

Approved: 1-18-96
Date

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE

The meeting was called to order by Chairperson David Corbin at 10:00 a.m. on January 17, 1996 in Room 423-S of the Capitol.

All members were present except: Quorum was present.

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

Conferees appearing before the committee:
Gary Sherrer, Secretary, Department of Commerce and Housing
Bill Caton, Kansas Development Finance Authority, (KDFA)

Others attending: See attached list

A motion was made by Senator Morris to adopt the minutes of January 11. Motion was seconded by Senator Sallee. Motion carried.

Chairperson Corbin called on Gary Sherrer, Secretary, Department of Commerce and Housing to provide information regarding the issuance of Private Activity Bonds and the Beginning Farmer Loan Program.

Secretary Sherrer said it is a federal program in which a given amount of tax-exempt bonding authority is provided to Kansas on an annual basis. By state statutes the program is assigned to the Secretary of Commerce and Housing. It was stressed no state tax dollars are involved and no state liability is created, and the entity receiving the allocation does not receive a tax credit or abatement (Attachment 1). He introduced Bill Caton from Kansas Development Finance Authority, (KDFA) to talk about the Beginning Farmers Loan Program.

Bill Caton stated their program is designed to aid beginning farmers finance the purchase of agricultural land, farm buildings, farm equipment and breeding livestock. Attached to his testimony is: (1) program summary and application folder; (2) List of participating lenders; and (3) Kansas map showing geographic diversity (Attachment 2). He responded to questions regarding the program.

Secretary Sherrer reviewed the facts that were considered in the decision to accept the request from Seaboard Corporation for Private Activity Bonds for the purpose of constructing a waste treatment facility. He said as he reviewed the statutes with his staff there was simply no basis for refusing Seaboard's request. Therefore, he approved it and sent it to KDFA for Board approval or rejection. He stressed Seaboard agreed to construct a waste treatment facility (lagoon) that would exceed the standards established by the State of Kansas. Please refer back to (Attachment 1). Responding to questions regarding the issuing of bonds Secretary Sherrer said it was all done according to statutes.

The next meeting is scheduled for January 18, 1996. The meeting adjourned at 11:10 a.m.

SENATE AGRICULTURE COMMITTEE GUEST LIST

DATE: January 11, 1996

NAME	REPRESENTING
Alan Steppat	PETE McGOSU & ASSOC.
Jim Alley	Seaboard
Chuck Stonos	Ks Bankers Assoc
Rich McKee	KS Livestock Assoc.
Marty Vanier	KAA
LEW JENE SCHNEIDER	Ks. Livestock Assoc.
Craig Hipton	swine producer
ROD BIGHAM	KS SWINE GROWERS
Deane Bruner	KS Coop Council
Preston Klick	—
Julie King	KS Dept. of Agriculture
GREG KRISSEK	KS Dept of Ag
Paul E. Fleener	Kansas Farm Bureau
Carol S. Flower	Kansas Farm Bureau
BILL R. FULLER	Kansas Farm Bureau
Mike Jensen	Ks Pork Producers
Mike Handrick	Kansas City Star
Kerri Elbert	Kansas Dairy Association

SENATE AGRICULTURE COMMITTEE

Senator Dave Corbin, Chairman

TESTIMONY

Gary Sherrer, Secretary

Kansas Department of Commerce & Housing

Wednesday, January 17, 1996

*Senate Ag Co.
Attachment 1
1-17-96 1-1*

Members of the committee, I am here today, at your request, to provide information regarding the issuance of Exempt Facility, Private Activity Bonds (PABs) in the amount of \$9,600,000 to Seaboard Corporation to assist in financing the construction of waste treatment facilities. It is my hope that the facts presented and the explanation of the rationale for my action will provide a better understanding of the situation than now seems to exist.

First, let me review the concept of Private Activity Bonds. This program is assigned by statute to the Secretary of Commerce and Housing. (See attachment 1.) This is a federal program in which a given amount of tax-exempt bonding authority (\$150,000,000) is provided to Kansas on an annual basis. It is important to note that:

- * No state tax dollars are involved;
- * No state liability is created; and
- * The entity receiving the allocation does not receive a tax credit or abatement.

For the past three years, Kansas has generally granted allocations in three areas: (See attachment 2.)

- * Qualified Small Issue;
- * First-Time Homebuyers; and
- * Exempt Facility Bonds.

QUALIFIED SMALL ISSUE

These bonds are in two categories, tax-exempt Industrial Revenue Bonds (IRBs) and Beginning Farmer Bonds. The tax-exempt IRBs are allocated to manufacturers. It should be noted that any issue under \$5,000,000 is automatically granted (if it meets program requirements), and is done on a first come/first served basis as allocations allow.

The Beginning Farmer Bonds provide low-interest loans to individual beginning farmers. It should also be noted that no allocation requests in these two categories were turned down in 1995.

FIRST-TIME HOMEBUYERS

This program provides Mortgage Revenue Bonds (MRBs) and Mortgage Credit Certificates (MCCs) to provide first-time homebuyers greater opportunity for home ownership.

EXEMPT FACILITY BONDS

The program has two primary elements, Residential Rental Projects and Waste Treatment.

Residential Rental Projects are for both new construction and rehabilitation of facilities for multi-family use. A certain number of units must be for low-to-moderate income individuals. Both apartments and assisted living facilities are eligible.

Waste Treatment can include solid waste disposal and sewage disposal. It is this category that the Seaboard application applies to.

Attachment 2 gives you a three year history on PAB allocations. It should be noted that in 1993, for approximately two-thirds of the year, tax-exempt IRBs were not allowed which accounts for the large amount of allocation to MRBs and MCCs.

With this brief overview, I would now like to take you through the Seaboard transaction.

On September 20, 1995, the Kansas Development Finance Authority (KDFA) submitted a request for an allocation of

\$9,600,000 to be used by Seaboard for the financing of a waste treatment facility. On September 26, 1995, I responded to Mr. Caton, President of KDFA, with the letter you have as attachment 3. (See attachment 3.) The letter noted the project was on hold until my Department had the opportunity to review the effect on the allocation resources we had available. We also noted that additional information might be required. The following are some of the steps taken to analyze this project.

* I received a letter from Seaboard (see attachment 4) dated October 4, 1995, that stated ". . . the total cost of sewage facilities alone is approximately \$58.2 million." More importantly, the letter made clear that the proposed treatment system would "far exceed" the Kansas minimum standards. The application to KDFA also commits a ". . . waste management system . . . (that) for each site (is) designed conservatively above all minimum applicable Kansas Department of Health and Environment design standards." On October 5, 1994, I sent a memorandum to the Secretary of Health and Environment, James O'Connell, asking him to verify the information in the letter as accurate. (See attachment 5.) Secretary O'Connell called me and confirmed that the standards being set out in the letter did indeed exceed Kansas minimums.

* Steve Kelly, Director of Business Development, KDOC&H asked Bob North, Department of Administration, for a legal opinion regarding the issuing of PABs for the purpose requested. **Attachment 6** is a copy of that opinion. It concludes ". . . there is no prohibition upon the Department allocating Private Activity Bonds to be issued by KDFA for the construction of this solid waste facility."

* Mr. Kelly also requested of KDFA, Seaboard and Seaboard's bond attorneys, information relevant to the application.

Having all the information necessary, it was the decision of Mr. Kelly and myself to delay any action until after December 1, 1995. This delay would give any other potential allocation requests time to be received and reviewed. Requests after December 1 cannot typically be issued to meet that year's allocation usage requirements. This allowed us to know exactly what dollars we had to allocate in light of all requests received.

THE BASIS OF THE DECISION

After all of our research and actions, we had come to the following findings of fact.

1. Seaboard Corporation is a legal business not only approved by this legislature, but also approved by local government to engage in swine production activities in the counties in which they operate.

2. The law clearly gives Seaboard the right of application and access to the use of exempt facility private activity bonds.

3. The Seaboard Corporation intends to invest approximately \$120 million in capital expenditures; create 125 jobs directly, and possibly 180 more indirectly; purchase approximately 8.5 million bushels of locally produced milo and corn; utilize more than 35 Kansas businesses for goods and services; and increase the property tax base by approximately \$1.75 million per year.

4. As part of the application, Seaboard agrees to exceed Kansas minimum environmental requirements for this project. It is a condition of the granting of the bond allocation. This is confirmed in a follow-up letter.

5. No other application would be denied funds if this allocation were to be granted.

6. Any funds not allocated at the end of a fiscal year are lost.

7. This application is the only project that is to be used for waste treatment/environmental purposes.

8. All other categories of allocations will meet their targets, and none would be adversely impacted by this allocation.

Thus, a legal business, making a legal request for Private Activity Bonds for the purpose of **exceeding** the state's minimum environment standards for waste treatment, while also creating jobs and investing 12 times in capital than the allocation requested, and not having any adverse impact on any other entity requesting allocation asks for an affirmative response to its request.

In light of the facts as I viewed them and reviewed them with my staff, there was simply no basis for refusing the request. Therefore, I approved it and sent it to KDFA for Board approval or rejection.

Finally, let me discuss the issue of legislative intent. I have heard both concern and criticism that even though the

law permitted the issuance of these bonds, my agency should have denied the issuance based on what the legislature intended.

It is true that there are situations that require some interpretation. For example, if you provide my agency a program that is to be used for "major" economic activities, yet does not define "major" in terms of dollars, jobs created or economic impact, there is a judgment called for by the less-than-precise nature of the term "major." In the case of the Seaboard situation there is nothing vague in the legislation you crafted and enacted. The law states "no revenue bonds shall be issued under authority of K.S.A. 12-1740 to 12-1749a inclusive." That is very clear language.

I was not in the legislature. I was not a part of any hearing on this issue. Where am I to receive this intent? A public hearing was held in which many in opposition to the issuance of these PABs spoke out. No legislator, either in person or by written communication, was part of that hearing. From whom was I to receive legislative intent?

