

Approved: 4-5-96
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Robin Jennison at 1:30 p.m. on March 18, 1996 in Room 514-S of the Capitol.

All members were present except: Representative Gross, excused

Committee staff present: Alan Conroy, Russell Mills, Susan Wieggers, Legislative Research Department
Jim Wilson, Revisor of Statutes; Mike Corrigan, Revisor
Tim Kukula, Appropriations Secretary; Todd Fertig, Administrative Aide

Conferees appearing before the committee: Gary Sherrer, Secretary of Commerce
Allie DeVine, Secretary of Agriculture
Rich Bendis, KTEC
Sherry Schoonover, KVAC
Gordon Lormor, KVAC
Dan Cain, Shawnee County Ag. Producer
Lynn Rundle, Kansas Wheat Growers
Rich McKee, Kansas Livestock Association
Bill Fuller, Farm Bureau
Maggie Riggs, KVAC
Chris Wilson, Agriculture interest

Others attending: See attached list

Chairman Jennison called the meeting to order and opened hearings on **SB 507** - a bill concerning the creation of Agriculture Products Development Commission. Chairman Jennison first recognized Jill Wolters, assistant Revisor of Statutes, to brief the committee on the bill.

The committee heard testimony on **SB 507** from: Gary Sherrer (Attachment 1), Allie DeVine (Attachment 3), Rich Bendis, Sherry Schoonover (Attachment 4), Gordon Lormor (Attachment 5), Dan Cain (Attachment 6), Lynn Rundle (Attachment 7), Rich McKee (Attachment 8), Bill Fuller (Attachment 9), Maggie Riggs (Attachment 10), Chris Wilson (Attachment 11). Written testimony was also provided by the Kansas Grain and Feed Association (Attachment 2).

Throughout the testimony, several questions were asked and extensive discussion arose over the issues contained in **SB 507**. Chairman Jennison stated that he would consider appointing a subcommittee to further examine the bill.

Chairman Jennison closed the hearings on **SB 507**.

The meeting adjourned at 3:00 p.m.

The next meeting is scheduled for March 19, 1996.



HOUSE APPROPRIATIONS COMMITTEE

GUEST LIST

DATE: 3-18-96

HOUSE OF
REPRESENTATIVES

NAME	ADDRESS	REPRESENTING
John Boyle	KDOCH	
Stan Kelly	KDOCH + 10	
Stan Clark	Oakley	
Dan O. Coon	Topeka Ag Producers	
Bill R. Fuller	Kansas Farm Bureau	
Lyan Rundle	Ks. Wheat Growers	
Cindy Diehl	KTEC	
RICH BENJIS	KTEC	
Mark Barcellina	KDOCH + H	
G. Skyleson	KDA	
Jamie Clover Adamo	KGFA / KFCA	
Greg Tugman	KDA	
Allie Duran	Ks. Dept of Ag.	
Greg Krissch	KDA	
Candyn Diehl	KVAC	
Brandon Foreman	KVAC	
Kevin Carr	KTEC	

TESTIMONY
HOUSE APPROPRIATIONS COMMITTEE
Senate Bill 507
March 18, 1996
Gary Sherrer, Secretary
Kansas Department of Commerce & Housing

Mr. Chairman and Members of the Committee:

I appear today in support of Senate Bill 507. This bill achieves consolidation of effort, reduces wasteful overhead, raises the visibility, and I believe the viability of agricultural marketing and development of value-added products and industries. All of us have a responsibility to find more effective and efficient ways in which to deliver services to our customers, the people of Kansas. Senate Bill 507 is an appropriate vehicle to allow us to do so. It seems to me there is a consensus that changing how we promote agriculture is necessary. The debate now seems to center on how we do that.

My focus today is to share with you why I believe the Kansas Department of Commerce & Housing can carry out the responsibilities of Senate Bill 507 and to also share a sense of how we would do so.

The Kansas Department of Commerce & Housing is well prepared for this role. We have the people, programs and financial support that would significantly enhance agricultural marketing and value-added development. We have a structure that already supports agriculture and rural development. The Kansas Department of Commerce & Housing has:

- * Incentive and grant programs to compliment agricultural marketing.
- * International offices to help promote the trade of agricultural products and commodities.
- * Field offices in western Kansas, staffed by individuals who regularly travel that part of the state to inform others on economic development programs available to even the smallest communities.
- * Invested, in just the past year, more than \$1 million in agricultural, value-added enterprises.

Attachment

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House Appropriations

1

- * International trade delegations to meet with agribusiness leaders in the state.
- * In 1995, authorized more than \$5 million in bond allocations to assisted living facilities in rural communities around the state.
- * In 1995, authorized nearly \$2 million in bond allocations to the Beginning Farmer Program.
- * In 1995, allocated more than \$1 million in grants from the Workforce Training program to bring new skills to workers in value-added industries.
- * Implemented a comprehensive Consolidated Plan program that will help bring a prominent, agricultural, value-added business to Smith Center.
- * In 1995, provided nearly \$10 million in Community Development Block Grant funding for community improvement projects to enhance rural communities.
- * Took on the additional responsibilities of serving an agricultural marketing function for the Department of Agriculture at a European trade show last year, saving the agency the cost of sending a private contractor.

There is clear evidence that KDOC&H is capable of the responsibility assigned by Senate Bill 507 and I can assure you we are willing to assume this significant and important role.

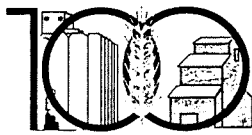
Finally, I would share with you what I hope would be a sense of how we would approach this task. While I don't believe in micro-managing and would want staff to develop a plan to meet and exceed the goals of Senate Bill 507, there are concepts that I believe would need to be addressed.

- * First the selection of a person with strong agricultural background including experience in such areas as agricultural promotion, market research, domestic-international product development and team management is critical. This person must develop strong communication with, and outreach to, various agricultural groups and organizations.

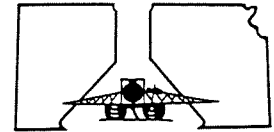
- * Field offices must be part of the reorganization. The Kansas Department of Commerce & Housing field offices are important in providing a daily contact with our customers. We would anticipate placing at least two of these positions in our field offices.
- * Merging KDOC&H's "From the Hands of Kansas Program" into the agricultural marketing group to be coordinated with the "Land of Kansas" program. These programs must be targeted to new clients and not simply be content to serve existing ones.
- * A complete review of successful value-added programs in other states with a comprehensive plan to adopt or adapt those programs to Kansas.
- * A specific plan for recruitment of value-added industries to Kansas using the programs of the Business Development Division and the assistance of our national offices.
- * A plan to better utilize our international offices in promotion and sale of Kansas agriculture products.
- * More promotion of value-added agriculture with a recognition program for "value-added" companies of the year, much like we currently do during Business Appreciation Week in the Business Development Division.
- * Develop cooperative advertising and promotion with commodity groups to better promote Kansas agriculture products.
- * Meet with KTEC, Kansas State University, KVAC customers and other appropriate groups to develop an operational strategy for effectively dividing a value-added strategic plan.
- * Ensure clear, measurable objectives are established in each of the areas of agricultural responsibility and that performance is effectively measured.

Again, I want you to understand these are only concepts, and it will be the responsibility of the team we assemble to go far beyond what is outlined here. We have given this serious thought and know it is a serious task.

In summary, we believe that agricultural promotion and product development deserve more visibility, a better operating structure, and a goal-focused strategy. Senate Bill 507 achieves this and the Kansas Department of Commerce & Housing is prepared to implement Senate Bill 507 should it be enacted.



**Kansas Grain & Feed Association
Kansas Fertilizer & Chemical Association**



**Statement of the
Kansas Grain & Feed Association
and the
Kansas Fertilizer & Chemical Association
to the
House Appropriations Committee
Regarding S.B. 507
Rep. Robin Jennison, Chair
March 18, 1996**



KGFA & KFCFA advocate public policies that advance a sound economic climate for agribusiness to grow and prosper so they may continue their integral role in providing Kansans and the world with the safest, most abundant supply of food and fiber.

The Kansas Grain and Feed Association

..... a voluntary state organization founded in 1896 providing governmental representation, educational opportunities and a wide variety of other services to the vast and indispensable grain and feed marketing system. The 1200 members of the KGFA include country elevators, subterminal and terminal elevators, feed manufacturers, grain merchandisers and allied industries such as railroads, grain exchanges, equipment manufacturers and insurance firms.

