

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Senator August "Gus" Bogina, Chairperson at 11:08 a.m. on January 28, 1991, in Room 123-S of the Capitol.

All members were present.

Committee staff present:

Diane Duffy, Legislative Research Department
Leah Robinson, Legislative Research Department
Gordon Self, Revisors' Office
Judy Bromich, Administrative Assistant
Ronda Miller, Committee Secretary

Conferees appearing before the committee:

Dr. Richard Hahn, Director, Kansas Value Added Center

INTRODUCTION OF BILLS

Senator Doyen moved, Senator Gaines seconded, the introduction of bill draft 1 RS 0295 - AN ACT concerning alcohol and drug safety action programs; relating to assessments; amending K.S.A. 1990 Supp. 8-1008 and repealing the existing section. The motion carried on a voice vote.

Senator Harder moved and Senator Doyen seconded the introduction of bill draft 1 RS 0451 - AN ACT making and concerning appropriations for the fiscal years ending June 30, 1991, and June 30, 1992, for a capital improvement project for the University of Kansas Medical Center. Senator Harder explained that this appropriation bill is emergency in nature because of a fire that was deliberately set in the Battenfeld Auditorium on the KUMC campus. The motion carried on a voice vote.

Dr. Richard Hahn distributed Attachment 1 and provided historical background for the Kansas Value-Added Center. He reviewed several projects in which KVAC had favorably impacted new businesses in Kansas. Dr. Hahn told the Committee that Value-Added is a good strategy for economic development in agriculture because it creates jobs in rural areas of Kansas and because Kansas is in a good position to take advantage of Federal initiatives for commercialization of nonfood, agricultural based products contained in the 1990 Farm Bill. He said that Kansas needs to broaden its processing base to be a successful value-added state.

Dr. Hahn recognized that in addition to commodity production, Kansas needs to become a producer and processor of specialty value-added products. He explained that the raw materials and animals that are needed will be developed through biotechnology and will be processed in high tech facilities located in rural areas near the production sites. The result will be a robust, rural economy based on targeted farming and skilled processing jobs.

Senator Rock acknowledged the potential for substantial job growth through the hog processing industry. In answer to his question, Dr. Hahn stated that he could not predict the impact of corporate farming on this industry.

Dr. Hahn told the Committee that the governing structure of the KVAC has been so effective that he has recommended it to other states.

In answer to a question, Dr. Hahn noted that marketing assistance, broader laboratory facilities and a larger staff will be needed when a long term commitment is made to the value-added center. He told the Committee that when this level of commitment is made, it will cost approximately \$1. million per year.

The Chairman thanked Dr. Hahn for his report and adjourned the meeting at 11:47 a.m.

KVAC REPORT TO 1991 LEGISLATURE

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SWAM
January 28, 1991
Attachment 1

PROGRAM EXPLANATION:

The Kansas Agricultural Value Added Processing Center (KVAC) was created by the 1988 legislature. Its purpose is to foster economic development by providing technical assistance to Kansas agriculturally related value added processing endeavors. KVAC grew from a concern for the economic plight of agriculture and rural Kansas due to the general distressed condition of agriculture and the number of people leaving farms and rural communities. Various commissions, task forces and state agencies conducted studies of the condition of agriculture in the 1985 to 1988 period. Among these reports are the following:

- Kansas Economic Development Study: findings, strategy, and recommendations (Redwood - Krider Report).
- Report of the Task Force on Agriculture of the Legislative Commission on Economic Development (December 1986).
- Kansas Agriculture and Rural Communities: changing and adapting to survive. Kansas State Board of Agriculture (October 1987).
- Agriculture 2000, the Kansas Plan. KSU Agriculture Experiment Station (October 1987).
- The Future Direction of Kansas Agriculture and Agribusiness A Blue Print Study. Kansas State Board of Agriculture (January 1988).
- Task Force Report on Non-Food Uses of Kansas Agricultural Product. Kansas State Board of Agriculture (January 1989).

A constant theme in these reports was that agricultural value added processing could provide economic benefits to agriculture and rural Kansas. In addition, "The State of Kansas can facilitate the success of private endeavors by assuring a supportive commercial environment and by supporting technical assistance and infrastructure facilities useful to Kansas industry." (Blue Print study p. XIV)

STATUTORY HISTORY:

Early in the 1988 session, Senator Fred Kerr and others began work on the formal establishment of an agricultural value added processing center. The resulting bill, SB 599, responded to the need for such a center as reported by a number of commissions and study groups. Upon passage by both houses, the bill was signed by the governor on May 10, 1988. The bill is now codified as 1988 Supp. 76-481, et. seq.