For me to have concluded that the legislature intended to include Private Activity Bonds in its prohibition would require

me to believe that the House of Representatives and the Senate, that created the Kansas Development Finance Authority and annually receive a report, were not aware of KDFA and its function during the passage of this legislation. There just wasn't any basis on which I could ascertain that there was an intent other than the one so clearly stated by K.S.A. 12-1749b. It does not seem reasonable to take the position that all bonds were to be included, when the only reference is to a single statute that does not encompass all bonds.

In closing, I would make it clear that if you want to fix blame on any part of this administration it would rest solely with me. My staff carried out their duties professionally and did not make the final decision. The Governor played no part in the transaction and those who write their letters to the editors trying to involve him are 100 percent wrong. The KDFA Board voted unanimously for approval and that is where the final authority rested. The members of the KDFA Board were never contacted directly or indirectly by myself, the Governor or our staffs.

I don't know if this statute is a good one or not, but I do honestly believe my agency had a responsibility to carry out the law and that is what we did.

74-5058

STATE BOARDS, COMMISSIONS AND AUTHORITIES

fer such moneys to its bond and interest fund for payment of the loan, but any property taxes levied exclusively for such purposes shall be deposited in its bond and interest fund. Any property taxes levied exclusively for repayment of any infrastructure loan under K.S.A. 74-5056, and amendments thereto, and any interest thereon, shall be levied in the same manner as taxes are levied for the payment of general obligations of the city or county.

(c) The amount of any loans received by a city or county under the provisions of K.S.A. 74-5055 through 74-5057, and amendments thereto, shall not be included within any limitation on the bonded indebtedness of the city or county.

History: L. 1988, ch. 394, § 3; L. 1990, ch. 66, § 50; May 31.

PRIVATE ACTIVITY BOND ALLOCATION

74-5058. Kansas private activity bond allocation act; citation. This act shall be known and may be cited as the Kansas private activity bond allocation act.

History: L. 1988, ch. 303, § 1; April 7.

Attorney General's Opinions:

Legislative post audit; open public records; duty of confidentiality; mortgage credit certificate program records. 91-158.

74-5059. Same; definitions. As used in this act:

(a) "Allocation" means the allocation of the state ceiling among governmental issuers as provided in this act.

(b) "Code" means the internal revenue code of 1986.

(c) "Governmental issuer" means the state and any instrumentality or political subdivision thereof which is authorized to issue private activity bonds.

(d) "Private activity bond" has the meaning ascribed thereto in the code.

(e) "Secretary" means the secretary of commerce.

(f) "State" means the state of Kansas.

(g) "State ceiling" means the ceiling applicable under the code to the aggregate face amount of qualified private activity bonds, the interest on which is exempt from federal income taxation, which may be issued within this state during any calendar year.

History: L. 1988, ch. 303, § 2; April 7.

Research and Practice Aids:

States ⇐ 149.

C.J.S. States § 252.

74-5060. Same; computation of state ceiling and allocation among governmental issuers; application, approval or denial; expiration of allocation, extension; certification of compliance with federal internal revenue code. (a) The secretary shall determine the state ceiling for each calendar year in accordance with the formula provided therefor in the code and, except as otherwise provided in K.S.A. 74-5063, shall allocate the state ceiling among governmental issuers in accordance with the provisions of this section.

(b) The secretary shall reserve until October 15 of each year (1) an amount equal to \$5,000,000 for allocation in accordance with the provisions of section 141(b)(5) of the code for private activity use of a portion of the proceeds of bonds issued by governmental issuers, (2) an amount equal to \$5,000,000 for allocation for qualified student loan bonds as defined in section 144(b) of the code, and (3) an amount equal to \$25,000,000 for allocation for qualified small issue bonds as defined in section 144(a) of the code. On and after October 15 of each year, any portion of the state ceiling remaining unused or uncommitted shall be available for allocation to governmental issuers by the secretary without regard to the reservations provided for in this subsection.

(c) Prior to any issuance of private activity bonds subject to the state ceiling, a governmental issuer shall submit to the secretary on a form prescribed by the secretary a written application for an allocation of the state ceiling for such issue.

(d) Subject to the provisions of subsection (b), the secretary shall approve each properly filed application for an allocation for qualified small issue bonds of \$5,000,000 or less on the basis of the chronological order of receipt of applications. If an application is for an allocation in excess of \$5,000,000, the secretary may approve the total amount, approve a partial amount or reject the application.

(e) Within five business days after receipt of an application for an allocation, the secretary shall notify the governmental issuer in writing that (1) the application has been approved and shall specify the amount approved, or (2) the application has been denied, or (3) the application has been placed on hold pending receipt of additional information with respect to the application or pending a review of the effect approval of the application will have on the state ceiling.

PAB Usage 1993-1995

	<u>1993</u>	<u>1994</u>	<u>1995</u>	3 Year Total
<u>Qualified Small Issue</u>				
Tax-exempt IRBs	\$16,490,000.00	\$50,206,000.00	\$51,511,675.00	\$118,207,675.00
Beginning Farmer Bonds	\$1,538,596.00	\$1,554,534.00	\$1,883,930.00	\$4,977,060.00
<u>Exempt-Facility Bonds</u>				
Residential Rental	\$10,055,000.00	\$31,870,000.00	\$31,660,000.00	\$73,585,000.00
Waste Treatment & Other	\$24,500,000.00	\$31,325,000.00	\$29,600,000.00	\$85,425,000.00
<u>First-Time Homebuyers</u>				
MRBs and MCCs	<u>\$97,416,404.00</u>	<u>\$35,044,466.00</u>	<u>\$35,344,395.00</u>	<u>\$167,805,265.00</u>
TOTAL	\$150,000,000.00	\$150,000,000.00	\$150,000,000.00	\$450,000,000.00

KANSAS

DEPARTMENT OF COMMERCE & HOUSING



September 26, 1995

Bill Graves, Governor
Gary Sherrer, Secretary

Mr. Bill Caton
President
700 S.W. Jackson
Suite 1000
Topeka, KS 66603-3758

Dear Mr. Caton:

We have received your application for Private Activity Bond allocation as follows.

Exempt Facility Bonds

Solid Waste Disposal Facilities

Kansas Development Finance Authority

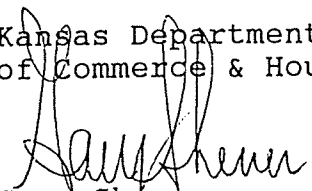
Seaboard Corporation/Seaboard Farms, Inc.

\$9,600,000

Allocation Application No. 52

In accordance with the Kansas Private Activity Bond Allocation Act, this Application has been placed on hold, pending a review of the effect of approving the Application on the State private activity bond volume cap. Additional information may be requested, if required for project review.

Kansas Department
of Commerce & Housing


Gary Sherrer
Secretary

GS:BDD:vw

BUSINESS DEVELOPMENT DIVISION

700 S.W. Harrison Street, Suite 1300, Topeka, Kansas 66603-3712
(913) 296-5298 FAX (913) 296-3490 TTY (913) 296-3487

1-13

SEABOARD CORPORATION

October 4, 1995

Mr. Gary Sherrer, Secretary
Department of Commerce
700 S.W. Harrison
Suite 1300
Topeka, Kansas 66603-3712

RE: Kansas Development Finance Authority - Seaboard Corporation

Dear Secretary Sherrer:

On September 14 the Kansas Development Finance Authority approved a Resolution indicating its willingness to issue approximately \$9.5 million in industrial revenue bonds to assist Seaboard in financing a portion of the sewage collection and disposal facilities that will serve its hog growing operations in Southwest Kansas. The Bonds will be secured based solely upon Seaboard's credit and are not in any way a liability of the State of Kansas or KDFIA. The total cost of the sewage facilities alone is approximately \$58.2 million and the total investment in Kansas is expected to exceed \$130.0 million.

The Waste Storage portion of the wastewater system (lagoons) will be constructed to standards that far exceed the standards established by the State of Kansas. With regard to the lagoons, there are two primary restrictive measures in Kansas. The first restricts the amount of volatile solids entering the lagoon to 6 pounds per 1000 cubic feet of water. Seaboard will oversize the lagoon so that no more than 4 pounds of volatile solids per 1000 cubic feet of water enter the lagoon. The second restriction is that the hydraulic conductivity of the lagoon (i.e. The amount of effluent which can seep through the bottom of the lagoon.) cannot exceed .25 inches per day with a 12" thick liner. Seaboard will construct lagoons with a hydraulic conductivity of .0034 inches per day with an 18" thick lagoon liner. This represents a 7,300% increase over what is required. With the standards we will construct our lagoons to, the EPA has determined that there is no hydrologic connection between the lagoon water and ground water.

If we can provide you with any additional information, please let me know.

Very truly yours,

SEABOARD CORPORATION



Robert Steer
Director of Finance

RS:bd

cc: Rick Hoffman

1-14

KANSAS
DEPARTMENT OF COMMERCE & HOUSING



MEMORANDUM

TO: Secretary O'Connell
FROM: Gary Sherrer
Secretary
DATE: October 5, 1995
SUBJECT: Seaboard Waste Storage

Bill Graves, Governor
Gary Sherrer, Secretary

Jim, I am reviewing this company's application for a Private Activity Bond (PAB). Could you have someone review this letter and give me a general sense if it accurately characterizes the situation as to Seaboard exceeding minimum standards.

I appreciate your help.

GS/kg
attachment



BILL GRAVES
Governor

DEPARTMENT OF ADMINISTRATION
LEGAL SECTION
107 Landon State Office Building
900 SW Jackson
Topeka, Kansas 66612-1214
(913) 296-6000
FAX (913) 296-0043

SHEILA FRAHM
Lt. Governor/Secretary

MEMORANDUM

TO: Steve Kelly, Department of Commerce and Housing
Business Development Division

FROM: *REN*
Robert E. North, Staff Attorney

DATE: October 26, 1995

RE: Exempt Facility Bonds

You have requested an opinion analyzing whether K.S.A. 12-1749b precludes the Kansas Department of Commerce and Housing from allocating Private Activity Bonds for the purpose of financing the construction of a solid waste treatment facility for a swine producing operation. The Department has received an application for Private Activity Bond allocation for a project in Morton County, Kansas. The project will involve construction of a waste treatment facility for a hog/swine facility owned by Seaboard Corporation/Seaboard Farms, Inc. The issuer of the bonds would be the Kansas Development Finance Authority (K DFA).