The Kansas Fertilizer and Chemical Association.....

..... a voluntary professional association for those involved in the plant nutrient and crop protection industry. KFCA represents our nearly 500 members interests in legislative matters at all levels of government, as well as providing educational opportunities and business services. The industry is committed to professional development and business viability for the plant nutrient and crop protection retail industry.

The following statement is submitted on behalf of both the Kansas Grain and Feed Association (KGFA) and the Kansas Fertilizer and Chemical Association (KFCA). While the two agribusiness associations share staff, they have distinct memberships, separate boards of directors and association programs. KGFA's 1200 members include country elevators – both independent and cooperative – subterminal and terminal elevators, feed manufacturers, grain merchandisers and others who serve the industry. KFCA's nearly 500 members are primarily plant nutrient and crop protection retail dealers, but also include manufacturer's representatives, distribution firms, and equipment manufacturers. We appreciate this opportunity to comment on S.B. 507.

KGFA and KFCA support the creation of an agriculture product development and marketing entity at the Department of Commerce and Housing (KDCH) for several reasons. These are (1) eliminating government duplication, creating efficiencies and reducing current government spending; (2) focusing limited resources to derive the greatest benefit; and (3) obtaining program results by holding government accountable.

Eliminating Government Duplication and Reducing Spending

The consolidation outlined in S.B. 507 does everything KGFA and KFCA members have supported for many years – it cuts government spending, eliminates duplication and creates efficiencies. This consolidation is projected to save approximately \$500,000 annually and cut six FTEs while maintaining a marketing and value-added program. While consolidating administrative functions will eliminate duplication and reduce spending, it will also allow more dollars to go to projects rather than overhead.

KGFA and KFCA also support this consolidation because it allows the Kansas Department of Agriculture (KDA) to do its part by cutting government in a rational manner. Secretary Devine chose consolidating agriculture marketing with KDCH rather than the traditional method of budget cutting – cut a little bit from everyone – because she believes this method has left many regulatory functions at KDA sorely understaffed and nearly ineffective. At first blush, many may say that ineffective regulation is not so bad. However, there are many programs that do not fit the common notion of regulation – pesticide special registrations, pest detection and the accompanying exports, noxious weed control and water appropriations, to name a few.

Pesticide special registration programs allow producers to use products off label.¹ For example, KDA approved a special local need registration for 15-G Insecticide Nematicide to control chinch bugs in grain sorghum -- said to be particularly bad in many eastern counties this year. Without this special registration, this effective insecticide cannot be used to control chinch bugs in grain sorghum. The Pest Detection Program enables KDA to issue phytosanitary certificates. Without phytosanitary certificates, Kansas cannot ship commodities into foreign markets and thereby loses the benefits that may be gained through the NAFTA and GATT treaties. The most recent evidence of the importance of the pest detection program is the discovery of karnal bunt in Arizona. Information gathered in KDA's pest detection program will serve as evidence to our trading partners -- China, Mexico, Canada -- that our state is free from karnal bunt and thus allow us to ship wheat into these markets. The Plant Health Division of KDA also provides technical assistance to county noxious weed directors. Landowners across the state benefit when noxious weeds are controlled since their presence decreases the value of their commodities. The Division of Water Resources receives 70% of their support from state general funds. Cuts in this program could lead to further backlogs in the appropriations of water rights. While these programs are not what comes to mind when one thinks of regulation, they are extremely important to agriculture in Kansas.

Focusing Limited Resources

The farm-to-fork system in Kansas accounts for between 18-20% of the state's gross domestic product (GDP). It accounts for 13% of GDP in Johnson county and one of every five jobs in Kansas is related to agriculture. Agriculture is a growth industry with food demand around the world increasing rapidly. As the "wheat state," Kansas agriculture should be ready to grab its share of this growing market. An agriculture product development and marketing entity within KDCH will enable it to focus resources on agriculture and its ability to help the Kansas economy grow.

There seems to be consensus that the objectives established for the Division of Marketing and the Kansas Value-Added Center (KVAC) are too broad and have diluted

¹ Pesticide labels are the law when it comes to applying pesticides. Applicators must follow label directions. Products can only be used on those commodities for which the label allows. Not following pesticide labels can lead to severe penalties shelled out by EPA.

their success. KGFA and KFCA suggest that the mission of this new entity be focused and simplified. This will require public policymakers to decide what the focus of rural development in Kansas should be. There seems to be two schools of thought on this issue. First, helping to establish cottage industries involved in food production in rural areas and second, going after large value-added industries that create many jobs in an area.

Experiences since the passage of the 1985 Farm Bill and the creation of the Conservation Reserve Program (CRP) may prove useful in this policy discussion. Western Kansas contains more CRP acres than any other congressional district in the nation. KGFA and KFCA contend that idling large amounts of land has hurt rural economies. The CRP experience highlights the fact that production will create wealth in rural economies. Farmers and ranchers who utilize the land will buy inputs, equipment, trucks, borrow money, shop on main street and visit the local coffee shop. These expenditures will create other businesses and jobs. However, it is also obvious that producing must be profitable. While cottage industries are important -- America was built and continues to thrive on small business and the entrepreneurial spirit -- making producers more profitable will have a larger impact on rural economies. If we had unlimited resources we could do both. However, this is not the case. Choices must be made.

Policymakers must also determine what the role of state government should be in agriculture marketing. KGFA and KFCA see government as a facilitator and a point man in foreign markets. Getting Kansas products into foreign markets requires government to government relations. Since population growth and food demand is in other countries, there is a role for government in marketing agricultural products.

Measuring Results

KGFA and KFCA support the requirement in S.B. 507 that directs this entity to report annually to the standing agriculture committees. However, we would suggest the statute specifically state that performance measures be part of that report. As you well know, you can have money and programs but that does not guarantee results. Performance measures will hold the entity accountable and will also provide concrete evidence to warrant additional funding over other programs.

In closing, KGFA and KFCA would reiterate our support for an entity within KDCH that handles agriculture product development and marketing because it allows agriculture to take advantage of a one-stop center for business enhancement and puts agriculture at the same table with other businesses in the state. Both associations would also support a statutory requirement that directs KDCH to report to the standing agriculture committees on an annual basis outlining their efforts in the agriculture arena. We would further suggest the statute clearly contain language requiring the inclusion of performance measures in the annual report.

Thank you for your consideration. If you have any questions, please contact Jamie Clover Adams, Vice President of Government Affairs at 913-234-0461.

STATE OF KANSAS

BILL GRAVES, GOVERNOR
Alice A. Devine, Secretary of Agriculture
901 S. Kansas Avenue
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(913) 296-3558
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KANSAS DEPARTMENT OF AGRICULTURE

TESTIMONY

TO THE
HOUSE APPROPRIATIONS COMMITTEE

BY
ALLIE DEVINE, SECRETARY
Kansas Department of Agriculture

Presented March 18, 1996

Good afternoon, Chairperson Jennison and committee members. I appreciate the opportunity to meet with you on this important issue regarding the reorganization of agricultural marketing and the future of agricultural development in Kansas. When I was appointed by Governor Graves as Secretary of Agriculture one year ago, I accepted the job with the commitment to his position to operate the department fiscally sound as the voters in Kansas had demanded of the new administration. I have taken such commitment seriously, thru decisions to operate the department with efficiency and a priority to look for areas of taxpayer programs where duplication exists. Tough choices are being made in all areas of state government including the Department of Agriculture. Those choices have been based upon a directive to reduce the agency's budget by 1.5% in the current year, and to reduce FTE's by 2% this year and 3% in FY 97. Such action by the department and other agencies have allowed the state's budget for FY 97 to be reduced by 1.2%, with expenditures being \$5.2M less than projected receipts and state employees reduced by 374 or 0.8 percent.

Early in my role as Secretary, I asked each division in the department to conduct a thorough assessment of their programs, listing areas of priorities regarding the agency's statutory responsibility and regulation. It was made very clear to me that the regulatory programs of the department, some 49 of 50, including, meat inspection, water appropriation, weights and measures, and plant protection/health, have no further room for reduction. The agency had previously cut across the board to the point that programs were seriously becoming ineffective. During the past four fiscal years those vital programs have lost over 13 FTE's which provided consumer protection and public safety functions in inspections, water resources, and plant health program areas. Those fundamental areas of the department have been reduced without appropriate review of the affected industry or consumer costs. Instead of continuing to jeopardize core public health and safety programs, I made the decision to investigate programs where the potential existed to consolidate, merge or transition those efforts of the agency to other existing programs in state government. The

market promotion and ag development programs of the agency's marketing division clearly fits such criteria.

