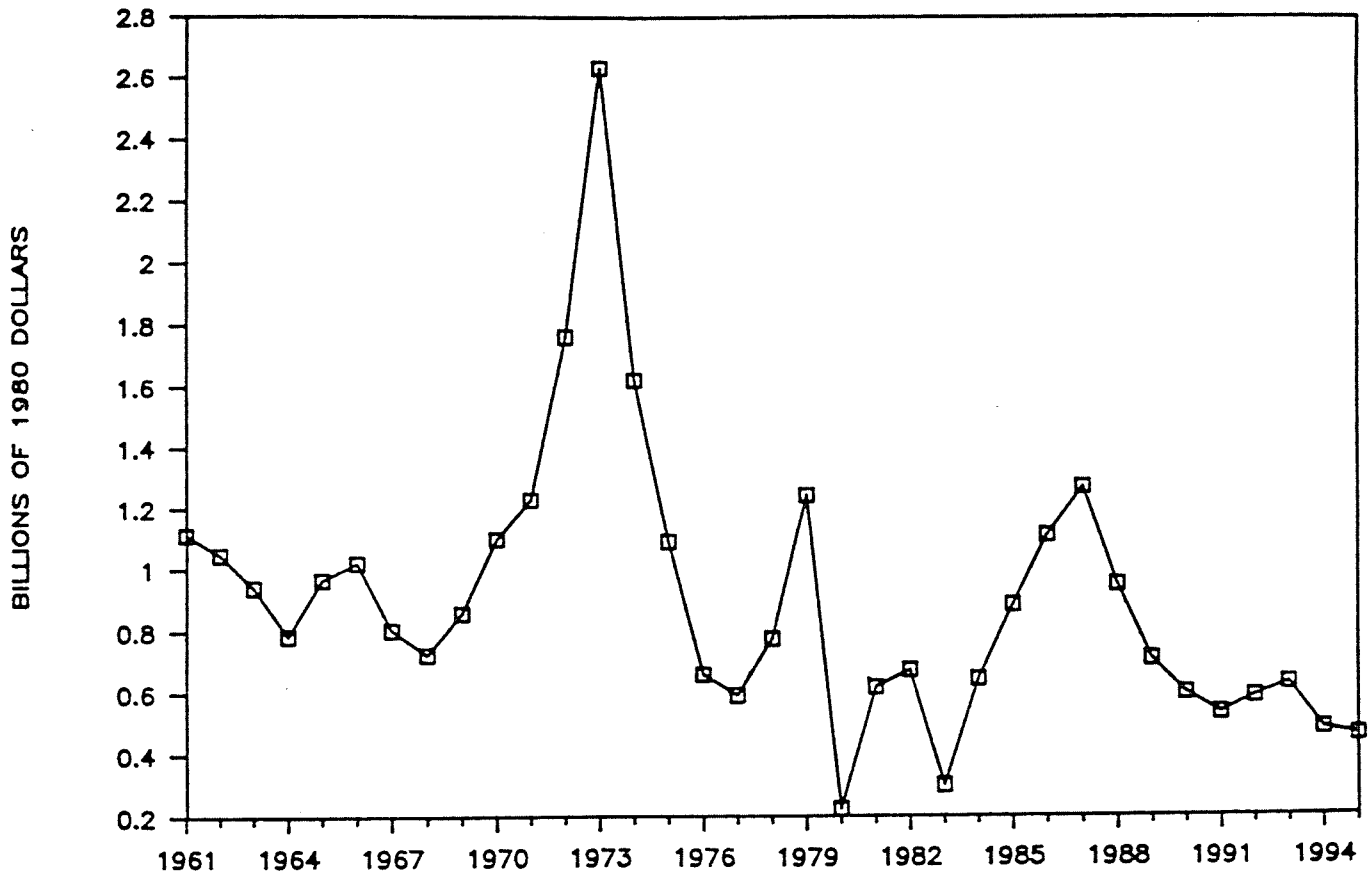
1. Original problem received satisfactory action by KLS farm staff - 76%
2. Valuable additional legal advice or representation provided - 71%
3. Satisfied with overall service rendered by KLS farm staff - 79%
4. Would recommend KLS farm services to other farmers - 85%
5. Program should continue - 90%
6. Average level of affirmative response to above items - 80%

Note: Over 98% of our clients feel that the farm crisis is not over.

**Direct Legal Service to Farmers Has Economic Benefits**

1. According to the farmers themselves, the KLS Farm Advocacy Program has assisted approximately 203 Kansas farm families to remain in farming. Those families will remain in farming at least a combined 664 years. This is a conservative estimate because it assumes only four years of farming for those who have indicated they will now remain in farming for more than three years. It is probable that many of these families will stay in farming for much longer than three years.
2. If legal assistance helps farmers to retain their farms, the economies of local communities and the state benefit in a number of ways. According to the Farm Management Association, farms the size that KLS serves spend approximately \$120,000 per year in operating expenses.
3. The farmers assisted in retaining their farms by the KLS Farm Advocacy Program will spend about \$24.4 million on operating expenses in the next year. When multiplied by the agricultural production circulation factor of 2.2, established by the Kansas Department of Commerce, that translates into \$53.6 million of economic activity during the next year.
4. Despite these positive returns to the rural Kansas economy, funding for the program has steadily declined from \$220,000 in FY'1986 to \$193,000 in FY'1987 to \$100,000 in FY'1988.