The specific issue to be analyzed is whether K.S.A. 12-1749b precludes such a bond issue. K.S.A. 12-1749b provides:

"no revenue bonds shall be issued under authority of K.S.A. 12-1740 to 12-1749a, inclusive, and amendments thereto, in which all or part of the proceeds of such bond issue are to be used to purchase, acquire, construct, reconstruct, improve, equip, furnish, repair, enlarge or remodel property for any swine production facility on agricultural land which is owned, acquired, obtained or leased by a corporation. As used in this section, "corporation," "agricultural land" and "swine production facility" have the meanings respectfully described thereto by K.S.A. 17-5903, and amendments thereto.

Obviously the proceeds of the bonds in question are to be used for a purpose which meets the definition of the prohibited uses found in that statute. The proceeds are to be used to construct a waste treatment facility at a "swine production facility" on agricultural land which is owned or leased by a corporation.

Steve Kelly
October 26, 1995
Page 2

The question then becomes whether the revenue bonds in question are to be *issued under authority of K.S.A. 12-1740 to 12-1749a*. Based upon the fact that the "issuer" of the bonds is going to be KDFA, it is our opinion that 12-1749b **does not** preclude the allotment and issuance of bonds for the above-referenced project.

KDFA is not subject to the statutory framework found in Chapter 12 of the Kansas Statutes Annotated which pertain primarily to cities and municipalities. KDFA, the actual issuer in this instance, has express authority to issue these bonds and use the proceeds for this purpose, pursuant to statute. K.S.A. 74-8905 sets forth the instances in which KDFA is authorized and empowered to issue bonds. More precisely, 74-8905(c) gives the authority to issue bonds for the purpose of "financing industrial enterprises, *agricultural business enterprises*, educational facilities . . ." "Agricultural business enterprise" is defined in Section 74-8902, as "facilities supporting or utilized in the operation of farms, ranches and other agriculture, aquacultural or silvacultural commodity producers and services provided in conjunction with the foregoing." Clearly, a swine production facility meets the statutory definition of an "agricultural business enterprise." Therefore, assuming the other requirements of K.S.A. 74-8905 are satisfied, there is no prohibition upon the Department allocating Private Activity Bonds to be issued by KDFA for the construction of this solid waste facility.

Hopefully this is responsive to your inquiry, if you have any additional questions regarding this matter, please let me know.

REN:bm
8456

**BEGINNING FARMER LOAN PROGRAM
PRESENTED BY BILL CATON, PRESIDENT
KANSAS DEVELOPMENT FINANCE AUTHORITY**

JANUARY 17, 1996

Thank you for the opportunity to present information about the Beginning Farmer Loan Program administered by Kansas Development Finance Authority ("KDFFA"). This program is made possible by the use of private activity bond allocation to assist farmers who have not had substantial ownership interest in farmland, to finance their agricultural businesses and, as a result, start or keep them in farming. By making loans available at below-market interest rates through private lenders, mainly local community banks, KDFFA is aiding farmers to be valuable assets to the State of Kansas. The program can be used by beginning farmers to purchase agricultural land, farm buildings, farm equipment, and breeding livestock.

To date, KDFFA has financed 240 beginning farmers for over \$17.7 million. The following table displays total be fiscal years beginning in 1990.

PROJECT AMOUNTS BY FISCAL YEAR

<u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u>	<u>Number of</u> <u>Projects per</u> <u>Fiscal Year</u>	<u>Amount of Loans</u> <u>per Fiscal Year</u>
1990	2	\$62,857
1991	87	\$6,533,619
1992	76	\$6,006,099
1993	0	\$0
1994	36	\$2,107,218
1995	28	\$1,960,985
1996	<u>11</u>	<u>\$1,057,718</u>
Total	<u>240</u>	<u>\$17,728,496</u>

Please note that the program sunsetted in 1993 and was permanently extended by Congress in 1994. This sunset issue devastated the momentum the program had built and it has been difficult in regaining its early successes. However, the program remains viable and KDFFA continues to effectively operate the program.

I have provided the following items for your review:

1. Program Summary and Application folder
2. List of participating lenders.
3. Kansas map showing geographic diversity.

Hopefully, this information will provide you an overview of the program. I believe this is a very valuable program and provides a substantial benefit to beginning farmers who may not otherwise be able to finance certain agricultural activities.

I will be happy to answer any questions you might have regarding this program.

*Senate Ag. Co.
Attachment 2
1-17-96 2-1*



The Kansas Development Finance Authority



Beginning Farmer Loan Program

*Senate Ag Co
1-17-96
attachment 2*

The aim of the Kansas Development Finance Authority (KDFA) Beginning Farmer Loan Program

...is to assist new and certain existing farmers with financing their agricultural businesses and, as a result, start or keep them in farming. By making loans available at below market interest rates, KDFA is helping farmers who will become valuable assets for the State of Kansas. The program can be used for beginning farmers in purchasing agricultural land, farm buildings, farm equipment and breeding livestock.

KDFA's Individual Agricultural Development Bond Program (Beginning Farmer Loan Program)

- KDFA is authorized to issue bonds on behalf of eligible beginning farmers. Because the income, received by private lenders, from the bonds is tax-exempt, the beginning farmers can borrow through KDFA at below-market rates.
- The Tax Reform Act of 1986 has changed the eligibility requirements in the Individual Agricultural Development Bond Program. A person must be a "First-time Farmer" to be eligible for assistance under the program.

A "First-time Farmer" is a person who has never had a substantial ownership interest, either directly or indirectly, in farmland in the operation of which the person has materially participated with the following exception.

Any parcel of land is "substantial farmland" unless the parcel is smaller than 15 percent of the median size of a farm in the County where the parcel is located. The 15 percent median farm size for the state runs from a low of 6 acres in Wyandotte County to a high of 171 acres in Stevens County (see back of Brochure for Median Farm Size Table).

- Partnerships are also eligible if all partners meet the eligibility requirements for a loan.
- KDFA issues a tax-exempt Private Activity Bond and lends the proceeds to the Beginning Farmer. The bond is sold to either the farmer's bank, a contract seller or other investors, with the loan and its collateral pledged as security for the bond. Loan payments are usually made directly to the bond purchaser. It should be noted that a third party may guarantee the repayment of the loan.
- Under the program, the farmer negotiates with the local lender, contract seller or other investor to arrange the loan, including interest rate, length of loan, repayment schedule, security and collateral needed. This program gives the lender an opportunity to lend money at an interest rate below the conventional interest rate due to the tax-exempt status of the bond that KDFA sells to the lender. KDFA does not guarantee these loans.
- KDFA cannot approve loans for refinancing existing debt, working capital or for purchasing land or depreciable agricultural property (both used and new) from a related person. A related person is a father, mother, grandfather, grandmother, son, daughter, brother, sister, or spouse. Aunts, uncles, nieces, nephews and cousins are not considered related persons under this definition.
- A beginning farmer must have adequate working capital and education or experience in the type of farming operation for which the loan is sought. Such information will usually be supplied to KDFA through a background letter submitted by the lender.
- Federal law limits the bond amount to an aggregate amount of \$250,000 per person for a lifetime use. Therefore, this is the maximum aggregate bond amount that can be issued for any one applicant.
- Of the \$250,000 limit, the entire amount may be used for new equipment or breeding stock, and up to \$62,500 may be for used equipment or breeding stock.
- KDFA charges fees to the borrower for the Program. These include a \$50 non-refundable application fee which is submitted with the application and a 1½% loan closing fee.

BEGINNING FARMER LOAN PROGRAM

Loans By Lending Institutions
and Contract Sales
or Direct Loans by Investors Other than Lending Institutions



KDFA

KANSAS

DEVELOPMENT FINANCE
AUTHORITY

PROGRAM SUMMARY

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PROGRAM SUMMARY

Loans by Lending Institutions and Contract Sales or Direct Loans by Investors Other than Lending Institutions

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THE PROGRAM SUMMARY IN BRIEF

The KDFA Beginning Farmer Loan Program ("Program"), is a tax-exempt bond program designed to assist Beginning Farmers in the state of Kansas to acquire agricultural property at lower interest rates. The Program enables lending institutions, individuals, partnerships, corporations, and other entities (herein referred to as the "Bond Purchaser") to receive tax-exempt interest with respect to a direct loan or contract sale made to Beginning Farmers.

The Bond Purchaser, after arranging the loan or sales contract, will obtain from the Kansas Development Finance Authority (the "Authority") a state and federally tax-exempt Bond in the amount of the loan or the unpaid balance on the sales contract. In the case of a loan, the amount paid by the Bond Purchaser for the Bond will be lent to the Beginning Farmer by the Authority, and that loan and its collateral will be assigned to the Bond Purchaser as security for the Bond. In the case of a contract sale, the contract will be entered into by the Authority and the Bond Purchaser will receive the Bond to evidence the Authority's obligations under the contract. The Authority's right, title and interest in the contract will then be assigned to the Beginning Farmer who will assume the payment obligations of the Authority under the contract.

BASIC QUALIFICATIONS:

- May not have previously owned any substantial amount of farmland (page 13).
- Property may not be purchased from a Related Person (page 4).
- Program may be used to purchase agricultural land, agricultural improvements, and depreciable agricultural property (new and used) (page 2).
- The loan maximums under existing federal law are:
 - \$250,000 for agricultural land, agricultural improvements and depreciable agricultural property (page 3) of which no more than \$62,500 may be for used property
- There is no minimum loan amount for the Program (page 3).