As I became more aware of the programs existing in the KS Department of Commerce and Housing(KDOCH), it was obvious that consideration of joining forces with Secretary Sherrer should occur. In numerous discussions and meetings last fall, Gary and I reviewed programs in each agency and noted several opportunities which could be expanded upon for ag industry. It seems only logical to make available to all of the Kansas business community in the state, a consistent, consolidated approach to research, business plan development, technical/financial resources combined with a marketing component. The creation of a one-stop center for business enhancement will benefit agriculture by merging efforts into an enhanced trade promotion network.

I took the concept to the Governor's Ag Advisory board in November 1995 and presented them with the same outline I offer to you today. Do I continue to erode regulatory programs of the agency with cuts in programs with health and safety implications and consumer protection or do I investigate ways to maintain services within a framework of least opposition and change. The board directed me to pursue the marketing consolidation concept and unanimously endorsed the idea. It was agreed that ag industry interests will finally be welcomed at business level discussions within and noted that KDOCH will elevate the awareness of ag promotions, will provide greater access to funding, and more access to human resources in multiple locations in and out of the state. Additionally, a survey of the National Association of State Departments of Agriculture indicated that other states including Colorado, Indiana, and Washington have adopted similar consolidations from state departments of agriculture to their respective state departments of commerce or economic development.

Programs which appear most consistent with such a merger include the From the Land of Kansas merchandising program, the Savor Food program, Food and Agricultural Shows, Livestock Shows, International Food Programs, Marketing Seminars, and Producer Organization Services. The marketing division program assessment identified over 67 on-going projects with the KS Department of Commerce and Housing during the past five years. Examples of such joint effort include: KS/Beef Dairy Promotion, Bloomingdale's Promotions, Main Street Project Review Teams, Harrod's Department Store Promotion, From the Land of Kansas(FTLOK)/KDOCH Visitor Center Project, FTLOK Program with KS Travel Guide, KS Arts/Food Exposition, KS Magazine/KS Connection Catalog Project, Santa Fe Trail Promotion, WKREDA Coalition Project, and KS Products Exhibition/Tokyo Trade Center. The mere presence of agricultural talent/resources merged with business and industry resources will draw even greater return for the ag industry. The existing programs and funding for market promotion including four FTE's would transfer in this proposal.

Since the time that Secretary Sherrer and I began discussing the potential consolidation, we have determined that an additional component of the existing marketing division should also be considered. The programs of agricultural

development including Technical Assistance, Ag Information Support, and Industrial and Alternative Ag Development have also been determined as appropriate program functions which fit into a combined center for ag and business development services for Kansas ag industry within KDOCH. Programs such as dairy/swine industry expansion, poultry production/processing recruitment, industrial/commercialization, ag industry transportation issues, and value added industry technical assist will be incorporated into an ag marketing component of KDOCH. These existing functions and funding along with four FTE's will be transferred to KDOCH in this proposal. The Governor's Budget Amendment reflects the transfer of these positions.

The transfer will create a net state general fund reduction of \$505,000 in the marketing program of KDA without compromising the level of service or integrity of on-going ag market promotion/development. The savings realized in less administrative overhead will result in a net reduction of six FTE's from the KDA budget. The bottom line, I choose to manage the agency by attempting to preserve existing programs of public health and safety while enhancing market/promotion by shifting resources to another agency with expertise on business enhancement.

Numerous private ag organizations have created their own self-help programs in areas of wheat, beef, pork, corn, dairy, grain sorghum, sheep, and soybeans with state and national checkoff programs specifically designed at commodity intensive promotion/market development functions. These producer funded programs have been supported by their industries specifically to address marketing issues on behalf of their own interests without public assistance/funding. These industries are well established with professionally managed organizations serving the commodity interest represented.

Programs being retained within the KDA will include the commodity commission programs, the market news service for beef and hay, grading/labeling inspection services, along with the authorities of the Grape and Wine Council, the Aquaculture Council, and the Sheep Council. All such functions will be incorporated into other areas of the agency.

In order to eliminate duplication of services in state government, the transfer will maintain ag marketing services while improving the efficiency of state government. The center for marketing/promotion/development for the state of Kansas is the KDOCH. The state's trade expansion efforts combined into one agency will benefit the ag community by making it part of an expanded trade promotion network and that will benefit buyers and sellers of KS products by creating a one-stop trading center.

Does this shift mean that the Department of Agriculture will be only a regulatory entity? Primarily the Department will be regulatory. However, under this Administration I anticipate continuing involvement with such activities as Ag Day/Ag in the Classroom. Further, volunteers from the Department will be working with industry to build a school garden project here in Topeka. These are ways we can teach and promote agriculture without new programs. These are activities that I

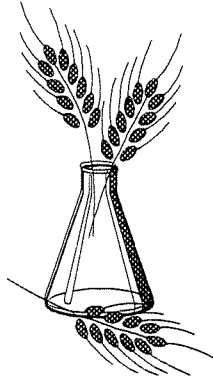
believe fall within an educational responsibility as public servants. Education/advocacy of the agriculture secretary is a function of regulatory programs and will be coordinated by the Department.

In summary, those of us committed to state service, elected, or appointed members of the administration, have been directed by our constituents to manage efficient public sector service programs. Tough choices have to be made by each of us. I choose to make such decision based upon facts presented me, an assurance that the ag industry will be equitably represented in a business environment within KDOCH, and that the people of Kansas will receive the same level of service as they have requested from the KDA in the area of promotion/development. I am committed to seeing that such concept is upheld and I look forward to working with Secretary Sherrer in a transition which insures that ag interests are well represented.

Thank you for your attention, and I will answer any questions of the committee.

Information on:

KVAC



THE
INDUSTRIAL
AGRICULTURE
PROGRAM



*This page printed on Kenaf paper
House Appropriations*

*Attachment
4*

3-18-96



HISTORY

- Industrial Agriculture Program (IAP) was *developed* within KTEC in *FY92*
- KTEC as a special project *established* IAP in *FY93*
- In the 2nd quarter of FY93 KTEC completed a 3-month strategic planning session with the participation of 28 leaders from private/public sector and academia, costing approx. \$60,000, developing a strategic plan and business plan for the program. KVAC never incorporated the business plan.
- In FY94 IAP was placed within KVAC according to KSA 74-8117 et seq. (as KVAC was placed under KTEC).
- In FY96 KVAC contracted with KTEC for the management of the program
- Industrial Agriculture Program was housed always since its inception within KTEC in Topeka
- IAP has not had a change of program management since 1992
- After IAP was placed within KVAC, the program still worked very closely with other KTEC programs on daily basis and relied heavily on KTEC administrative support