The bill provided six objectives for the center and for a 12 member Leadership Council to set policy and hire a director. The first meeting of the Leadership Council was in September 1988 and a director was hired on March 26, 1989. The center became operational May 1, 1989.

Activities of the center are subject to appropriations acts. Appropriations for operations of the center are included within the budget of Kansas Technology Enterprise Corporation. In addition to operational funding, the legislature on several occasions has provided funding for special projects to be administered by KVAC. The KVAC director is required to present the strategy, goals, and budget proposals to the legislature annually. The Agricultural Value Added Processing Center is scheduled to sunset on July 1, 1992.

**KANSAS AGRICULTURAL VALUE-ADDED PROCESSING CENTER
Leadership Council**

Authorization S.B. 599
Appointed By: Governor Mike Hayden

Chairperson: Bernie L. Hansen

Vice Chairperson: Jim Allen

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STRATEGIC PLAN

Adopted: 11/27/89
Revised: 08/01/90
Revised: 01/02/91

STRATEGIC PLAN
KANSAS AGRICULTURAL VALUE ADDED PROCESSING CENTER

January 2, 1991

OUTLINE OF PLAN

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**AGRICULTURAL VALUE ADDED PROCESSING CENTER
MISSION/GOALS/STRATEGIES**

Mission:

The mission of the Agricultural Value Added Center (KVAC) is to enhance the economy of the State of Kansas by providing technical and market information, research and development programs and pilot facilities to assist agriculturally related value added processing endeavors.

Objectives (as established in 1988 Supp. 76-481, et. seq., 10 May, 1988:

1. Providing technical assistance to existing and potential value added processing facilities including incubator facilities.
2. Developing a network for collecting and distributing information to individuals involved in value added processing.
3. Initiating pilot plant facilities to act as research and development laboratories for existing and potential small scale value added endeavors in Kansas.
4. Providing technical assistance to new agriculture value added processing businesses.
5. Developing and promoting communication and cooperation among private businesses, state government agencies and private colleges and universities in Kansas.
6. Establishing research and development programs in technologies that have value added commercial potential for food and non-food agricultural products.

Strategies:

1. KVAC will put its primary emphasis on assistance to small agricultural processing businesses in all sections of the state of Kansas. We will be particularly responsive to opportunities directed toward rural development and revitalization.

2. The center will primarily respond to opportunities that come to us. We will seek to generate new businesses and new industries through a planned industry visitation program. We will respond promptly to all inquiries.
3. All activities of KVAC will be market oriented. We will insist that all clients have a clear understanding of the marketplace and that their commercialization efforts are market directed and market driven.
4. KVAC will provide factual technical information and assistance to all Kansas businesses and entrepreneurs. Depth and extent of assistance will depend on the amount of value added potential for the opportunity.
5. The Center will make every effort to preserve client confidential information and not unnecessarily divulge their business activities without prior approval.
6. Center programs and assistance will have commercialization targets of two to three years or less.
7. The Center will build on the present strengths of Kansas, its agriculture production, current processing, markets, and institutions.
8. KVAC will coordinate its activities with other agencies and be a link between private industry and state agencies and universities.
9. The Value Added Center will be visionary, innovative, and creative in its approach. We will try to anticipate the future and develop programs, products, and technologies that will survive.

Programs and Goals:

In carrying out its mission, KVAC established a number of programs and procedures for delivering its services to the customer. The following programs and goals are established for FY91:

1. We will provide a central focus for responding to technical questions from Kansas value added processors.

KVAC will be a center for assisting Kansas citizens and companies to develop products and analyze markets for value added agricultural products. The center will provide information and technical consulting for the agricultural value added industry. We will also have the capability of conducting developmental activities on a limited basis in cooperation with industrial clients.

Goals established:

1. We will hold initial discussions on all requests to the center within 10 working days.
2. Reasonable targets will be established for furnishing information to clients that meet client needs and are within the capability of KVAC. Once established, targets may not be changed without concurrence of client.
3. The center will follow up with clients as required to keep them moving in the commercialization process.
4. Have sufficient technical consultants, KVAC associates, and part-time help committed or under contract to adequately serve the needs of KVAC clients.
5. Visit at least two Kansas businesses each month to learn of their needs and seek their input in identifying future technologies.
6. Provide technical training "scholarships" for small businesses to encourage acquisition of necessary technical knowledge.