The Bond Purchaser will make a credit evaluation of the Beginning Farmer, may require any collateral deemed necessary and, with the Beginning Farmer, must arrange the terms of the loan or contract. The Bond will be a limited obligation of the Authority, and will be solely secured by the loan or contract and collateral provided by the Beginning Farmer. The Bond Purchaser will be responsible for the creation and perfection of any security interest which the Bond Purchaser deems necessary for the loan or contract.

A loan made under the Program is funded solely from the Bond sold to the Bond Purchaser. The Authority has no independent funds to fund a loan. Therefore, a Beginning Farmer must submit an application with a Bond Purchaser who is able to purchase the Authority's Bond to fund the Beginning Farmer's loan. The Authority shall not be liable or responsible for the failure of a Bond Purchaser to purchase a Bond or otherwise perform the functions of a lender. Nor shall the Authority be liable or responsible for the failure of a Beginning Farmer to locate an alternate Bond Purchaser in the event of a failure of performance by the Beginning Farmer's initial Bond Purchaser.

If a sales contract is to be used, the Beginning Farmer must submit an Application with the contract seller as the Bond Purchaser. The Authority shall not be liable for the failure of a Bond Purchaser to perform under the sales contract.

GENERAL

The Kansas Development Finance Authority (KDFA) was created by the 1987 Kansas Legislature to finance capital improvements and improve access to long-term capital financing for state agencies, political subdivisions, public and private non-profit organizations and businesses. KDFA is authorized, subject to certain restrictions, to issue revenue bonds and various other debt instruments for the purpose of financing agricultural business enterprises.

KDFA is governed by a five-member Board of Directors, consisting of the Secretary of Commerce and four public members appointed by the Governor subject to confirmation by the State Senate. The Governor also appoints the KDFA President who serves at the pleasure of the Governor and who is an ex-officio, non-voting member of the Board. Not less than three members of the Board must be representative of the general public, and not more than three members may be members of the same political party. KDFA employs a permanent full-time staff of nine.

DEFINITIONS - The definitions used in the Program are important to Bond Purchasers and Beginning Farmers contemplating using the Program. Please refer to Section I and pages 12-13 for the definition of the terms used in this Program Summary.

SECTION I

PROGRAM POWERS AND ELIGIBLE ACTIVITIES

The Authority may issue its bonds to assist Beginning Farmers in financing the acquisition of the following:

1. **Agricultural Land** -- The Authority can finance the purchase of land suitable for use in farming (page 13).
2. **Agricultural Improvements** -- The Authority can finance the construction or purchase of improvements located on Agricultural Land (which are suitable for use in farming). Examples: Confinement systems for swine, cattle, or poultry; barns and other out-buildings; grain storage facilities; silos; improvements to land such as drainage tile and other soil conservation improvements which could include, but not be limited to, terraces, farm ponds, erosion control structures, waterways, etc. Agricultural Improvements may be new or used, and may include additions to or renovation of existing buildings or other structures.

NOTE: The ability to finance a personal residence with the Program is severely limited due to federal regulations governing the use of the Authority's bonds; therefore, except in certain circumstances (e.g., when the value of the residence is clearly less than 5% of the amount of the loan or the amount of contract financed), it will be necessary to finance the personal residence separately.

3. **Depreciable Agricultural Property** -- The Authority can finance the purchase of personal property suitable for use in farming for which an income tax deduction for depreciation is allowed in computing Federal income taxes. Examples: Livestock used for breeding or dairy purposes, farm machinery, trucks, etc. Feeder cattle (including steers), feeder pigs, or feeder lambs do not qualify as depreciable property. Bond proceeds may be used to finance new or used Depreciable Agricultural Property. "Used" livestock are female animals that have been used for breeding purposes. Open or bred heifers, gilts, or lambs would not be considered as "used" property under this definition (this class of animals would be considered "new" property). Male animals that have not yet been used for breeding purposes would be considered as "new" property.

SECTION II

PROGRAM MAXIMUMS AND MINIMUMS

Federal law sets maximum amounts which may be financed under the Program. The maximums are:

1. No more than a lifetime aggregate amount per borrower of \$250,000 for Agricultural Land, Agricultural Improvements and Depreciable Agricultural Property.
2. Of the possible \$250,000, no more than \$62,500 can be for "used" property.
3. Any individual, partnership, corporation or other entity, together with any person or entity who is a Related Person (page 4), who is a principal or substantial user of any bond-financed project may not have the benefit or use of more than \$40,000,000 of outstanding tax-exempt Private Activity Bonds at any one time.
4. There is no minimum loan amount for the Program.

SECTION III

NATURE OF INVESTMENT RISK; LIMITED OBLIGATION BONDS

THE BOND PURCHASER MUST MAKE A CREDIT EVALUATION OF THE LOAN OR SALES CONTRACT, THE BEGINNING FARMER'S ABILITY TO REPAY PRINCIPAL AND INTEREST, AND THE SUFFICIENCY OF THE SECURITY FOR THE LOAN OR SALES CONTRACT. THE AUTHORITY WILL NOT MAKE AN INDEPENDENT EVALUATION OF THE BEGINNING FARMER'S ABILITY TO REPAY THE LOAN OR PAY THE CONTRACT. IN SETTING THE TERMS OF THE LOAN OR SALES CONTRACT, THE BEGINNING FARMER AND BOND PURCHASER ARE STRONGLY ENCOURAGED TO CONSULT THEIR LEGAL COUNSEL AND TAX CONSULTANTS.

The Bond Purchaser will be required to execute a letter with respect to the Bond Purchaser's understanding of the Authority's limited obligation on the Bond and the credit risks inherent in purchasing such a Bond.

The principal and interest on the Bond are limited obligations, payable solely out of the revenue derived from the debt obligation or sales contract, collateral, or other security furnished by or on behalf of the Beginning Farmer. A guarantor, letter of credit or alternative credit enhancement on the debt is permissible. A guarantor may be a Related Person. Generally the debt cannot be guaranteed by the Federal Government or any of its agencies. If a guarantee by an agency of the Federal Government is begin considered, please contact the Authority. The Bond, which is issued by the Authority and purchased by the Bond Purchaser, is a non-recourse obligation. The principal and interest on the Bond shall be a limited obligation only of the Authority, and in no event, shall the bonds constitute an indebtedness of the state of Kansas or an indebtedness for which the faith and credit or taxing powers of the state of Kansas are pledged. It should also be noted that any recording, filing or other fees or charges associated with the loan or sales contract will be paid by the Beginning Farmer or Bond Purchaser and not the Authority.

NOTE: In purchases of irrigated land, the Beginning Farmer has the responsibility to notify, in writing, the Division of Water Resources, Kansas State Board of Agriculture, and any applicable Groundwater Management District, of the transfer of land ownership.

SECTION IV

APPLICANT ELIGIBILITY

The basic eligibility requirements for the program are as follows:

1. Age Limits -- A Beginning Farmer must be at least age 18, unless he or she has a co-signer who is 18 years or older. There is no upper age limit.

2. **First-Time Farmer** -- All Beginning Farmers must be First-Time Farmers regardless of the purpose of the loan (page 13).
3. **Training and Experience** -- The Beginning Farmer must have documented, to the satisfaction of the Bond Purchaser and the Authority, sufficient education, training and experience in the type of farming operation for which the Bond is requested. If the Beginning Farmer is a partnership, all partners shall have sufficient education, training, or experience in that type of farming operation.
4. **Use of Project** -- If the Beginning Farmer is an individual, the Agricultural Land, Agricultural Improvements and Depreciable Agricultural Property shall only be used for farming by the individual, the individual's spouse, the individual's minor children, or any of them. If the Beginning Farmer is a partnership, the Agricultural Land, Agricultural Improvements and Depreciable Agricultural Property shall only be used for farming by the partners, each partner's spouse, each partner's minor children, or any of them.

SECTION V

INELIGIBLE PROGRAM ACTIVITIES

The Internal Revenue Service has promulgated many rules and regulations governing the use and sale of tax-exempt bonds, some of which apply to the Authority's Program. The rules that will affect the Program most are those stating that **tax-exempt bond proceeds cannot be used to:**

1. **Refinance Existing Debt** which has been incurred by the Beginning Farmer prior to approval by the Authority of a Program application.
2. **Finance Working Capital** to purchase feed, seed, fertilizer, fuel, etc. (Feeder cattle, feeder pigs or feeder lambs would also fall into this category).
3. **Finance the Acquisition of Property** for individuals or partnerships other than for First-Time Farmers (page 13).
4. **Finance the Acquisition of Agricultural Land, Agricultural Improvements or Depreciable Agricultural Property from a "Related Person"** The IRS states that the following, among others, are deemed to be a "Related Person": grandfather, grandmother, father, mother, brother or sister (whether whole or half blood), child, grandchild or spouse. Related Person also includes certain corporations and partnerships. A Beginning Farmer cannot finance the acquisition of land or property from a corporation or partnership if the Beginning Farmer, together with any persons having family relationships indicated above, own more than 50% of the stock or have more than 50% interest in a partnership. (NOTE: Because the estates of any of the persons in the foregoing list may also be considered Related Persons, purchases from such an estate may be ineligible for financing under the Program.) It should be pointed out that the foregoing list is not exclusive. There are certain other entities and individuals who could also be considered Related Persons. However, an uncle, aunt, nephew, niece or cousin would not be treated as a Related Person. If there are any questions about these situations, please contact the Authority.

In addition, the Beginning Farmer, or any Related Person, shall not commence acquisition or construction of any part of the Project prior to the date on which the Authority approves the Program Application. To do so runs a risk that the IRS would deem the bond transaction a refinancing. **Tax-exempt bond proceeds may not be used for the purpose of refinancing.** This means that neither the Beginning Farmer nor any Related Person can enter into any contract or purchase agreement, installment or otherwise, in connection with the Project or any part thereof prior to the Authority's approval of the Application.

Therefore, the Beginning Farmer should make application to and obtain Authority approval before signing a purchase offer or an offer to buy. However, the Beginning Farmer may sign a purchase offer or other contract prior to obtaining Authority approval if the following three conditions are met: 1) it clearly states the purchase is subject to approval of the Authority; 2) the risk of loss remains with the seller; and 3) the Authority approval is obtained prior to the Beginning Farmer taking possession of the property.