PARTNERSHIPS

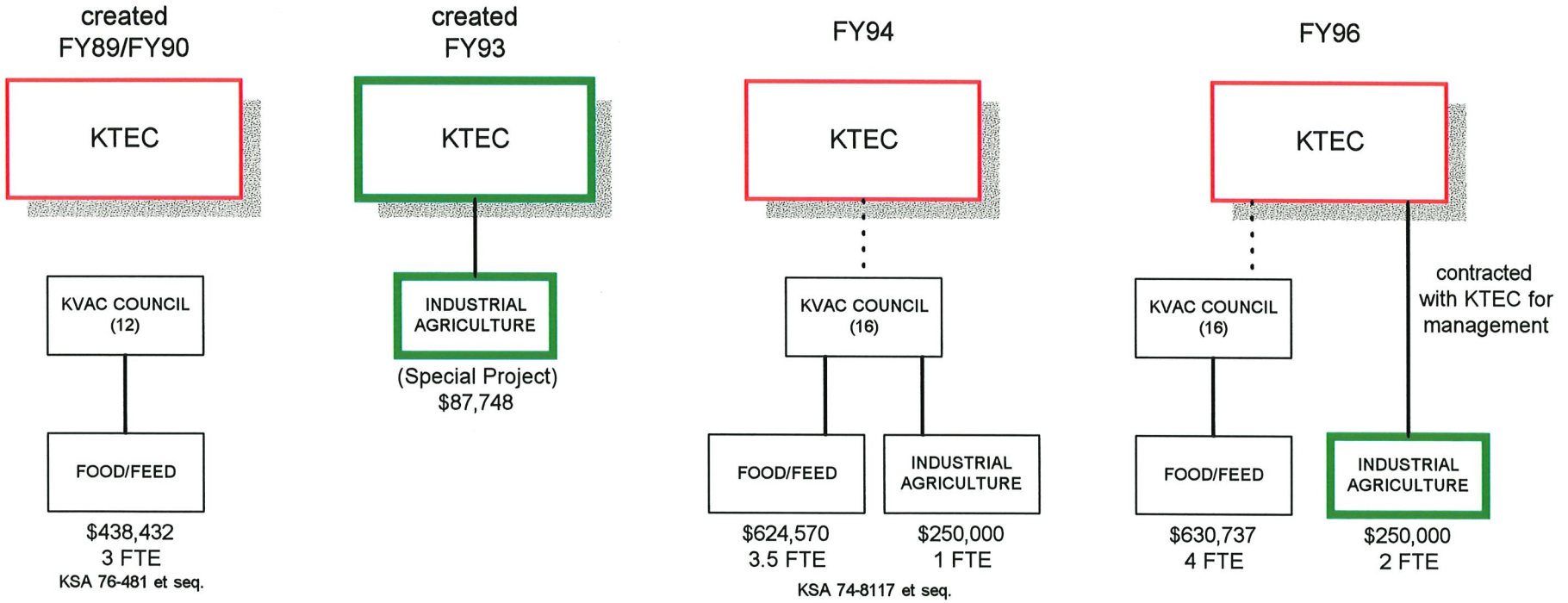
- In FY93 Kansas was selected to be one of two Regional Centers for the USDA Alternative Agriculture Research and Commercialization (AARC) Center with the Industrial Agriculture Program as a lead entity
- The Center was never established due to federal funding constraints, but this was the beginning of a beneficial relationship between IAP and AARC.
- For the past 18 months IAP partnered with AURI (Minnesota) and AARC to build a state-federal initiative to help private sectors to develop and commercialize renewable commodity products
- Currently KTEC has a contract with AARC to provide a tracking system, market trend analysis report and a clearinghouse, end date: 3/31/1997, contract amount: \$62,500. This experience will give Kansas a superior position in developing industrial agriculture projects.

STRUCTURE

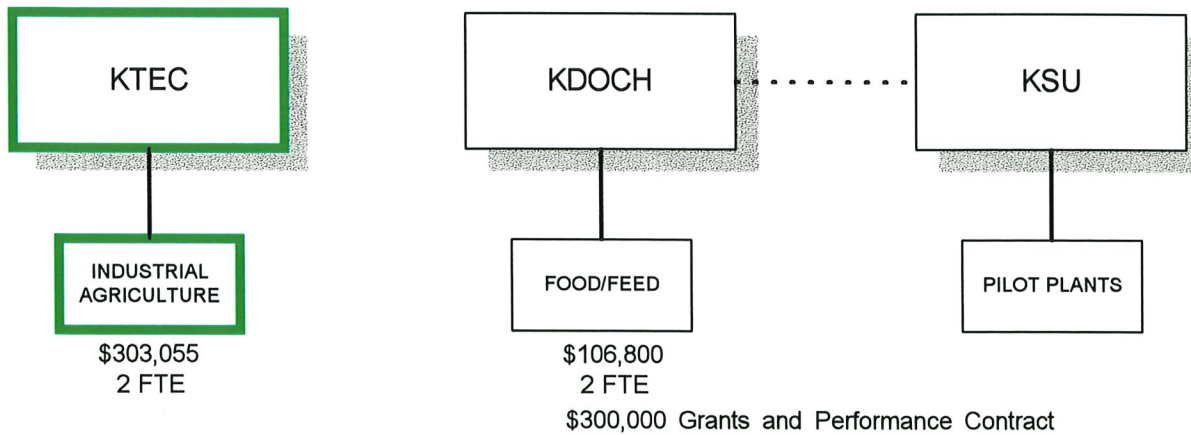
- The IAP works in the following industries: adhesives and bonding agents; absorbents; biocontrol agents; construction materials and composites; coatings and paints; cosmetics and personal care products; cleaning agents, detergents, solvents and surfactant; degradable polymers; fuels; inks; lubricants; pharmaceuticals; paper and packaging
- The Industrial Agriculture Program deals with technological innovation and assists private sector companies with the research and development and commercialization of these products and/or technologies
- IA relies heavily on expertises such as chemical engineering, polymer science, surface material science, biotechnology, etc.
- This program is trying to provide the linkage between science, technology and agriculture
- The technologies, markets and financing needs of IAP businesses are closely aligned with KTEC's other programs.

The Industrial Agriculture Program needs to be placed permanently under KTEC.

KVAC/INDUSTRIAL AGRICULTURE HISTORY



* FY97 Governor's Recommendations



* eliminate KVAC Council and restructure program administration

KVAC / KTEC

The Industrial Agriculture Program



Explores opportunities for renewable commodities in industrial materials and products



Provides information, guidance, and funding for nonfood/nonfeed commercial opportunities.

Assists in applying for private/federal funding.



Goals



- Create and/or expand business and rural opportunities related to agriculture



- Implement a commercialization and financing system to assist clients at each stage of development



- Improve and enhance strategic alliances



History

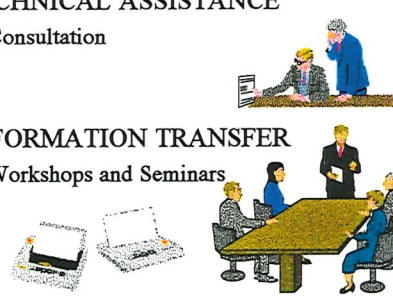
- 1989 4-state conference on "Commercializing Industrial Uses for Agricultural Commodities"
- 1990 FarmBill established the Alternative Agriculture Research and Commercialization (AARC) Center
- 1992 KTEC and the Ks Dept. of Ag formed the Kansas Industrial Agricultural Initiative

History

- FY94 - HB No. 2536 incorporated Industrial Agriculture into KVAC
- FY96 - KVAC Industrial Agriculture Program is managed by KTEC / received contract with AARC to provide clearing-house and project management system

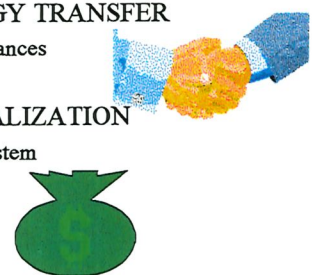
Program Services

- TECHNICAL ASSISTANCE
 - ◆ Consultation
- INFORMATION TRANSFER
 - ◆ Workshops and Seminars



Program Services

- TECHNOLOGY TRANSFER
 - ◆ Strategic Alliances
- COMMERCIALIZATION
 - ◆ Financing System



Funding is available to:

- existing small businesses
- private sector researchers
- and start-up entrepreneurs

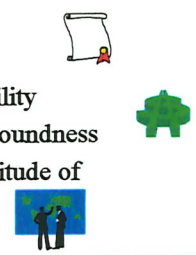
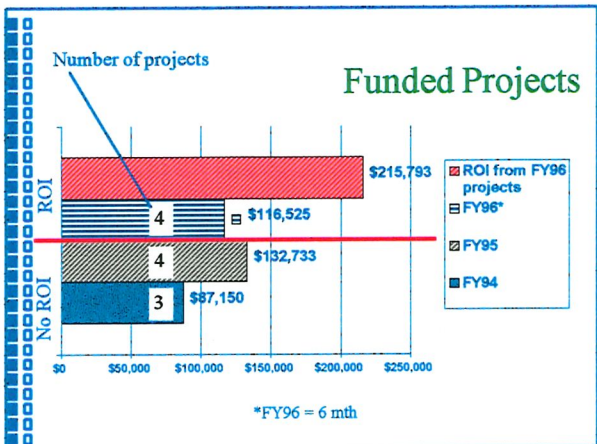
... seeking assistance in developing their ideas for using agricultural materials for industrial uses.



“The Advanced Agricultural Innovation/Commercialization Fund” - a royalty based funding program


Proposals are evaluated on:

- Technical merit
- Management team capability
- Business and marketing soundness
- Expected time and magnitude of impact, if successful

Project Examples

- Boards made out of wheat straw
- A vaccine developed to prevent or control liver abscesses and footrot in cattle
- Pelleted wood waste which produces flavored barbecue smoke

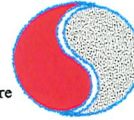


Strategic Alliances with other organizations



Kansas Agricultural Consortium KsAgC

Kansas
Dept. of
Agriculture



Industrial
Agriculture
Program

MISSION: To improve the economic competitiveness of agricultural value added products and processes through the formation of partnerships.