2. We will develop needed pilot and development facilities.

Many pilot processing facilities suitable for developing value added agricultural products already exist in Kansas. These facilities will be fully utilized before requesting additional facilities. The need to provide operating funds, new or modified equipment and support personnel to make these facilities usable will be addressed.

Goals established:

1. Maintain agreements for private industry use of existing university pilot plants.
 2. Implement KVAC Wet and Dry Development Laboratory funding and continue to develop justification for food processing development equipment and facilities for use by KVAC clients.
 3. Provide pilot facilities as required for commercialization of three client ideas in FY91.
 4. Requests for use of University Pilot Plants will be translated into a project form and scheduled as quickly as possible considering the universities' teaching and research needs. Charges will be negotiated according to KVAC policies.
3. We will strengthen the States technology transfer and technical communication capabilities.

The center will develop a strong, interdisciplinary outreach program of technical assistance in value added processing. Expertise will be developed in processing, production, quality assurance, packaging, safety, economic feasibility, and market analysis. The center will be a leader in effecting coordination with state and federal programs and with businesses, producer groups, community groups, and others involved in value added commercialization.

Goals established:

1. We will maintain close contact with other state agencies and hold periodic meetings to coordinate activities of the various groups.
2. We will establish files and databases of technical and product literature for easy access of clients.
3. We will establish data links with sources, libraries, etc. for obtaining required information.
4. Conduct a minimum of two technical training seminars per year. Seek cooperation with Extension, Board of Agriculture, and other interested groups.
5. Information of a general nature generated by KVAC will be widely disseminated in Kansas.

4. We will provide focus and leadership to agriculture value added research and development programs.

Kansas has significant technical expertise in a number of value added technologies. The role of KVAC is to provide information and guidance in the best commercial opportunities and to provide seed funding to explore new and promising areas.

Goals established:

1. Maintain a close working relationship with key value added technologists.
2. Maintain contact with Federal and other value added programs.
3. Bring industrial participation to value added development programs.
4. Identify and fund two promising exploratory programs vital to Kansas future.

Staffing of Center

The Center will operate with a small staff and rely on consultants, service contracts, and graduate assistants to provide necessary services. Essential staff are the director, office manager, and market research manager. Due to limited funding, we have delayed filling the market research position.

Budget to Support Program

	<u>FY90 Actual</u>	<u>FY91 Budget</u>	<u>FY92 Budget Request</u>
Salaries	\$101,303	\$145,000	\$135,190
Operating Expenses	30,933	43,000	52,000
Grants & Contracts	<u>234,476</u>	<u>376,475</u>	<u>287,000</u>
Total Expended	\$366,712	\$564,475	\$474,190
Authorized but not dispersed until FY91	<u>116,500</u>		
	<u>\$483,212</u>		

PROPOSED PROGRAM FOR SUPPORT OF SMALL FOOD PROCESSING COMPANIES

OBJECTIVE: To provide technical, market research, and product development assistance for new and existing Kansas small food processors.

OPERATIONS: This program would work in close cooperation with KSU Value Added Extension Specialists and the Board of Agriculture, Marketing Division. Its primary role is to insure that Kansas companies have the technical knowledge and back up support to economically produce and market quality food products that meet regulatory requirements and market needs.

The program operates in the following manner:

1. Provides a referral service to assist companies in dealing with the right resources.
2. Provides technical consultants and information on specific company problems.
3. Provides matching funding for specific company commercialization projects.
4. Funds projects of general interest to the Kansas food industry or product segments.
5. Provides training and education through publications, training grants, workshops, etc.

BUDGET:

Technical resources	\$ 30,000
Equipment purchases	20,000
Projects	62,000
Scholarship grants	3,163
Nutritional labeling support	<u>10,000</u>
TOTAL	\$125,163

PROPOSED MEAT PROCESSING INDUSTRY SUPPORT PROGRAM

Meat processing is the largest food processing industry in Kansas and we rank #1 in U.S. cattle slaughter. The industry employs more than half of all food processing jobs for the state. The industry is dominated by four large companies but there is also a large number of small processors. Due to the decrease in red meat consumption, the Kansas industry has suffered a series of plant closings and a general difficult competitive situation.

KVAC must be prepared to help protect this major source of food processing jobs. New initiatives under way or planned where KVAC might play a role would include:

1. Meat processing by-product utilization.
2. New processing techniques such as Surimi products.
3. Nutrition oriented meat products development.
4. Convenience oriented meat product development.
5. Cost reduction/product mix improvement.