Notwithstanding the foregoing, the Authority's approval of an Application does not constitute final bond approval. The Authority reserves the right to cease bond processing at any time or to reduce the permitted bond amount, if, prior to bond closing, it is discovered that the Beginning Farmer is refinancing an existing loan, or, if, due to the application of or changes in Federal or State law or regulations, it is determined that the Project is ineligible.

SECTION VI

APPLICATION AND PROCEDURES - DIRECT LOANS

(NOTE: Section VI applies to transactions involving a direct loan made by the Bond Purchaser to the Beginning Farmer. If the Beginning Farmer is purchasing the project on a sales contract from the Bond Purchaser, Section VI should be disregarded and Section VII should be followed.)

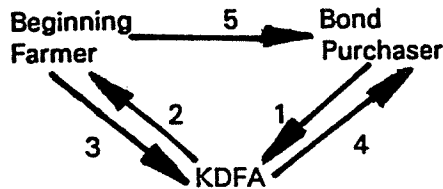
A Beginning Farmer and Bond Purchaser must prepare and submit a joint application to the Authority. The following should be noted:

1. **Application Forms** -- Application forms are available from the Authority. The Application should be completed by the Beginning Farmer and the Bond Purchaser and submitted directly to the Authority. Applicants are encouraged to contact the Authority staff if they have questions in completing the Application.

If a Bond is sought with respect to a partnership, separate Applications must be submitted by each partner.

A letter must be submitted with the application to explain the Beginning Farmer's background with respect to his or her education and experience in the type of farming operation for which a loan is sought. The letter should also outline the Beginning Farmer's access to machinery, if the loan is for land; or his or her access to land, if the loan is for Agricultural Improvements or Depreciable Agricultural Property. The letter should also state where the Beginning Farmer will obtain operating capital and interim financing if necessary.

2. **Application Period** -- A completed Application will be reviewed and considered by the Authority within five business days of its receipt.
3. **Interim Financing** -- As noted on page 4, a Beginning Farmer must not commence acquisition or construction of any part of the Project to be financed with the proceeds of the Bond prior to the date the Authority approves the Application; if this were to occur, the bond transaction could be deemed a refinancing. However, once the Application has been approved, the Project may move forward with either construction or possession and, if necessary, the Bond Purchaser or another lender may interim finance the loan prior to bond issuance. The interim financing will be paid with the proceeds of the Bond when issued.
4. **Loans to Beginning Farmers and Security Arrangements** -- The Program involves the Bond Purchaser, Beginning Farmer, and the Authority. If the Bond Purchaser is making a loan to the Beginning Farmer, the financing is accomplished as follows: In simultaneous transactions the Bond Purchaser purchases the Bond from the Authority; the Authority makes the loan to the Beginning Farmer from the proceeds of the Bond sale; and the Authority assigns the promissory note it receives from the Beginning Farmer to the Bond Purchaser as security for the Bond. See Diagram on page 6.



- 1) Bond purchased by Bond Purchaser from the Authority;
- 2) Bond proceeds lent by Authority to Beginning Farmer;
- 3) Beginning Farmer gives promissory note to Authority;
- 4) Promissory note assigned to Bond Purchaser as security for the Bond;
- 5) Beginning Farmer makes loan payments to Bond Purchaser.

5. **Terms of Loan** -- The Beginning Farmer and Bond Purchaser must agree on terms of the loan: interest rate (fixed or variable), length of loan, prepayment or call options, service fees and repayment schedule.
6. **Repayment of Loans** -- Under the Authority's bond documents, the Beginning Farmer's payment obligations are subject to mandatory prepayment in the event the interest income on the Bond becomes includable in gross income for purposes of Federal income taxation, in the event that the loan agreement entered into by the Beginning Farmer becomes void or enforceable, and to the extent any bond proceeds remain following completion of the acquisition or construction of the Project. In addition, the documents provide for optional prepayment from insurance or condemnation proceeds (at the discretion of the Bond Purchaser) in the event of damage, destruction or condemnation of all or any part of the Project.

The documents also provide for prepayment at the option of the Beginning Farmer, the terms and conditions of which are to be agreed upon between the Beginning Farmer and the Bond Purchaser.

It should be noted that the bond documents may be prepared to provide for a prepayment at the option of the Bond Purchaser. The terms of this type of prepayment will need to be agreed upon by the Beginning Farmer and the Bond Purchaser. This prepayment option should be used where a Bond Purchaser may be willing to extend the initial term of a loan, but wants the ability to review the loan at various points in time and to end the loan if the Beginning Farmer's progress is unsatisfactory (this is known as a call option). Any payment or prepayment on the loan results in a corresponding payment or prepayment on the bond.

7. **Assignment or Sale of Bonds** -- The Authority does not place any restrictions on a Bond Purchaser's ability to participate out, assign or sell a bond issued under the Program. Generally, Bond Purchasers participating in the Program, purchase the Bond for their own investment and do not anticipate assigning the Bond to another investor. It should be noted there are laws that prevent certain sales and participations, or at least seriously restrict them. For example, the Kansas Securities Act may impose certain restrictions or requirements if the Bonds are sold to investors other than financial institutions. In addition, there are adverse tax consequences if the Bond is assigned, participated out or sold to a "Related Person" (page 4) of the Beginning Farmer. Therefore, a Bond Purchaser should consult with legal counsel to determine if any of these laws or regulations will be violated before selling, assigning, or participating out a bond.

The bond documents allow a Bond Purchaser to assign a loan in whole or in part to any person. The Authority must be notified in writing prior to assignment of the loan.

8. **Fees** -- The Beginning Farmer or Bond Purchaser must pay to the Authority a non-refundable \$50 application fee (submitted with the Application). A bond closing fee equal to 1 ½ % of the amount of the Bond, but not less than \$500, must be paid to the Authority by the Beginning Farmer or Bond Purchaser at closing. The bond closing fee and other closing costs, up to 2% of the Bond amount, may be financed with bond proceeds.

The Authority's bond counsel will review each Bond for legality and tax exemption. The Authority will pay its bond counsel from the fees collected from the Beginning Farmer or Bond Purchaser.

9. **Use of Financial and Security Documents** -- The Bond Purchaser should use forms of financial statements and security documents which the Bond Purchaser believes are necessary and appropriate under the particular loan circumstances. These items should be referenced in the bond documents and their provisions incorporated therein. Any additional requirements not specifically provided for in the bond documents, such as insurance coverage and amounts, should also be added.

BOND PURCHASERS PLEASE NOTE: IT IS THE BOND PURCHASER'S RESPONSIBILITY TO INSURE THAT ANY SECURITY AGREEMENTS, MORTGAGES, GUARANTEES OR OTHER SECURITY DOCUMENTS, WHICH THE BOND PURCHASER REQUIRES IN A TRANSACTION, HAVE BEEN COMPLETED AND SIGNED, AND THAT ANY FINANCING STATEMENTS HAVE BEEN FILED, MORTGAGES RECORDED OR ANY OTHER NECESSARY STEPS TAKEN TO PROTECT THE BOND PURCHASER'S INTERESTS. THE AUTHORITY MAKES NO WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE EFFECTIVENESS, VALIDITY OR PRIORITY OF ANY LIENS OR SECURITY INTERESTS WHICH A BOND PURCHASER HAS WITH RESPECT TO A PARTICULAR PROJECT AND IS NOT RESPONSIBLE FOR THE FILING OR RECORDING OF ANY SECURITY DOCUMENTS.

10. **Bond Purchasers** -- Any lending institution, individual, corporation, government or governmental subdivision or agency, business trust, estate, trust, partnership or association, or any other legal entity, may be a Bond Purchaser for contract sales and direct loans.
11. **Procedures Following Bond Issuance** -- Following disbursement of the bond proceeds, the Bond Purchaser and Beginning Farmer must certify to the Authority that all of the proceeds were used by a qualified Beginning Farmer for a qualified purpose.
12. **Timing Requirements for Spending Bond Proceeds** -- Federal tax law restrictions generally do not permit the investment of bond proceeds in securities which bear a higher interest rate than the Bond.

Under the current rules the period of time during which bond proceeds may be invested in an unrestricted yield has been effectively shortened to six months. Unless all "Gross Proceeds" of a tax-exempt Bond are spent on the project being financed within six months after the date the Bond is issued, the parties to the bond issue will be subject to some very onerous federal reporting requirements and will be required to pay any profits earned on bond proceeds to the federal government.

It should be noted the "Gross Proceeds" of a Bond include more than the original principal proceeds. Also included are any amounts earned on the investment of bond proceeds; funds, securities or other obligations (such as a certificate of deposit) which are pledged as security for the payment of the Bond.

To avoid subjecting any of the Authority's bonds to these reporting and payment requirements, it is the policy of the Authority not to issue a Bond for a Project until the Authority can be assured that all bond proceeds will be expended on the Project within six months of the date of the bond issuance. In the closing documents the Beginning Farmer and Bond Purchaser are required to certify that the use of the proceeds will comply with this policy.

13. **Assumption of Loans - Substitution of Collateral and Transfer of Property** -- Loans may not be assumed without the prior approval of the Authority, and then only if the purchaser of the property will qualify as a First-Time Farmer. Equipment and other depreciable property may be exchanged or traded in on similar property, and other property such as breeding livestock may be added or substituted as collateral at the discretion of the Bond Purchaser without the prior approval of the Authority. The benefits of the Authority Bond must remain with a qualified First-Time Farmer, and no person to whom property is traded or otherwise transferred may obtain the benefits of the Bond.
14. **Public Hearing and Governor's Approval of Bond Issuance** -- In compliance with state law, the Authority must notify the city or county in which the Project is located, no less than 30 days before the closing, that it intends to provide the financing. The local government may stop the financing by adopting a resolution or ordinance disapproving the Project within 15 days of the giving of the notice by the Authority. Federal law requires the Authority to hold a public hearing on the issuance of the Bond before the closing, public notice of which will be published at least 14 days in advance in a regional

newspaper of general circulation in the city or county in which the Project is located. The Authority will hold hearings and approve all financing documents at their monthly board meeting. Once the documents have been approved by the Board, a bond closing can be scheduled.