KsAgC

Kansas
Dept. of
Agriculture



Industrial
Agriculture
Program

- Encourages networking of strategic alliances
- Facilitates the commercialization of industrial and value added agricultural products
- Identifies market opportunities
- Establishes a pool of resources

KsAgC + AURI

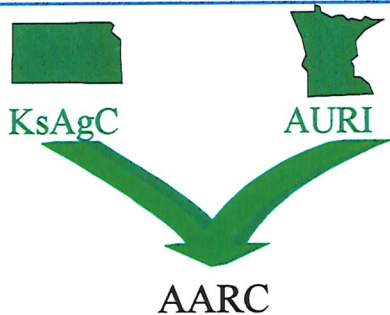


Agricultural
Utilization
Research
Institute
(Minnesota)

Working together on a project with

AARC

Alternative Agricultural Research and
Commercialization Center
(Washington, D.C.)



Assisting the private sector in closing the gap between research results and commercialization of industrial products from farm and forestry materials.

AARC Project: “Industrial Agriculture Clearinghouse”

- Access to answers for Industrial Agriculture
- Strategic information
- Computerized project tracking system



Federal Funding

- Four Kansas companies received funding from AARC

◆ total = \$1,660,000

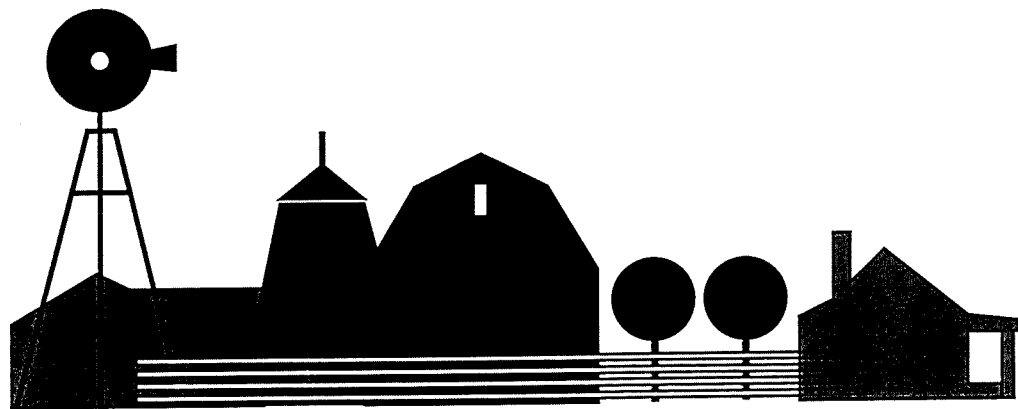
- additional funding = \$62,500 for infrastructure development FY96/FY97



KANSAS VALUE ADDED CENTER

CREATES

AGRICULTURAL SUCCESS



**AN INFORMAL REPORT TO THE HOUSES APPROPRIATIONS
COMMITTEE - KANSAS LEGISLATURE**

by the

Kansas Value Added Center

MARCH 18, 1996

3-18-96

House Appropriations

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March 18 1, 1996

Mr. Chairman, Vice Chair and members of the House Appropriations Committee, my name is Gordon Lormor and I have been a member of the Leadership Council of the Kansas Value Added Center (KVAC) since 1992. In September of last year, I began serving as the interim president of the (KVAC). It is a pleasure for me to participate in this important decision making process, and to appear before you today as you debate the issues involved in providing opportunities for Kansans interested in agriculture and value added processing.

On Tuesday of last week, I appeared before an informal group of your colleagues in this room, who were interested in learning more about the issues relating to the Kansas Value Added Center and Senate Bill 507 Substitute. For those of you who were in attendance at this meeting, I hope you were able to learn how I feel about the issues relating to this proposed reorganization of agricultural activities in Kansas. Last Friday, KVAC's Leadership Council met in Topeka for its quarterly board meeting. The Council discussed issues relating to legislation affecting KVAC. As a result of this meeting, I have been directed by the Leadership Council to no longer present information or arguments against any reorganization of KVAC or to speak against Senate Bill 507 Substitute, or any other legislation that might affect KVAC. The Leadership Council has set my direction as one that only provides information about the structure or mission of KVAC. Therefore, my testimony today will be limited to those areas.

- ▶ The mission of KVAC is to enhance the economy of the State of Kansas by providing assistance to agriculturally related value added endeavors.

- ▶ KVAC has two programs which facilitate this mission:
 - Foods and Feeds, and
 - Industrial Agriculture (non food uses).

Testimony of Gordon M. Lormor
March 18, 1996

Last week in our informal meeting, you heard about two other states who have focused programs on value added agriculture:

- ▶ North Dakota's - Agricultural Products Utilization Commission (APUC), and
- ▶ Minnesota's - Agricultural Utilization Research Institute (AURI)

As we heard more about North Dakota's program last week, I thought you might be interested to hear a brief overview on the AURI program. As this is an informal informational presentation, I feel it is still within the boundaries established for me by the KVAC Leadership Council:

- ▶ On Thursday, March 14, 1996, Ms. Patricia Jensen, executive director of AURI presented information to the Agricultural Product Utilization Forum at Kansas State University. The KSU forum is a group of interested individuals (mainly from the university) who are interested in value added agriculture.
- ▶ AURI:
 - is a non-profit Minnesota corporation (it is authorized through legislation),
 - is funded by the state's general fund,
 - was created to strengthen rural Minnesota's economy, and
 - is focused on creating new value added uses of agricultural commodities.

Testimony of Gordon M. Lormor
March 18, 1996

- ▶ The mission of AURI is to foster long term economic benefit for rural Minnesota by identifying and creating new markets while expanding existing ones. It also develops energy efficient and natural resource savings production practices, and new uses for agricultural commodities.

- ▶ AURI has 28 employees including: 6 Ph.D.'s, an ag. economist and personnel with private industry experience who help:
 - entrepreneurs sort through ideas,

 - develop their products, and

 - launch new ventures

- ▶ AURI's functional programs include:
 - initial product assessment to test the technical and economic feasibility of the product (they receive a \$10,000 fee for this service which is paid back by the client if the product is successful),

 - matching loans up to \$100,000 to commercialize ideas and move products to the market,

 - applied research services which complements their technical and financial assistance,

 - two pilot plant facilities for product development and testing,

Testimony of Gordon M. Lormor
March 18, 1996

- waste utilization and engineering services, and
 - services to assist in reducing pesticide use.
- ▶ Achievements:
- 373 projects funded since 1987
 - 190 new products
 - 122 new products commercialized
 - 93 new businesses started
- ▶ AURI's annual budget is approximately \$5,000,000 (with \$4.0 million from the state legislature, and the remainder from USDA and private foundations).
- ▶ Current Status:
- they have four offices in the state of Minnesota including their main office in St. Paul.
 - They initially focused on developing their technical expertise, and now feel they need to expand their marketing activities. They need to connect with smaller clients to assist them in reaching the global export market.

Testimony of Gordon M. Lormor
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KVAC:

- has six authorized positions (with four currently filled full time),
- the budget for fiscal year 1996 is \$933,936 (\$5,004,646 total through FY 1996)
- has two locations (Topeka and Manhattan)
- for the period 1989 - 1995 we have funded:

Total Awards	\$2,528,832
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- of the total awards:

KSU/Client Research	\$149,006
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Research	\$437,590
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Pilot Lab Equipment	\$523,800
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Pilot Lab Operations	\$58,440
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KSU Staff Assistants	\$442,638
----------------------	-----------

KSU Conferences/Seminars	<u>\$45,880</u>
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subtotal KSU	\$1,657,354
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Other Non-KSU Awards	\$871,406
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- Since fiscal year 1994, KVAC has made 18 return on investment awards totalling \$533,812 with an expected return on this investment of \$844,576.50 (1.58216 times the initial investment).

Testimony of Gordon M. Lormor
March 18, 1996

- KVAC has funded a total of 104 commercial products/projects.

Ladies and gentlemen, thank you for your attention. I would be pleased to answer any questions relating to KVAC's mission or structure.