In addition, we must support the small regional meat processors. They currently serve niche markets not attractive to the large processors. These companies must continue to innovate and evolve in order to survive. Since they are small, with limited internal resources, KVAC needs to be sensitive to and respond to their special needs.

Closely related industries where we need to continue our efforts are the pet food processors. Kansas has a special opportunity in pet foods. Hills Pet Food, Topeka, is a leading innovator in specialty animal diets. They and others sponsor considerable nutrition work at the KSU veterinary school. Plus we now have the Extrusion Center in Grain Science and Industry which is the leading processing mode for these products. We need to pull all these resources together for the economic benefit of the state.

Interest in intensive aquaculture has increased significantly. We now have three indoor systems in operation and two more in the planning stages. We have only one small processor with limited capability, and marketing and economics are relatively unknown. Major support will be required for this industry to become established.

Budget for meat processing:

By-product utilization	\$ 10,000
Product development for regional processors	10,000
Pet food program	5,000
Aquaculture production, processing, marketing	<u>10,000</u>
TOTAL	\$ 35,000

PROPOSED GRAIN AND BAKING INDUSTRY PROGRAM

Milling and baking is the states second largest food processing industry with 1/4 of the food industry jobs. Manhattan Kansas also is the world center for milling and bakery technology with the KSU Grain Science Department, American Institute of Baking, USDA Grain Marketing Lab, Wheat Quality Council and a number of other organizations located there. Technology developed in Manhattan is transferred world wide. Kansas needs to capture its share of this technology in the form of new products and businesses for the state. We also need to make sure this unique expertise is maintained.

Potential Project Areas:

1. Capitalize on the Extrusion Center by developing products for commercialization in Kansas (breakfast food, snacks, pasta).
2. Support development of hard white winter wheat as a identify preserved grain and as a raw material for a wide range of high quality, unique Kansas food products.
3. Development of specialty feeds for aquaculture and exotic animals.
4. Specialty baked product development (cookies, mixes, microwave products).
5. New product and process development for wet milled wheat processing.
 - * Improved separation techniques.
 - * New uses for modified gluten, starch, etc.
 - * Emphasis on non food - non feed uses. Both from wheat and other agricultural raw materials.

Budget

White Wheat Program	\$ 35,000
Red Wheat Program	35,000
Extrusion Programs	25,000
Other Projects	<u>5,000</u>
TOTAL	\$ 100,000

PROPOSED FRUIT AND VEGETABLE PROGRAMS

Fruits and vegetables are a growing segment of the food industry, driven by the consumers demand for freshness, quality, safety, and nutrition. KSU Extension and the Board of Agriculture have been effective in stimulating production through the many farmers markets. These will continue to grow and become a major outlet for the small producer.

Kansas is ready to enter the next phase of development. We have the climate, soil, and irrigation water that are required plus a number of growers are expressing interest in expanding production. We lack the cheap field labor and automation that will be required and do not have the handling facilities or marketing organization that is necessary to compete on a regional or national level. In FY90, KVAC provided KSU the beginning of an experimental sorting, grading, packing system that will be used to develop procedures and demonstrate for Kansas growers how to pack products for these expanded markets.

Proposed FY91 Program

1.	Education of growers in grading, packing, etc.	\$ 5,000
2.	A market study of crops to grow and ways to market.	7,500
3.	Processing for non-traditional markets and outlets for excess production	<u>7,500</u>
	TOTAL	\$ 20,000

PROPOSED SPECIALTY FOOD PRODUCTS FOR KANSAS

Current trends in food processing are toward larger and more centralized food processing plants and strong national branding of products. Kansas should continue its quest to attract these large plants, especially where we have a raw material advantage (meat, grain based, and baking). At the same time, specialty products with regional appeal are also growing rapidly. This is the area where Kansas companies can do quite well. Some areas of opportunity include the following:

1. Dry mix convenience products - the low capitol requirements for mixes make this attractive. In addition, we have two contract packers in the state who do an excellent job. We have a number of wheat flour based operations that are doing quite well. KVAC's role will be to begin to get more sophisticated products developed and marketed.
2. Frozen foods - the low energy rates in Kansas suggest that this is an excellent location for freezing and drying processing operations. We are a big producer of frozen pizza. As with dry mixes, our role needs to be to get upscale frozen products such as meals, and entrees developed and commercialized.
3. Ethnic foods - this could be considered a subclass of both dry mix and frozen products but it is a strong enough trend to justify a place of its own. Kansas has several producers of Mexican food. There are additional opportunities here but KVAC's role should be to get prepared for the next innovation. With the lowering of the iron curtain there is a suggestion that Middle European will be the next craze.
4. Snack foods and hors d'oeuvres - the U.S. is becoming a land of "grazers". People snack at all times of day and night. There are opportunities for products that can combine nutrition with the taste and appeal of current salted snacks.
5. The institutional market - nearly one half of our food is consumed away from home. Product requirements are highly segmented and the marketing chain is largely regional (the largest food service company, Sisco, has less than 4% of the market). This is ideally suited for the regional producer and marketer.

Budget

Dry mix development (equipment & projects)	\$ 20,000
Institutional marketing	10,000
Ethnic foods	<u>10,000</u>
TOTAL	\$ 40,000

UNIDENTIFIED DEVELOPMENT OPPORTUNITIES

A significant portion of KVAC's program budget should remain for as yet unidentified opportunities. It is not possible to forecast even one year in advance in the dynamic, ever changing food industry. As in the past, the Leadership Council will alter priorities and adapt programs to meet these changing needs.

One area being explored are veterinary and pharmaceutical opportunities as applied to Agricultural Value Added. KU has a leading pharmacy school and KSU vet school is highly regarded. With biotechnology expected to have major impacts on agriculture in the 90s, these two resources should be an excellent source of value added opportunities.

In this category also are situations that arise when companies encounter unexpected growth opportunities or product and process problems. KVAC should have available a small reservoir of funds that could be quickly utilized to meet a special situation.

Budget \$ 0

REPORT TO LEGISLATURE

Project 89-12

Small manufacturer located in North Central Kansas. Company has four employees with projected 1991 employment of 18.

Product History

Product is sprayed on hay bales, silage, grains and other forage products exposed to the elements to reduce moisture uptake and spoilage. It was introduced in late 1988 and is protected by US patent 4,846,890.

Highlights of contacts with KVAC

- September '89 ■ First meeting (have averaged 1 contact/week since then).
- November '89 ■ Business plan evaluated and opportunities to reduce costs identified.
- January '90 ■ Project authorized - experimental work by KSU Ag Engineering.
- April '90 ■ Laboratory work completed.
- June '90 -
January '91 ■ Field tests planned and assistance provided.
- June '90 ■ Patent Infringement Assistance.
- February '90 -
December '90 ■ Work with suppliers to develop sources of supply.
- August '90 ■ Field demonstration.
- December '90 -
January '91 ■ Contracts for reformulated product signed.
- January '91 - ■ Consultation on a new product.

Cost of Assistance

KVAC staff time and \$3,500 for laboratory assistance.
Company costs for field testing in excess of \$15,000.

Value of Assistance

Cost of reformulated product \$1.45/pound less than original formula.
Projected cost savings on actual 1990 sales is \$343,000.
(91 contracts will significantly surpass '90 sales)

REPORT TO THE LEGISLATURE

Project 90-15

Small food processor located in Southeast Kansas.
Family owned business growing, processing, and marketing sorghum syrup.
Eight family members involved in operating business.

Key contacts with KVAC

- May '89 ■ Crystallization problems in syrup.

- September '89 ■ Requested information on evaporation temperatures of sugar solutions and design of evaporators.

- February - March '89 ■ Product seized by Missouri Department of Health as "adulterated". KVAC diagnosed problem is due to improper processing and product is only "out of specification". Product is safe and wholesome. KVAC discussed problem with Missouri Department of Health and product released for sale on April 3.

- May '90 ■ Requested information on vacuum processing equipment.

- July '90 ■ Samples of material "fouling" evaporation pans was analyzed and cleaning instructions presented.

- October '90 ■ Sorghum Syrup processing short course presented at plant. Attended by eight company employees, seven state regulatory people, and sixteen other processors.

- December '90 ■ Established industry testing program with KSU Extension having major role.

Value of KVAC's assistance in product seizure

Product placed under embargo - 4,000 gal valued at \$13.50/gal
 Lost revenue \$ 54,000
 Unrecovered costs \$ 27,500
 Value fully recovered through KVAC assistance.

Cost to KVAC -- staff time
 cost of short course \$1,000

CONFIDENTIAL

REPORT TO THE LEGISLATURE

Project 90-FLI

Start up food business located in Central Kansas.