Generally, these public hearings will be conducted by the Authority in conjunction with its monthly meeting. However, on some occasions the hearings may be conducted by authorized Authority staff. A hearing need not be held prior to an Application being approved, but it must be held before the bond documents are approved.

The Governor of Kansas, after receiving a report on the results of the public hearing, may then approve or disapprove the Bond. In addition to the hearing process described above, an allocation of the State's Volume Cap must be received from the Kansas Department of Commerce and Housing before the Bond may proceed to closing.

15. State Volume Cap Limitations -- The Federal tax law establishes a limit on the total principal amount of tax-exempt Private Activity Bonds which may be issued within any state during a calendar year (the "Volume Cap"). In Kansas the Volume Cap for each calendar year is \$150 million. All Authority bonds issued for this program are subject to the limitation. The Kansas Legislature has established a procedure to allocate the Volume Cap among bond issuers. The procedure for the allocation is set forth in the Kansas Private Activity Bond Allocation Act. The Authority will process the necessary paperwork to receive an allocation from the state Volume Cap. If an allocation from the Volume Cap is not available for a particular Bond, the Bond Purchaser and the Beginning Farmer will be so advised.
16. Modified Accelerated Cost Recovery System Limitations -- Bond Purchasers and Beginning Farmers should be aware that Federal law limits the application of the Modified Accelerated Cost Recovery System (MACRS) with respect to facilities financed with the Authority's bonds. If an item is financed with the proceeds of a Bond, the Beginning Farmer must use an alternate MACRS method where deductions are computed by applying the straight line method, the applicable averaging convention, and the applicable longer recovery period for such item (12 years for personal property with no class life, 40 years for real property, and the class life for all other property).

NOTE: Beginning Farmers should contact their tax consultant regarding the specific effect this change in the MACRS will have on their operations or Project.

17. Maximum Loan Maturity -- Federal law provides that the weighted average maturity of an Authority bond can be no more than 120% of the average reasonably expected economic life of the project being financed with proceeds of the Bond (except land).

SECTION VII

APPLICATION AND PROCEDURES - SALES CONTRACTS

(NOTE: Section VII applies to transactions involving a sales contract from the Bond Purchaser (the seller) to the Beginning Farmer (the buyer). This section should be disregarded if the Bond Purchaser is making a direct loan to the Beginning Farmer and Section VI should be followed.)

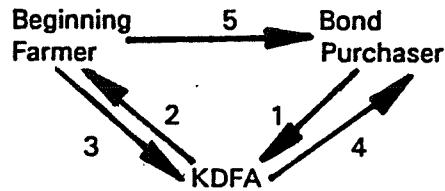
A Beginning Farmer and Bond Purchaser must prepare and submit an Application jointly to the Authority. The following should be noted:

1. Application Forms -- Application forms are available from the Authority. The Application should be completed by the Beginning Farmer and the Bond Purchaser and submitted to the Authority. Applicants are encouraged to contact the Authority staff if they have questions in completing the Application.

A letter must be submitted with the application to explain the Beginning Farmer's background with respect to his or her education and experience in the type of farming operation for which a Bond is sought. The letter should also outline the Beginning Farmer's access to machinery, if the sales contract is for agricultural

land; or his or her access to land, if the sales contract is for Agricultural Improvements and Depreciable Agricultural Property. The letter should also state where the Beginning Farmer will obtain operating capital and interim financing if necessary.

2. **Application Period** -- There is no formal or defined application period because the Program is ongoing. A completed Application will be reviewed and considered by the Authority within five business days of its receipt.
3. **Sales Contracts and Security Arrangements** -- The Program involves the Bond Purchaser, Beginning Farmer, and the Authority. After an Application has been submitted and approved, the Bond Purchaser and the Authority will enter into a sales contract and the Bond Purchaser will receive a Bond to evidence the Authority's obligations under the contract. The Authority's right, title, and interest in the contract will then be assigned to the Beginning Farmer, who will assume the payments and other obligations of the Authority under the contract.



- 1) Authority and Bond Purchaser sign sales contract.
 - 2) Authority assigns the sales contract to the Beginning Farmer.
 - 3) Beginning Farmer assumes payment obligations under the sales contract.
 - 4) Authority delivers Bond to Bond Purchaser and assigns the Beginning Farmer's obligation to pay sales contract to the Bond Purchaser as security for the Bond.
 - 5) Beginning Farmer makes installment payments on sales contract to Bond Purchaser.
4. **Terms of the Sales Contract** -- The Beginning Farmer and Bond Purchaser will negotiate the terms of the sales contract. They must agree on terms such as purchase price, interest rate (fixed or adjustable), payment schedule, down payment, prepayment rights and obligations, security, insurance coverage, payment of taxes, defaults and remedies on default.

It must be clearly stated in the sales contract as to the portion of the payments constituting principal and the portion constituting interest.

In addition to other terms the Beginning Farmer and Bond Purchaser may include in the sales contract, **THE FOLLOWING TERMS MUST BE INCLUDED:**

- (1) This contract will be assigned by the Contract Buyer (the Authority) to _____ (the Beginning Farmer(s)) and may not be reassigned by Beginning Farmer(s) without the written consent of Seller(s) and the Authority, which consent, if given, shall not operate as a waiver of the requirement of written consent on any subsequent assignment. Any attempt by Beginning Farmer(s) to reassign this contract without written consent shall entitle Seller(s) to declare all amounts due hereunder immediately due and payable.
- (2) To evidence its payment obligations under this contract, the Authority will issue its tax-exempt Bond (the "Bond") in an amount equal to the unpaid balance of the purchase price contained herein and bearing interest at the rate of _____ per annum (the "Tax Exempt Rate") with payment terms identical to those contained herein. Beginning Farmer(s) have expressly warranted to Seller(s) that the interest payments received pursuant to the terms contained herein will come to the Seller(s) in the form that will make it not includable in gross income for Federal income tax purposes. Seller(s) are relying on the representations made by the Beginning Farmer(s) in this regard and in the event the interest payments are determined to be includable in gross income for federal income tax purposes, then all interest payments will be computed on the basis of interest at the rate of _____ per annum (the "Taxable Rate") and Beginning Farmer(s) shall be responsible to make payment to the Seller(s) for the difference between interest

paid at the Tax Exempt Rate and the amount calculated on the basis of interest at the Taxable Rate. This provision shall not apply in the event the Bond is held by a Related Person (as defined by the Internal Revenue Code) to the Beginning Farmer(s).

NOTE: The above provision may be modified if an adjustable interest rate is used.

(3) The Seller(s) acknowledges that this contract will be assigned by the Authority by separate instrument, the Guarantee, Assignment and Assumption Agreement (the "Guarantee") to the Beginning Farmer(s) who will assume the rights, duties, obligations and liabilities of the Authority hereunder and guarantee the payment of principal and interest on the Bond. Seller(s) approves such assignment and assumption and acknowledges that the principal of, premium, if any, and interest on the Bond, the installment payments under this contract and other amounts due and owing to the Seller(s) as holder of the Bond and seller under this contract are special limited obligations of the Authority and, in no event, shall the Bond or this contract constitute an indebtedness of the state of Kansas or indebtedness for which the faith and credit or taxing powers of the state of Kansas are pledged.

5. **Payments Under the Sales Contract** -- The Beginning Farmer's payment obligations and rights and obligations to prepay principal and interest under the sales contract shall be determined by the Beginning Farmer and Bond Purchaser and included in the sales contract.
6. **Assignment or Sale of Bonds** -- The Authority does not place any restrictions on a Bond Purchaser's ability to participate out, assign or sell a bond issued under the Program. Generally, the Bond Purchaser, participating in the Program, purchases the Bond for the Bond Purchaser's own investment and does not anticipate assigning the Bond to another investor. It should be noted there are laws that prevent certain sales and participations, or at least seriously restrict them. For example, the Kansas Securities Act may impose certain restrictions or requirements if the Bonds are sold to investors other than financial institutions. In addition, there are adverse tax consequences if the Bond is assigned, participated out, or sold to a "Related Person" (page 4) of the Beginning Farmer. Therefore, a Bond Purchaser should consult with legal counsel to determine if any of these laws or regulations will be violated before selling, assigning or participating out a Bond.

The bond documents allow a Bond Purchaser to assign a loan in whole or in part to any person. The Authority must be notified in writing prior to assignment of the loan.

7. **Fees** -- The Beginning Farmer or Bond Purchaser must pay to the Authority a non-refundable \$50 application fee (submitted with the Application). A bond closing fee equal to 1½% of the amount of the Bond, but not less than \$500, must be paid to the Authority by the Beginning Farmer or Bond Purchaser at closing. The bond closing fee and other closing costs, up to 2% of the Bond amount, may be included in the purchase price reflected in the sales contract.

The Authority's bond counsel will review each Bond for legality and tax exemption. The Authority will pay its bond counsel from the fees collected from the Beginning Farmer or Bond Purchaser.

8. **Use of Financial and Security Documents** -- The Bond Purchaser should use forms of financial statements and security documents which the Bond Purchaser feels are necessary and appropriate under the particular sales contract circumstances.

BOND PURCHASERS PLEASE NOTE: IT IS THE BOND PURCHASER'S RESPONSIBILITY TO INSURE THAT ANY SECURITY AGREEMENTS, GUARANTEES OR OTHER SECURITY DOCUMENTS, WHICH THE BOND PURCHASER REQUIRES IN A TRANSACTION, HAVE BEEN COMPLETED AND SIGNED, AND THAT ANY FINANCING STATEMENTS HAVE BEEN FILED, DOCUMENTS RECORDED, TRANSFER OR OTHER TAXES PAID, OR ANY OTHER NECESSARY STEPS TAKEN TO PROTECT THE BOND PURCHASER'S INTERESTS. THE AUTHORITY MAKES NO WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE EFFECTIVENESS, VALIDITY OR PRIORITY OF ANY LIENS OR SECURITY INTERESTS WHICH A BOND PURCHASER HAS WITH RESPECT TO A PARTICULAR PROJECT AND IS NOT RESPONSIBLE FOR THE FILING OR RECORDING OF ANY SECURITY DOCUMENTS.