FIG 1. REAL NET FARM INCOME IN KANSAS





KANSAS ECUMENICAL MINISTRIES  
INTERFAITH RURAL LIFE COMMITTEE

The Interfaith Rural Life Committee of Kansas Ecumenical Ministries encourages the members of the faith communities of Kansas to join in the public policy discussion of the Kansas Corporate Farm Law.

RESOLUTION

The Interfaith Rural Life Committee affirms that the Kansas Corporate Farm Law should, at a minimum, remain unchanged, or be strengthened to prevent further vertical integration of livestock production.

The Interfaith Rural Life Committee views with alarm and pain the agricultural crisis of the 1980's and the stress it has placed upon family owned and operated farms. It is both appropriate and necessary for Kansas to consider policy that will enhance economic development opportunities for farm families and to revitalize rural Kansas.

Therefore, the Interfaith Rural Life Committee encourages discussion of public policy that:

- 1) Sustains and creates farming opportunities for young, beginning and fore-closed-upon farmers. Policy must be examined to determine whether or not it provides legal, market or tax incentives that favor large agribusiness corporations and absentee ownership of farm land over the rights and accessibility of farm families to economic opportunities. Policies should not discourage and displace farm family owned and operated enterprises.
- 2) Promotes stewardship of the environment and the finite natural resources of God's creation. Concentration of livestock production raises questions about safe waste disposal, access to and use of water, and environmental contamination. These are issues which will affect the quality of life and economic opportunities available to future generations of Kansans.
- 3) Promotes the viability and vitality of community life across Kansas. Locally owned and widely dispersed businesses and farms have been, and continue to be, the foundation of Kansas rural communities. Livestock production concentrated in one area or county often means the loss of production and economic vitality that normally occurs in numerous counties across the State. Kansas communities will be enhanced by economic



development that assists local governments and businesses with ideas to create good paying jobs in locally controlled enterprises that keep their profits and purchasing power within the community.

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The Interfaith Rural Life Committee is a program of nineteen religious bodies in Kansas addressing the difficulties in agriculture during the 1980's. Its statement of purpose is:

The purpose of the Interfaith Rural Life Committee is to empower the people of Kansas to work toward wholeness of community and personhood that values vital rural communities. Within this purpose, the Committee will work to assure:

- a) a stewardship of creation that embodies God's intention for air, land, and water;
- b) a system of justice that will assure sustainable agriculture; and
- c) a continuation of the Biblical and American traditions of individual family land ownership and operation.

Del Jacobson  
P.O. Box 713  
Hays, KS 67601  
(913) 625-4972



KANSAS ECUMENICAL MINISTRIES  
INTERFAITH RURAL LIFE COMMITTEE

The Interfaith Rural Life Committee of Kansas Ecumenical Ministries recommends consideration of Mandatory Farmer/Creditor Mediation in Kansas. Farmer/Creditor Mediation has demonstrated throughout the midwest that it is one of the creative ways to solve problems and settle disputes between farmers and their creditors by using an impartial third party to facilitate discussion and arrive at an agreement without costly, time-consuming litigation.

MANDATORY VS. VOLUNTARY:

Kansas has had an excellent, respected voluntary Farmer/Creditor Mediation Service for over a year. The debtor/creditor relationship, however is not conducive to voluntary mediation, and therefore less than two dozen cases were mediated in the first year of Kansas' voluntary program. In contrast, Iowa handled over 4,800 mediation cases in its first year as a legislatively mandated program, and approximately 60% of those cases resulted in agreements.

Historically, farmers and their lenders have had amiable, trusting relationships built upon years of shared community life. The economic problems of agriculture in the 1980's have driven a wedge into that relationship. Mediation is one way to bring framers and their lenders together to open the lines of communication. Improved communication is a worthwhile goal, in and of itself.

WHAT IS MEDIATION?

Mediation brings a farmer and his/her creditors together with a neutral third party to reach a mutual agreement on the future of the farm operation. The mediator's only role is to set the ground rules for the meeting and assist communication. Agreements may include reamortizing loans, liquidation, lowering interest, and writing down debt. If a mutual agreement is not reached, the lender can continue debt collection, which may result in court actions, foreclosure, or bankruptcy.

The benefits of Mediation include:

- 1) Mediation saves time. In Iowa, the average case takes 21 days to come to the table and is usually resolved in one three-hour session. The Chapter 12 bankruptcy code gives a farmer 90 days to submit a plan; it gives the court 45 days to approve the plan; and the plan can literally last for years.



2) Mediation saves money. The average mediation session costs no more than a few hundred dollars. In a Chapter 12 bankruptcy, a private attorney may charge \$2,000 - \$3,000, and the trustee's fees may be 10% of the first \$450,000 of debt, and 3% thereafter. Realistically, both farmer and lender bear these costs in a bankruptcy.

3) Mediation won the support of federal matching grants in the recently passed Farm Credit System refinancing legislation. Funds up to \$500,000 per year/per state for state mediation programs will be made available. These funds could assist Kansas to set up an effective, low-cost mediation program.

4) Mediation will help our rural banks. Mediation would help reduce the losses incurred by banks through both foreclosure and bankruptcy, and as a result keep valuable lines of credit open to our farmers.

5) Mediation will help our rural communities. Five to seven farm liquidations means the loss of a business on a rural main street. Each successful mediation agreement can make a difference.

The debt crisis created by deflating land values and falling commodity prices continues to cause foreclosures and land loss in record numbers. For the sake of those families still losing land and home, Kansas should seriously consider the benefits of a state mandated mediation program.

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