Total Kvac Awards Committed in 1989 =		\$124,300.00
KSU		\$62,650.00
KSU/Client Research	\$3,500.00	\$3,500.00
Research	\$12,000.00	
	\$12,000.00	
	\$4,650.00	
	\$10,000.00	\$38,650.00
Pilot Lab Equipment	\$0.00	\$0.00
Pilot Lab Operations	\$8,500.00	\$8,500.00
KSU Staff Assistants	\$12,000.00	\$12,000.00
KSU Conferences	\$0.00	\$0.00
Other Non-KSU Awards	\$61,650.00	\$61,650.00

KVAC AWARDS - 1990 \$391,974.09		
KSU/Client Research	\$38,786.00	9.90%
Research	\$65,120.00	16.60%
Pilot Lab Equipment	\$117,300.00	29.90%
Pilot Lab Operations	\$0.00	0.00%
KSU Staff Assistants	\$36,000.00	9.20%
KSU Conferences	\$2,421.39	0.60%
Other Non-KSU Awards	\$132,346.70	33.80%

KVAC AWARDS - 1991 \$230,941.24		
KSU/Client Research	\$5,000.00	2.20%
Research	\$10,500.00	4.50%
Pilot Lab Equipment	\$86,500.00	37.50%
Pilot Lab Operations	\$0.00	0.00%
KSU Staff Assistants	\$63,850.00	27.60%
KSU Conferences	\$6,785.00	2.90%
Other Non-KSU Awards	\$58,306.24	25.20%

KVAC AWARDS - 1992 \$416,417.00		
KSU/Client Research	\$37,049.00	8.90%
Research	\$99,459.00	23.90%
Pilot Lab Equipment	\$95,200.00	22.90%
Pilot Lab Operations	\$14,300.00	3.40%
KSU Staff Assistants	\$22,000.00	5.30%
KSU Conferences	\$0.00	0.00%
Other Non-KSU Awards	\$148,409.00	35.60%

KVAC AWARDS - 1993 \$433,327.28		
KSU/Client Research	\$28,671.80	6.60%
Research	\$62,930.00	14.50%
Pilot Lab Equipment	\$82,000.00	18.90%
Pilot Lab Operations	\$19,100.00	4.40%
KSU Staff Assistants	\$166,363.00	16.00%
KSU Conferences	\$4,994.48	1.20%
Other Non-KSU Awards	\$69,268.00	38.40%

KVAC AWARDS - 1994 \$508,719.00		
KSU/Client Research	\$36,000.00	7.10%
Research	\$122,402.00	24.10%
Pilot Lab Equipment	\$54,800.00	10.80%
Pilot Lab Operations	\$5,000.00	1.00%
KSU Staff Assistants	\$106,425.00	20.90%
KSU Conferences	\$26,600.00	5.20%
Other Non-KSU Awards	\$157,492.00	31.00%

KVAC AWARDS - 1995 \$423,154.00		
KSU/Client Research	\$0.00	0.00%
Research	\$38,529.00	9.10%
Pilot Lab Equipment	\$88,000.00	20.80%
Pilot Lab Operations	\$11,540.00	2.70%
KSU Staff Assistants	\$36,000.00	8.50%
KSU Conferences	\$5,000.00	1.20%
Other Non-KSU Awards	\$244,085.00	57.70%

KVAC AWARDS - 1996 \$158,360.00		
KSU/Client Research	\$0.00	0.00%
Research	\$75,500.00	47.70%
Pilot Lab Equipment	\$0.00	0.00%
Pilot Lab Operations	\$0.00	0.00%
KSU Staff Assistants	\$0.00	0.00%
KSU Conferences	\$0.00	0.00%
Other Non-KSU Awards	\$82,860.00	52.30%

Mr Chairman - My name is Dan Cain & I am appearing on my own behalf as an agricultural producer operating in Shawnee, Jefferson and Douglas Counties Kansas.

I have recently served on the Kansas Corn Commission and also as its chairman - I am currently a member of the Kansas Value added Council having completed two years service.

First
let me
resent
some
undoubtedly

→ The first thing I want to share with you is the solid and steady success we have had with KVA C in bring the value added concept to be included in production agriculture.

Heretofore, the value added work was carried on mainly with single proprietor and the small cottage operator in specific operations like baking, pickle mopping, Jelly & Jam and other like products, with

and success

Since I have been on the council we have broaden the scope of our work to including value adding raw farm grains at the producer level & the response has been overwhelming. We are seeing new marketing entities being formed to raise capital and begin research and work to value add raw grain into consumer products - Here's real rural development

We have had many inquiries from area and local grain cooperatives wanting to study and start a value added program in their facilities

When I first came on the Kansas Value added Council the value added concept was not well understood - One producer asked me if it was connected with a value added Tax - My answer was Not at all this is income creation

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To enable the value added concept to be understood around the state has taken time, effort + money - we as a council are now able to further this concept in a timely and efficient work-manner.

This brings us around to the bill that is being considered here today.

This bill calls for the abolishment of K V A C and its transfer over to Commerce & Housing.

I want to state that if that is done it would be a tragic mistake -

K V A C is in the harness and on the track and is performing admirably. I am proud of what we have done and are doing presently at K V A C with limited resources.

I challenge any other state Dept to come and duplicate our achievements at K. V. A. C.

As a working member of K V A C who has never missed a meeting my recommendation to this committee is not to take action at this time. Give this matter additional study. Let's strengthen the name. Don't dismantle it and send it to another agency where it would have only file clerk status and take many months of time and money to get it up to the speed that it is at K V A C.

We should be spending double on Agriculture Value activities over what we are currently spending.

One final thing here

We members that have diligently attended to the meetings and the KUVAC process have invested a lot of time effort and our own money. We have had to smooth ^{some} ~~rough~~ spots, ^{economically} improvise in some instances and create new methods and techniques to implement the value added process for raw farm commodities. We still have some further work on the things I just mentioned.

In summary let me caution you that actions without further study and deliberation can be most disastrous and costly -

lets give this matter a thorough study before any changes are made

Thank you Mr. Chairman

The current bill were operating under is a good bill its all inclusive.

This Wilson

most of the work in this bill demands of some liberal urban planners.

We've had some personal turnover - it takes time to find personal that can work in an entrepreneurial environment - there's some ups & downs in this work - its not simply a file clerk job.



1115 Westport, Suite G • Manhattan, KS 66502 • (913) 587-0007 • FAX (913) 587-0003

**House Committee on Appropriations
Testimony on S.B. 507
March 18, 1996**

Chairman: Robin Jennison

Mr. Chairman and Members of the Committee: My name is Lynn Rundle and I am the Executive Vice President of the Kansas Association of Wheat Growers (KAWG). I represent the 3000 members of KAWG whose delegates at the 1995 annual meeting adopted this resolution related to adding value to wheat.

" It is increasingly important that wheat producers develop processing systems to add value to their products. Therefore KAWG supports efforts to build systems in which producers own and control the processing of wheat into products for the end user."

Part of the role government should play is to make create an infrastructure that encourages the development of producer owned value added businesses in Kansas. Senate Bill 507 establishes a single source of "marketing assistance" through the formation of an entity in the Department of Commerce for agriculture.

This type of marketing assistance may be valuable as producers take steps to add value to Kansas agriculture commodities.

Part of the mission of KVAC as outlined in the bill is , "establishing an industrial agriculture industry for the state of Kansas; commercializing the developed industrial agriculture technology in smaller communities and the rural areas of Kansas."

We support an increased focus on this type of infrastructure , channeling funding from the EDIF and the existing department of agriculture into a more focused agriculture products development advisory board. The key elements that should drive this change are:

1. Agriculture is the key ingredient into making Kansas economic development strategy work . An entity like the advisory board needs to be created to insure

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agriculture is integrated into the Kansas strategy through the Department of Commerce.

2. This new entity must be accountable to the producers in Kansas. We would suggest that the advisory board have direct representation by Kansas farmers. S. B. 507 needs to be amended to insure producer participation on the advisory board. The Agriculture Products Utilization Commission , a similar focused organization in North Dakota , has four producers on it's nine member board by statute. This organization has created over 30 new value added businesses in the past two years in North Dakota. We can learn from their successes.

I appreciate the opportunity to testify on this bill. I would respond to any questions you may have.



*A Century of Service
1894-1994*

Testimony

presented by

Rich McKee
Executive Secretary, Feedlot Division

regarding

Sub. Senate Bill 507

before the

House Appropriations Committee

March 18, 1996

The Kansas Livestock Association (KLA) is a private trade organization representing the interests of over 7,300 livestock producers. KLA members are producers of cattle, swine, sheep and dairy, with operations in nearly every Kansas county.