The Authority also advises that any security documents or guarantees required to be delivered in connection with the sales contract clearly state that they are given as additional security for the indebtedness under the sales contract and to further secure the agreements, covenants and obligations of the Beginning Farmer contained in the sales contract. The security documents and any guarantees should run directly between the Beginning Farmer and the Bond Purchaser.

9. Bond Purchasers -- Any lending institution, individual, corporation, government or governmental subdivision or agency, business trust, estate, trust, partnership or association, or any other legal entity may be a Bond Purchaser for contract sales and direct loans.
10. Loan and Sales Contract -- In the event the Bond Purchaser will make a loan to the Beginning Farmer (e.g., for Depreciable Agricultural Property) as well as enter into a sales contract with the Beginning Farmer, both of which are to be financed with an Authority bond, it will be necessary for the transaction to comply with the requirements of Section VI and Section VII of this Program Summary.
11. Assumption of Sales Contract - Substitution of Collateral and Transfer of Property -- The sales contract may not be assumed without the prior approval of the Authority, and then only if the purchaser of the property will qualify as a First-Time Farmer. Equipment and other depreciable property may be exchanged or traded in on similar property, and other property such as breeding livestock may be added or substituted as collateral at the discretion of the Bond Purchaser without the prior approval of the Authority. The benefits of the sales contract must remain with a qualified First-Time Farmer, and no person to whom property is traded or otherwise transferred may obtain the benefits of the Bond.
12. Public Hearing and Governor's Approval of Bond Issuance -- In compliance with state law, the Authority must notify the city or county in which the Project is located, no less than 30 days before the closing, that it intends to provide the financing. The local government may stop the financing by adopting a resolution or ordinance disapproving the Project within 15 days of the giving of the notice by the Authority. Federal law requires the Authority to hold a public hearing on the issuance of the Bond before the closing, public notice of which will be published at least 14 days in advance in a newspaper of general circulation in the city or county in which the Project is located. The Authority will hold hearings and approve all financing documents at their monthly board meeting. Once the documents have been approved by the Board, a bond closing can be scheduled.
13. Modified Accelerated Cost Recovery System Limitations -- Bond Purchasers and Beginning Farmers should be aware that Federal law limits the application of the Modified Accelerated Cost Recovery System (MACRS) with respect to facilities financed with the Authority's bonds. Beginning Farmers should contact their tax consultant regarding the specific effect this change in the MACRS will have on their operations and Project. For a discussion of the MACRS limitations, see paragraph 16 in Section VI of this Program Summary on page 8.
14. Maximum Terms of Sales Contract -- Federal law provides that the weighted average maturity of an Authority bond can be no more than 120% of the average reasonably expected economic life of the Project being financed with the proceeds of the Bond. (There is no maximum for land.)

SECTION VIII

TAX EXEMPTION OF AUTHORITY BONDS

1. General Tax Exemption of Bonds -- Under Federal tax law an Authority bond is classified as a Qualified Small Issue Bond. Therefore, if all the provisions of the State and Federal law continue to be complied with by the Beginning Farmer and Bond Purchaser, the interest on an Authority bond will not be included in the Bond Purchaser's gross income for Federal income tax purposes. In addition, interest on the Authority bond will be exempt in the state of Kansas from all state, county and municipal taxes, including income, inheritance and property taxes; except that such interest will be included in the calculation of "Net Income" for purposes of computing the Privilege Tax imposed by sections of K.S.A. 79-1107 and 79-1108.

2. **Federal Alternative Minimum Tax** -- Notwithstanding the preceding paragraph, interest on Authority bonds, which is otherwise tax-exempt, shall be directly includable in the calculation of a bondholder's "alternative minimum taxable income" under Section 57(a)(5) of the Internal Revenue Code of 1986.

For purposes of the alternative minimum tax, the deduction for interest expense, which is allocated to purchasing or carrying tax-exempt obligations and which is otherwise disallowed, shall be used to reduce the amount of tax-exempt interest included pursuant to section 57(a)(5) in the calculation of alternative minimum taxable income.

3. **Federal Superfund Tax** -- Federal law levies a .12% tax on the modified alternative minimum taxable income (as defined in Section 59A of the Internal Revenue Code of 1986) of all corporations which have modified alternative minimum taxable income greater than \$2,000,000. The proceeds of the tax will be used to fund clean up of hazardous waste dumps and other environmental projects. The tax will be imposed even if a corporation otherwise has no alternative minimum tax liability. This tax will be imposed on interest on tax-exempt obligations to the extent such interest is included in alternative minimum taxable income. This tax applies to taxable years beginning after December 31, 1986, and before January 1, 1992.
4. **Deduction for Interest Incurred to Carry Tax-Exempt Bonds** -- Under prior law, a financial institution was disallowed 20% of the deduction for its interest expense allocated to the purchasing or carrying of tax-exempt obligations. Under the Tax Reform Act of 1986, a financial institution is not allowed any deduction for that portion of the financial institution's interest expense which is allocable by law to the purchasing or carrying of tax-exempt obligations. The portion of a financial institution's interest expense, which is allocated to the purchasing or carrying of tax-exempt obligations, is the amount which bears the same ratio to the financial institution's total interest expense as (A) the financial institution's average adjusted bases of tax-exempt obligations acquired after August 7, 1986, bears to (B) its average adjusted bases for all of its assets.

NOTE: The effects of the taxes and deductions discussed in points (2) through (4) above will vary with each Bond Purchaser and, with a given Bond Purchaser, from year to year. Bond Purchasers should consult their tax consultants as to the specific effects of these provisions in their case. The discussion in points (2) through (4) above are for the information and convenience of the Bond Purchaser. In no event shall the Authority or its counsel be deemed to have rendered any advice or opinion as to the application of any of the provisions discussed in points (2) through (4) in a given transaction or to a given Bond Purchaser.

SECTION IX

RIGHT TO AUDIT

The Authority shall have, at any time, the right to audit or monitor records of the Bond Purchaser and the Beginning Farmer relating to a bond to insure the bond proceeds were used for qualified purposes by a qualified user.

SECTION X

DEFINITIONS

"Agricultural Improvements" As defined in Section I, (2) on page 2 of this Program Summary.

"Agricultural Land" As defined in Section I, (1) on page 2 of this Program Summary.

"Beginning Farmer" An individual or partnership that engages in farming or wishes to engage in farming and qualifies as a first time farmer.

"Bond Purchaser" Any lending institution, individual, corporation, business trust, estate, trust, partnership or association, or any other legal entity, that is the purchaser of an Authority bond under the Program in connection with a contract sale or loan to a Beginning Farmer.

"Depreciable Agricultural Property" As defined in Section 1, (3) on page 2 of this Program Summary.

"Farm" A farming enterprise which is recognized in the community as a farm rather than a rural residence. The term "farm" includes stock, dairy, poultry, fruit, fur-bearing animal, and truck farms, plantations, ranches and all lands used for farming, orchards, ranges, fish farms, nurseries, greenhouses or other similar structures used primarily for the raising of agricultural or horticultural commodities.

"Farming" The cultivation, operation or management of a farm.

"First-Time Farmer" A person who has never had any direct or indirect ownership interest in substantial farmland in the operation of which he or she has materially participated. An ownership interest or material participation by a person's spouse or minor child will be attributed to the person, as well.

However, the Federal tax law also provides that a person's prior ownership interest in farmland will be disregarded if:

- a. Such farmland was disposed of while the person was insolvent; and,
- b. Section 108 of the Internal Revenue Code applied to the indebtedness with respect to such farmland; that is, the person was not required to recognize any income for Federal tax purposes from the cancellation of the indebtedness on the farmland.

"Indirect Ownership" If a person holds a minimal interest in a family farm corporation, a limited partnership, a trust, or any other type of entity which in turn owns farmland in an amount which is greater than 15 percent of the median size of a Farm in the county or has ever had a value greater than \$125,000, and the person materially participates in the operation of such farmland, then the person will not qualify as a First-Time Farmer.

"Related Person" According to the IRS, includes grandfather, grandmother, father, mother, brother or sister (whether whole or half blood), child, grandchild, or spouse. It also includes certain corporations and partnerships (page 4).

"Substantial Farmland" is any parcel of land unless:

- a. The parcel is smaller than 15 percent of the median size of a farm in the county where the parcel is located, and
- b. The fair market value of the parcel has never exceeded \$125,000 while the person has held an interest in it.

CONCLUDING NOTE: The Authority recognizes some of the provisions in this Program Summary may be confusing to the Beginning Farmer or Bond Purchaser. The Authority will provide whatever assistance it can in answering questions or completing documents. All information is available in other formats if necessary. Beginning Farmers and Bond Purchasers are encouraged to visit with the Authority staff early in the application process to make the entire transaction as simple as possible. The Authority's telephone number is (913) 296-6747 or SW Bell TDD Service 1-800-766-3777.

After the application has been approved by the Authority, a set of documents (including a promissory note) will be sent for completion by the Beginning Farmer and Bond Purchaser. Following completion of these materials and upon receipt of those materials by the Authority, the bond documents will be prepared by the Authority staff for signatures of the Beginning Farmer and Bond Purchaser.

Revised 8/93



KANSAS

KANSAS DEVELOPMENT FINANCE AUTHORITY

Joan Finney
Governor

Wm. F. Caton
President

Instructions For Submitting A

BEGINNING FARMER LOAN PROGRAM APPLICATION

*To be used for Loans by Lending Institutions, Contract Sales
or Direct Loans by Investors*

Enclosed is the requested information and application for the above Program. Following is a list of items to be submitted when making application for the program.