Highlights of contacts with KVAC

- May '90 ■ First contact to discuss concept and marketing. Information requested on Bureau of Alcohol licensing requirement.
- August '90 ■ Requested information on juice sources, packaging equipment and water treatment.
- November '90 ■ First 10 cases of product produced.
- December '90 ■ Requested assistance on laboratory analysis of product and ingredients.

Cost of Assistance

KVAC staff time.

Project 90-TG

Small food processor expanding plant. Located in Northwest Kansas. Will employ 3-5 in expanded plant.

Highlights of Contacts with KVAC

- March '90 ■ Contacted KVAC for assistance in designing new mill and inspection of used equipment.
- May '90 ■ Design complete, equipment purchased, building construction underway.
- December '90 ■ Assistance in start up of mill - performs well. Company has ten times original capacity, improved sanitation and consistent project quality.

Cost of Assistance

KVAC staff time.
Initial consultant fees \$1,000.
Company spent \$30,000 on equipment and additional consultant fees.

REPORT TO THE LEGISLATURE

Grain company from Southwestern Kansas wishing to get into flour milling

First contact by telephone April '90.

Meeting arranged with KSU flour milling personnel in May '90. Process, products, markets and costs were discussed. A list of additional contacts were provided.

November '90 additional market information requested.

January '91 requested assistance in hiring general manager to assist in designing, constructing, and operating mill.

Cookie Bakery in South Central Kansas

Contacted KVAC November '89 regarding formulation, ingredient and processes.

Provided scholarship to AIB specialty short course in March '90.

Additional help provided in April-May '90 in selecting commercial equipment and equipment testing.

Current status - expanding production from 70 doz./week to 30,000 dozen/week. Employment will increase from three to seven. Profitable at end of first full year of operation.

Specialty food processor in East Central Kansas

Makes and markets an array of food products in small quantities. Frequent requests for assistance with formulas, commercial sources of ingredients and packaging. December '90 requested KVAC assistance with business and marketing plan and product cost and quality for venture capital expansion of business.

Tortilla producer in Eastern Kansas

Assistance requested in "sticky" tortilla problem in Summer '90. Arranged plant visit with consultant. Formula modifications and process changes recommended and problem solved.

Farmer in Southeast Kansas

Called in December '90 seeking information on soybean processing and products. Interested in small scale processing. Supplied information.

CONFIDENTIAL

REPORT TO THE LEGISLATURE

Kansas Jam and Jelly Quality

Kansas has seven jam and jelly producers registered with the "Land of Kansas" program. KVAC initiated a program in early 1990 to assist these producers to improve their quality and profitability. The program consisted of the following three aspects:

1. Assessment of product quality.

Five processors submitted three samples of their product which were measured for flavor, texture, consistency of production, and chemical analysis. Information was provided to each processor on their product.

2. A jam and jelly quality seminar.

The companies were invited to an all day seminar on jelly production and quality techniques (five companies and sixteen people attended).

3. Personal follow up.

In plant assistance has been provided to three companies to correct specific problems.

Results achieved

- Product quality and consistence has improved.
- Production costs and lost batches have been reduced.
- Product lines have been extended - new flavors added (KVAC developed a "no sugar" formula being used by three processors).
- Sales have increased and profitability improved.

Cost of program

KVAC staff time.

\$10,000 for quality testing at KSU Sensory Center.

\$ 1,000 for formula development and KSU extension follow up.

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REPORT TO THE LEGISLATURE

Nutrition Labeling Assistance (Project 90-16)

In mid 1990, the FDA announced its intention of making nutrition labeling mandatory for all food products. The cost of getting the required laboratory analysis will be in excess of \$200/product. The legislation may exempt small manufacturers from this requirement, but consumers are demanding labeling be on all products. This is placing a significant economic hardship on small processors.

In August 1990, KVAC began a program to assist companies registered in the Board of Agriculture "Land of Kansas" food promotion program with nutrition labeling. We offered to perform the necessary laboratory work to obtain nutrition analysis for one of their products and provide consultation on the FDA product labeling requirements.

As of 31 December 1990, 42 Kansas companies have submitted products for nutrition labeling consultation. Cost is running about \$300 per product. The benefit to the Kansas processor is he now has a product that is fully and correctly labeled, and contains the information the consumer is requiring. Kansas small processors can now compete equally in the market place with major companies.

An added benefit to Kansas has been the qualification of a Kansas analysis laboratory to perform this type of analysis. Previously, Kansas food processors had to send products to Denver, Minneapolis, Chicago, St. Louis or Des Moines for this type of testing.