KLA supports the provisions of Sub. SB 507 which transfers the ag marketing division to the commerce department. It appears that today, more than ever, taxpayers are demanding a leaner more efficient government. Transferring the ag marketing division to commerce eliminates duplication, coordinates the state's marketing efforts under one roof and saves taxpayers over \$500,000. The proposal seems logical, defensible and just plain makes sense.

Please know that for years agriculture, especially KLA, has strongly protested new or increased taxes and fees. In general, our membership feels decreased government spending, not increased taxation, is the answer to the tough budget issues facing the state legislature. This proposal is a step in that direction, with estimated savings of just over \$500,000.

If we expect you to take KLA seriously the next time we object to higher taxes or fees, we must also support efforts like Sub. SB 507 that eliminates duplication in state government. Thank you for considering the position of the Kansas Livestock Association.

6031 SW 37th Street Topeka, KS 66614-5129 (913) 273-5115 Fax (913) 273-3399

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PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON APPROPRIATIONS

**RE: Sub. SB 507 - Creation of Agriculture Products
Development Commission at the Department of Commerce.**

**March 18, 1996
Topeka, Kansas**

**Presented by:
Bill R. Fuller, Associate Director
Public Affairs Division**

Chairman Jennison and members of the Committee:

Agriculture is the number-one industry in the state of Kansas. Effective marketing of agricultural products is vital to successful farming and ranching. The production and marketing of agricultural products has a significant impact on the economy of Kansas. For all these reasons, we ask that any plan to reorganize the state's agricultural marketing programs be thoroughly examined and careful consideration be given to both the short-term and long-term impacts. We ask that all alternatives be considered as you engage in this important task.

My name is Bill Fuller. I am the Associate Director of the Public Affairs Division for Kansas Farm Bureau. We are here to represent the interests of the farm and ranch members of the 105 county Farm Bureaus in Kansas.

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While member-adopted policy of Kansas Farm Bureau (see attachment) is in conflict with ERO 26, we believe Governor Graves and his administration has made a positive contribution in drawing attention to some inadequacies of the current agricultural marketing program.

We certainly appreciate the opportunity now for dialogue and teamwork between the administration, the legislature and the agricultural community. This opportunity was created when the governor withdraw his support last week for the ERO and the legislature approved HR 6010 rejecting the ERO on a vote of 110-13.

Chairman Jennison, your interest in building an improved marketing program and your leadership in bringing all interested parties together is certainly noticed and greatly appreciated. The meeting you called last week that brought together 19 members of the House of Representatives, Secretary Devine and 7 agricultural producer organizations and agri-business groups was an important and necessary first step. This public hearing today is welcomed and appreciated.

The current agricultural marketing program has served the industry well over many years. Today, it is important to look to the future. Our challenge is to develop a marketing program that meets the needs of today's high-tech, global agriculture. What should be the components of this new entity? We do not have all the answers, but here are some suggestions:

- Ag marketing should be multi-faceted with programs for raw agricultural products, specialty crops, value added products and food items;

- Coordination of ag marketing, value-added and rural economic development programs and involvement of a number for agencies , including the Department of Agriculture, Department of Commerce, Kansas Value Added Center, Kansas Technology Enterprise Corporation, Cooperative Extension Service and Grain Commodity Commissions, will increase achievements and assist program users;
- Ag marketing should have a strong agricultural identity;
- New marketing arrangements should be explored, including closed coops and niche markets;
- Both domestic and foreign marketing opportunities should be developed;
- Efficiencies should be examined, any duplication should be eliminated and the system should be streamlined to assist users; and
- Priorities should be established.

Where do we go from here? We believe there a host of unanswered questions and yet to be developed plans. If ag marketing is to be moved from the Department of Agriculture, we have not seen any detailed plan from the administration or the secretary of commerce on what an agricultural marketing program would look like in the in the Department of Commerce. We believe we can benefit in making this important policy decision by examining ag marketing programs in the other mid-west states. Because of these and other important questions, we respectfully recommend the issue of agricultural marketing be placed as a high priority

Interim Legislative Study or be placed in the hands of a Blue Ribbon Task Force appointed by the Governor to develop recommendations for the 1997 Legislature. While progress has been made this session, we believe it is prudent to step back and look at the big picture and at the future needs of agriculture. This plan would allow reflection and input by agricultural producers and agri-business. It is important for these groups to work with the administration and the legislature in developing an improved and efficient agricultural marketing program that benefits all Kansans.

Thank You!

We believe all existing divisions within the Kansas Department of Agriculture should continue to administer, within the agency, their current statutory responsibilities. We further believe all programs, projects and divisions operating in the Department of Agriculture should continue to answer to the new Secretary and the newly created Board of Agriculture.

We believe the duties and responsibilities of the newly created Board of Agriculture should include the oversight and effectiveness of the agency's regulations in order to ensure public safety and a strong agricultural industry.

We believe the Kansas Department of Agriculture should be the lead agency in promoting and administering rural development programs.

We support the state Meat and Poultry Inspection program administered by the Kansas Department of Agriculture. We will oppose any attempt to abandon the state program and move to a federal meat inspection program. Meat is inspected for the protection of all consumers, and the inspection program should be supported by State General Fund appropriations. We believe state-inspected meat should be allowed to move in interstate commerce.

We recommend and support legislation to require the Kansas Department of Agriculture to establish rules, regulations, specifications and standards for inspection of moisture testing devices used in commerce in the State of Kansas.

Testimony to the House Appropriations Committee of the Kansas State
Legislature

By Maggie Riggs, Chairperson, Kansas Value Added Center

Monday, March 18, 1996

In 1992, I was appointed to the leadership council of the Kansas Value Added Center in Manhattan. At that time, the mission for K.V.A.C. Was undergoing a change. The legislation empowering the leadership council was changed to enable us to focus on the commercialization of value-added businesses. Prior to this, most assistance was given in the form of technical assistance or grants.

K.V.A.C. Was formed to address specific needs of rural agricultural communities. This is not a generic economic development office. The goal is specifically, to raise and secure family farm incomes while at the same time getting a return on investment for the state of Kansas.

I believe the best approach to both of these objectives is facilitating the organization of producers using the North Dakota coops as our model. The question has been, "how best to assist producers in developing and marketing products which utilize the commodity they grow?" We are crafting guidelines that encourage success so that the owners of the newly created or existing value-added businesses will be able to repay the money we have provided to get them going.

K.V.A.C. has already implemented some innovative ideas that are showing early signs of success. One which I find particularly promising is the certified contract kitchen in Leavenworth county. This is not a government agency. It is a business. It was partially funded by a K.V.A.C. Grant of \$31,000. The owner, Richard Smith, built a facility for local producers to can product in a certified kitchen. Such a facility did not exist in Kansas before this. K.V.A.C. provided a few pieces of equipment, found used in excellent condition. Richard's clients pay to use this facility and in return for our assistance, K.V.A.C. or Extension can use the facility for workshops and seminars which help ensure safe canning practices. Already the current demand for this facility indicate a need for

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expansion in the near future. Our hope is that the region's producers will mutually develop and market a product line using this convenient canning plant as their processing facility. I might add that when Sarah Vogel, Commissioner of Agriculture in North Dakota, and I spoke about this project, she was very impressed with the innovative nature of regional contract kitchens geared toward small producers and requested Richard and I visit North Dakota to speak on the subject.

When I joined the council, no one was considering a cereal industry in Kansas. Through the efforts of K.V.A.C. A working group of various commodity producers is now planning an innovative twist on this idea. As you know, business is competitive, so I cannot reveal our proprietary ideas, but given time, approx. 2 years, I believe it will be up and running, profitable, and a model for Value-added agriculture.

I see great opportunities for value added agriculture, but feel it will require focusing on a narrow mission. We cannot be everything to everyone. Again, I believe that mission should be to strengthen rural communities through producer owned (as much as possible) value added industries. The gauge of our success will be if the dollars created flow directly back to the producers and trickle into the schools, hospitals and various other entities that keep our communities thriving. Just making profits from value-added companies isn't enough. It's where those profits go that matters most.

I urge you to study this mission carefully before you change the structure of K.V.A.C.

STATEMENT OF
KANSAS AGRICULTURAL AVIATION ASSOCIATION
KANSAS DAIRY ASSOCIATION
KANSAS SEED INDUSTRY ASSOCIATION
TO THE
HOUSE APPROPRIATIONS COMMITTEE
REP. ROBIN JENNISON, CHAIR
RE: SUB. S.B. 507 -
"Creation of Agriculture Products Development Commission"
MARCH 18, 1996

Submitted by Chris Wilson
Executive Director, KAAA
Director of Member Services, KSIA
Executive Secretary, KDA

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Mr. Chairman and Members of the Committee, thank you for holding this hearing on Sub. for S.B. 507, concerning the reorganization of the Agricultural Marketing Division of the Department of Agriculture and the Kansas Agricultural Value-Added Center. I am Chris Wilson, representing in this statement Kansas Agricultural Aviation Association (KAAA), Kansas Seed Industry Association (KSIA) and Kansas Dairy Association (KDA). These organizations are comprised of members involved in their specific segment of agriculture. KAAA members are involved in the aerial application of pesticides; KSIA members are wholesalers, retailers and farmer-retailers of seed; and KDA members include 99% of Kansas dairy farmers. All of these activities are regulated by the state Department of Agriculture.

You are dealing with the very important question of how to restructure agricultural marketing programs of state government, and we commend you for holding this hearing and the time and effort you are giving to gaining public input. We will examine three questions in an attempt to offer helpful testimony.

1. Should the Ag Marketing Division be in the Department of Agriculture?

2. What are Specific Suggestions for Reorganization of the Ag Marketing Division?

3. How Should KVAC be Reorganized?

1. Should the Ag Marketing Division be in the Department of Agriculture?

In an ideal world, yes. But we realize that in this time of budget cuts, we cannot have everything we'd like. Difficult choices have to be made. As we mentioned, all our members are regulated by the Department of Agriculture, and all the related programs have been cut to the bone. Lacking additional funding, these programs cannot be cut further and continue to adequately carry out their statutory responsibilities.

We commend Secretary Devine for her willingness to make tough choices and her recognition of the importance of these regulatory programs. We also recognize the

additional possibilities created in an alliance with the Department of Commerce and Housing and commend Secretary Sherrer for his willingness to take on this important task.

When this issue was introduced at the beginning of the Session, our organizations hadn't had the opportunity to study the Governor's proposals, and we wanted to be able to do so. We didn't want such a major change to be made hastily. However, we understand that action is needed, and that you need more input than suggestions for further study.

2. What are Specific Suggestions for Reorganization of the Ag Marketing Division?

A. Separate division: We suggest a separate agricultural division in KDOCH to maintain a high profile, identity and adequate funding for agricultural programs. Nearly all states have a separate ag marketing division, and nearly all of those divisions are located in the state departments of agriculture. We think the ag division could work well and efficiently with other KDOCH divisions without being combined into one of them.

B. Ag marketing as a whole, not just value-added: There's a great deal of emphasis on value-added, and it is extremely important, but there's more to the whole area of government support for marketing of agricultural commodities. Even though value-added exports are increasing and hopefully will continue to do so, a large percentage of our agricultural products are still shipped in raw commodity form. We should not overlook the importance of that segment of ag markets. For that reason, we don't really like the "agriculture products development commission" name, because we think it's too restrictive and sounds like value-added only.

C. New opportunities mean new possibilities for the state to assist in marketing of ag products: In the dairy industry, we are moving to fewer federal government supports and aggressively pursuing the development of new products, designed to meet the desires of customers worldwide. Dairy farmers are looking for innovative ways to market their milk, and processors are looking to international markets. Traditionally, very little dairy product has been exported, but the new farm bill includes funding for the Dairy Export Incentive Program to assist in developing international markets. After many years of declining milk production and numbers of

dairies in Kansas, new "mega-dairies" in the southwest part of the state are increasing overall production and creating new opportunities and challenges for the dairy industry in the state.

GATT and NAFTA agreements will continue to increase opportunities for Kansas agricultural products and also to pose challenges, such as the "karnal bunt" problem which arose last week. This disease was detected in Arizona, but has impacted wheat sales throughout the country, holding up \$120 million in grain shipments, because of GATT regulations. In those kind of circumstances, producers and agribusiness must look to state and federal agencies for assistance in resolving problems.

Other segments of the industry are looking for innovative markets and marketing methods also, such as the 21st Century Alliance, a producer effort for marketing and utilization of grain. These kind of efforts may prove key to farmers' profitability in the future, and similar efforts in other states have been aided by state ag marketing programs.

D. Developing concrete mission and goals: We urge those responsible for establishing the mission and goals of the ag marketing division to survey other states' ag marketing divisions to learn about their missions, goals, and programs. We hope they will contact the Foreign Agriculture Service and marketing agencies of the U.S. Department of Agriculture to forge working relationships from the outset.

State departments of agriculture and USDA generally work closely together, and many opportunities come as a result of those alliances and relationships. USDA has memorandums of agreement with the state departments. States are provided international trade leads electronically. State departments of agriculture belong to the National Association of State Departments of Agriculture and to similar regional associations. There is a great deal of networking among like divisions. KDOCH will need to become part of this networking to whatever extent possible. To not do so will deny Kansas agricultural businesses of many opportunities.

We are aware of only one state, Minnesota, which does not have an ag marketing division in its state department of agriculture. In Iowa, the legislature is currently considering moving the international trade division from the department of agriculture to the economic development agency, solely because the legislature is "at war" with the agriculture commissioner. So it will be a challenge for KDOCH to get

involved with the state departments of agriculture, but we believe well worth the effort.

E. Staffing: The Secretary should have flexibility in hiring the best people available. Today's agriculture and agricultural marketing are highly technical areas. The technologies and the circumstances are constantly changing, and the staff as well as the goals must be continually adapting and working to keep abreast and on the cutting edge.

We urge staffing the division with experienced, knowledgeable persons. They will want to be up-to-speed as quickly as possible, because the needs are pending and the opportunities will pass by. We also suggest having a staff member who has international agricultural expertise. Our research indicates that state ag marketing divisions are heavily involved in international trade missions, food shows, and must work with international ag and environmental regulations. In today's global marketplace, the need for international expertise will only increase.

Current staff members of the ag marketing division are to be commended for their work. The ag marketing division staff has accomplished much which has been greatly appreciated by those in the agricultural community with whom they have worked closely. Those in the dairy industry are particularly appreciative of the job which the staff of the division has done and is doing in the dairy marketing area.

3. How Should KVAC be Reorganized?

We would suggest that KVAC be a part of the newly-created division in KDOCH. KVAC could be one of the programs of the new division and retain the KVAC name, which has identity in the state and accurately describes the program function. We believe the reasons for which it was established are still valid. A value-added center (1) helps to expand value-added uses, products and companies, and (2) serves as a focal point for assistance to beginning value-added initiatives/companies. It helps them tap into the various programs and resources of the state.

If some type of advisory board is continued for KVAC, it should be smaller than the existing leadership council but large enough to have a variety of input, say seven people. If there is an advisory group, it should involve a broad range of agricultural interests, especially production agriculture, and could serve for the whole division, not just KVAC. On the other hand, advisory boards often create the feeling on the part of

those not included that indeed they are not included, and an agency can too easily stop after consulting the advisory board rather than seeking a broad range of public input in its decision-making.

We like ideas which have been offered to strengthen KTEC work in the industrial agricultural value-added area. We believe there are tremendous industrial ag possibilities, especially with biotechnology products already in the marketplace and many more in the pipeline which will reach the market in the next five years. The seed industry expects biotechnology to make dramatic changes in agriculture as our industry produces many new industrial, non-food, non-feed products, including pharmaceuticals. All of this new technology and its potential for Kansas agriculture and new Kansas companies lead us to support KTEC's role in this area.

To achieve greater KTEC support for industrial ag projects, we suggest KTEC be given more direction in this area and that the KTEC board include more representatives from the agricultural sector.

If KVAC is moved under KDOH, we envision the program might or might not remain housed at K-State. Obviously, there have been advantages in having the KVAC office located near the laboratories and scientists in the various colleges and departments, from engineering to food sciences and feed sciences. And we can also envision advantages in being located with other ag marketing programs.

Finally, we are aware of efforts by Kansas State University, led by Provost Jim Coffman, to also examine KSU's agricultural and rural economic development programs, looking for ways to refocus, coordinate and improve program delivery. We think this is an excellent step, particularly in light of the restructuring of ag marketing and KVAC. Perhaps this Committee will want to request a report from KSU as this effort progresses.

Mr. Chairman, thank you and your Committee once again for this opportunity to provide input. We hope we can be helpful to you and those involved in restructuring and refocusing the state's agricultural marketing programs.