KVAC FINANCIAL INFORMATION

	<u>FY89</u> <u>Actual</u>	<u>FY90</u> <u>Actual</u>	<u>FY91</u> <u>Budget</u>	<u>FY92</u> <u>Request</u>
<u>Funding</u>				
General Fund	\$ 0	\$ 250,000	\$ 0	\$ 0
EDIF	175,000	175,000	481,155	475,190
Special Appropriations	0	35,000	35,000	0
Carry over	<u> </u>	<u>103,517</u>	<u>38,877</u>	<u>0</u>
Total Funds Available	\$ 175,000	\$ 563,517	\$ 555,032	\$ 475,190

Spending

Salaries	\$ 20,156	\$ 101,303	\$ 145,000	\$ 135,190
Operations	31,327	72,361	50,500	53,000
Grants & contracts	<u>20,000</u>	<u>326,729</u>	<u>359,532</u>	<u>287,000</u>
Total expended	\$ 71,483	\$ 500,393	\$ 555,032	\$ 475,190
Governors Budget cut		\$ 24,247		
Carry over	\$ 103,517	\$ 38,877	\$ 0	

Comments

1. Division of Budget Recommendations for FY92 is \$388,190.
2. KVAC needs to receive money in equal monthly amounts rather than at end of fiscal year as in FY91.
3. KVAC needs ability to carry over money since projects authorized in one fiscal year may be completed in a different fiscal year.

PERFORMANCE INDICATORS:

KVAC in its Strategic Plan is committed to judge its success using the following measures:

1. Number of jobs created or saved in Kansas agricultural processing industries.
2. Sales and profitability improvements of KVAC clients resulting from interaction with the center.
3. Profitability improvements in Kansas agriculture resulting from increased processing generated by KVAC assistance.
4. Cost savings generated through KVAC assistance.

Quantitatively measuring these KVAC contributions to economic development must occur over a several year period. In many cases technical contributions such as a new product do not become profitable for two to five years. Likewise, in job creation, the input of many factors besides technical are required making it difficult to directly link jobs and technical assistance. We will continue to look for quantitative measures and cite examples as they occur.

However, in the short term and on an annual basis we will use six indirect methods as measures.

1. Number of clients served, their location in the state and size of the community. Our goal is to provide technical support to 36 new contacts with the center each year and maintain technical contact with at least 48 companies through continued technical support. These contacts will represent all sections of the state and include small rural communities.
2. Degree of satisfaction with KVAC services as determined by discussion with users and repeat customers. Appropriate comments will be cited.
3. Number of KVAC suggestions implemented and potential value to company. Our goal is that at least 1/2 of our new and ongoing contacts will implement KVAC information.
4. Number of new and improved products, processes, and innovations introduced by our clients using KVAC services. Our goal is to commercialize at least four new products per year.
5. We will also document as much as possible a cost/benefit ratio for our expended funds. A positive ratio will be maintained.

	Actual <u>1990</u>	Goal <u>1991</u>	----- 1992 -----		
			A	B	C
Clients served					
* new	88	36	30	30	36
* ongoing	32	48	48	48	48
Counties served	66	40	40	40	40
Suggestions implemented	--	50%	50%	50%	50%
New products	1	3	2	2	4
Projects authorized	23	20	15	15	20
Cost/project	\$ 15,035	\$ 18,000	\$ 18,000	\$ 18,000	\$18,000
Seminars sponsored	5	4	4	4	6
Reports Published	9	6	5	5	9
Cost savings documented	\$437,000	--	--	--	--
Jobs impacted	3	--	--	--	--

KVAC STATISTICS - CALENDAR YEAR 1990

Companies provided assistance	
New to KVAC	71
Ongoing assistance	30
Labeling only	42
Meetings held with companies	
New to KVAC	26
Aided prior to 1990	27
In-state trips	50
Out-of-state trips	10
Meetings with state agency personnel	56
Meetings with university personnel	89
Meetings with economic development groups	11
Seminars/Talks	23
Value Added Specialists meetings	6
KVAC Leadership Council meetings	6

KVAC GRANT PROGRAM (total since May '89)

Contracts for Technical Assistance Resources	\$ 109,500
Business Specific Projects	
Designated by legislature (white wheat, red wheat)	\$ 116,000
Technical Assistance (24 companies)	\$ 45,500
Nutrition Labeling (42 companies)	\$ 20,000
Purchase of Pilot Plant Equipment (KSU, WSU)	\$ 117,300
Seed money for new technology for Kansas	
New crops (canola, organic foods)	\$ 15,500
New Processors (aquaculture, biomass, extrusion)	\$ 32,000
Non food uses (starch plastics, leather composites)	\$ 37,500

OTHER RESULTS

Newsletter published - Sent to 800 Kansas agriculture processors and economic development individuals and groups.

Fourteen Market and Technology reports issued.

Food Analysis laboratory in Kansas qualified.

Five seminars sponsored or co-sponsored.

Eight training scholarships provided to Kansas companies and technologists.

Assisted five firms in receiving technology matching grants. Total value of grants \$212,000 with match an excess of \$318,000.

REPORT TO LEGISLATURE

White Wheat Commercialization - Progress Report

The 1989 legislature appropriated \$35,000 from EDIF to assist white wheat commercialization. These funds were placed in the KVAC budget for FY 90, 91, and 92. KVAC has contracted with the American White Wheat Producers Association (AWWPA) to conduct these commercialization efforts. AWWPA provides quarterly reports and frequent consultation with KVAC on the progress of its commercialization efforts.

AWWPA was chartered in April 1988 under Kansas Cooperative Law. A nine member board of directors provides overall policy and management direction. Offices are located in Atchison, KS. There currently are two employees, eight preferred stockholders and 50 common stockholders. Capitol stock totals \$46,200.

AWWPA intends to implement an alternative marketing system for hard white wheats that will permit producers, either individually or collectively, to maintain ownership of their production to the end user and retain more of the value of their wheat.

Marketing Status

AWWPA has demonstrated that high quality white wheat flour and bran can be grown and processed by their contracted milling arrangements. Repeat sales have been made to a number of markets, but sales volume is not sufficient to be profitable nor to adequately test the premium that will be paid for white flour and bran.

Keys to Success

1. AWWPA Must establish wholesale flour sales volume. Major industrial customers have not committed due to lack of guaranteed supply and questions regarding premiums that can be expected.
2. Sales volume of specialty products such as bulgur production, institutional and retail flour sales, and premium bran sales, must be increased while maintaining margins.
3. Sufficient return must be generated for the growers to justify storing of the grain and any yield and growing problems.
4. Volume of production and sales must be increased to the 1 mm bu/year level to provide "break even" operation.

REPORT TO LEGISLATURE

GREAT PLAINS RED COMMERCIALIZATION - PROGRESS REPORT (#90-19)

The 1990 Legislature appropriated \$35,000 from EDIF funds for commercialization of high protein hard red winter wheat (Senate Bill 793 amended). The bill further stipulated the money must be matched on a \$1 for \$1 basis by the Kansas Wheat Commission. On 24 July 1990, a contract was signed between KVAC, Kansas Wheat Commission, and Great Plains Red, Inc. of Wakeeney to carry out the intent of the bill.

Great Plains Red was incorporated in August 1984 to commercialize identity preserved high protein hard red winter wheat for the milling and baking industry. They have 23 stockholders with capitol stock of \$124,000. The business occupies a 5,000 square foot facility at 706 Barclay Avenue in Wakeeney. In the last four years, Great Plains Red has suffered net operating losses totaling \$129,577. The primary reason for the losses has been insufficient volume of production to cover necessary operating expenses. Employment was increased from two to five during 1990.

The project objectives prepared in consultation between Great Plains Red, Kansas Wheat Commission, and KVAC address the steps necessary for commercial success and if successfully completed should provide a profitable self supporting business.

At the mid point of this project year, Great Plains Red has contracted for 27,000 acres of grain to be grown (a 10 fold increase over its '90 crop year plantings), and is achieving the projected 50¢/bu premium for its growers on the '90 crop.

FUTURE

The market at Kansas mills for a high protein blending wheat to replace spring wheats imported from Minnesota and North Dakota is approximately 1 mm bu/year. Even at today's depressed prices of \$2.63/bu., the 27,000 ac plant in 90 should produce a new market of \$2.3 mm for Kansas wheat. In addition, there will be a 50¢/bu protein premium paid to the farmer (approximately \$1,550 extra for each of the 275 growers). In addition, Great Plains Red Inc will receive \$223,000 in operating income and there is royalty income of \$102,000 to the seed producer. Overall, successful completion of this project should provide over \$3 mm/year of new income for the Kansas economy. Great Plains Red is currently considering if support will be requested for FY92.