1. **The completed K DFA application.**
(Please pay close attention to items that are double underlined)
2. **The \$50 application fee.**
(Check made payable to the Kansas Development Finance Authority)
3. **A brief letter containing the following information on the Beginning Farmer:**
 - **experience and/or education in farming;**
 - **the Beginning Farmer's access to farm equipment, machinery or livestock, if the loan or contract is for land and/or the Beginning Farmer's access to land, if the loan or contract is for farm equipment, machinery or livestock;**
 - **the Beginning Farmer's access to operating capital and who will supply this capital;**
 - **whether interim financing will be provided for the Beginning Farmer prior to bond issuance if such financing is needed.**

K DFA will review the application within five business days of receipt. After the application is approved, the Beginning Farmer and Lender or Contract Seller will be notified by letter, which will explain the next step.

All information is available in other formats if necessary. If you have any questions regarding completion of this form, please don't hesitate to contact our office.

KANSAS DEVELOPMENT FINANCE AUTHORITY

700 Jackson, Suite 1000
Topeka, Kansas 66603
Phone: (913) 296-6747 Fax: (913) 296-6810
SW Bell TDY Service: 1-800-766-3777

APPLICATION BEGINNING FARMER LOAN PROGRAM

Note: APPROVAL OF THIS APPLICATION DOES NOT CONSTITUTE FINAL APPROVAL. The KDFA does have a present intention to issue its Bond to fund the Beginning Farmer's loan or sales contract. However, the KDFA may refuse to complete processing of documents or reduce the permitted amount of the Bond, if, prior to closing, it is discovered that the Project, in whole or in part, is ineligible for tax-exempt financing or, if, due to changes in Federal or State law or regulations, the Project should become so ineligible. A \$50 non-refundable application fee must accompany this application. A closing fee equal to 1 1/2% of the principal amount of the Bond or a minimum of \$500 must be paid at closing to KDFA.

Note: If application is being submitted with respect to a partnership, a separate application must be submitted for each partner.

TO BE COMPLETED BY BEGINNING FARMER -- Print or type all information and complete all questions.

Name _____ Spouse _____

Address _____ City _____ Zip _____

Telephone (_____) _____ Age (For Statistical Purposes) _____

1. (a) Estimated purchase or construction price of the proposed Project: \$ _____
 - (b) Amount of Project cost you intend to finance: \$ _____
 - (i) Do you intend to finance the KDFA Bond Closing Fee with the Proceeds of the Bond? Yes _____ No _____
 - (ii) If yes, Please identify amount of other fees \$ _____
 - (c) Amount of your down payment (if applicable): \$ _____
2. Description of anticipated use of proceeds ("Project") - (Example: Blank Acres of Grassland or Tractor) - Attach additional sheets if necessary.

Item	Estimated Total Cost of Item	Amount to be Financed with Bond Proceeds	Actual Expected Useful Life	New	Used
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

3. Location of Project:
- (a) Give section numbers and township and county NAMES for land, buildings, or other immovable property; for machinery, breeding stock or other movable property give the same information with respect to the headquarters of the Beginning Farmer's farm operation: (Example-Section 26, Anywhere Township, Any County, KS)

- (b) Location by road from nearest town: (Example - 4 miles north of Anytown, KS on State Highway 75) Roads must be identified, unless they are unmarked gravel roads, then state as such.

- (c) If the project consists of the construction or acquisition of buildings, structures or other immovable property (including remodeling of or additions to existing structures), will the Beginning Farmer (including spouse or minor children) be the sole owner of the land on which the project will be located? Yes _____ No _____. If no, please identify the owner(s) or co-owner(s) of the land, give the Social Security Number(s) or Federal Employer Identification Number(s) of the owner(s) or co-owner(s) and describe the length of any lease the Beginning Farmer has on such land (including any renewal options):

4. Building -- Does any part of the project consist of a building which has been or could be occupied as a dwelling and which is intended to be occupied as a dwelling in the future? Yes _____ No _____. If yes, estimated value of dwelling (including garage or similarly related structures) \$ _____.

(If yes, please attach an appraisal showing present fair market value of the dwelling and related structures and the present fair market value of the remaining buildings. If time does not permit an appraisal to be obtained before the Application is submitted, an appraisal should be submitted as soon as possible thereafter. The appraisal can be a short appraisal from a lender.)

NOTE: A DWELLING MAY LIMIT THE ELIGIBILITY OF THE PROJECT FOR FINANCING. Consult the KDFA before making an offer to buy a project containing a dwelling.

5. Seller of Project (if known): _____
 Seller's Address: _____
 City _____ State _____ Zip _____
 Relationship to Beginning Farmer, (if any): _____.

6. Have you, your spouse, or minor children ever directly or indirectly owned any land?
 Yes _____ No _____.

NOTE: The following are examples of indirect land ownership:
 a) ownership of a beneficial interest in a trust which in turn holds land.
 b) ownership of shares in a family farm corporation which owns land.
 c) a remainder interest in land which is subject to a life estate in another person.

IF YOUR ANSWER TO QUESTION 6 IS NO - SKIP TO QUESTION 12.

7. If your answer to Question 6 is yes, was the land (while you, your spouse or minor children owned it) part of a farm?
 Yes _____ No _____.

NOTE: The term "farm" includes stock, dairy, poultry, fruit, fur-bearing animal and truck farms, plantations, ranches, nurseries, greenhouses or other similar structures used primarily for the raising of agricultural or horticultural commodities and orchards.

8. If your answers to Questions 6 and 7 are yes, please describe each parcel of land you, your spouse, or minor children presently or have previously owned by its county location, its size, the time period during which you owned it and its maximum fair market value while you owned it (if the ownership is indirect, also describe the means of ownership and the total amount owned - Example, "I have a one-fourth beneficial interest in a trust; the trust holds a total of 200 acres"):

9. If your answer to Question 7 is yes, have you, your spouse, or minor children done any of the following:

- a) performed physical work on the land? Yes _____ No _____.
 b) participated in management decisions about operations on the land? Yes _____ No _____.
 c) provided regular advice and consultation on the business operations on the land? Yes _____ No _____.
 d) regularly inspected production activities on the land? Yes _____ No _____.
 e) directly or indirectly advanced funds or paid a substantial portion of the operating expenses for operations on the land? Yes _____ No _____.
 f) lived on the land? Yes _____ No _____.

If your answer to any of Question 9(a-f) is yes, please describe the degree of your involvement in each activity, the frequency of your involvement and the length of time over which your involvement occurred (Use additional sheets if necessary):

10. If your answer to Question 7 is yes, have you, your spouse or minor children disposed of any of the parcels of land described in Question 8? Yes _____ No _____. If yes, identify the parcel(s) and the approximate date disposed of:

11. If your answer to Question 10 is yes, did you, your spouse or minor children recognize income, for Federal income purposes, as the result of cancellation of indebtedness with respect to any of the parcels disposed of? Yes _____ No _____. If yes, identify the parcel(s) with respect to which income was recognized:

12. Will you provide substantially all of the management and labor in operation of the project? Yes _____ No _____. If no, explain who will be providing substantially all of the management and labor and what your role and responsibilities with respect to the farm will be:

Answer Questions 13 and 14 if your proposed Project involves acquisition of breeding stock.

13. Have any of the female animals to be acquired ever given birth? Yes _____ No _____.
 14. Have any of the male animals to be acquired ever been put to use for breeding purposes? Yes _____ No _____.

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Answer Question 15 if your proposed subject involves the acquisition of property other than land or livestock (such as machinery, equipment, building or other structures).

15. Have you, your spouse or minor children ever previously received tax-exempt financing of any kind with respect to "used" property other than land? Yes _____ No _____.

If yes, describe each "used" item, including the dollar amount of each item's purchase price which was financed with tax-exempt financing (attach additional sheets if necessary):

Note: "Used" property is subject to limitations as to eligibility for financing not to exceed \$62,500. Consult the KDFA before committing yourself to buying "used" property.

16. Will any portion of the Project be used in connection with a farm partnership, farm corporation, or other formal or informal joint farming venture? Yes _____ No _____. If yes, explain:

TO BE COMPLETED BY BEGINNING FARMER TOGETHER WITH EITHER THE LENDER, CONTRACT SELLER OR OTHER INVESTOR, WHICHEVER APPLICABLE

1. Application fee (\$50) submitted herewith: Yes _____ No _____.

(Make check, money order or cashier's check payable to "Kansas Development Finance Authority").

2. Proposed loan or contract terms:

a. Interest Rate: Fixed _____% Variable _____%

If variable rate, the formula used will be: (Example--80% of bank's prime rate, such prime rate as of this date is _____% adjusted annually): _____

NOTE: Lenders, Contract Sellers or Other Investors should review Section VIII of the Program Summary and consult with their tax advisors, when appropriate before determining the interest rate.

b. Total Term: _____ years.

c. Repayment:

(i) Frequency (choose one): monthly _____, quarterly _____, semi-annually _____, annually _____,
other (specify) _____;

(ii) Amount (choose one): \$ _____ (principal) plus _____ (interest),
\$ _____ (principal and interest),

(iii) Balloon: Yes _____ No _____ amount of balloon \$ _____;
(Please contact KDFA if a balloon on loan is proposed)

(iv) Call options as follows: _____

d. Would a loan or contract for this project and borrower have been made if there hadn't been an opportunity to lower the interest rate? Yes _____ No _____.

e. If the answer to 2d is yes, at what interest rate would you have used? _____%

CERTIFICATIONS OF BEGINNING FARMER

In submitting this Application, I, the undersigned Beginning Farmer, have read the following statements and hereby certify and agree that:

1. The Project will be located within the state of Kansas. True _____ False _____.

2. I have sufficient education, training or experience in the type of farming for which this Bond is requested. True _____ False _____. (Attach a background letter describing the education, training or experience of you and your spouse as it relates to farming.)

3. The Project (if Agricultural Land or Agricultural Improvements) shall be used only for farming by myself, my spouse and/or minor children. True _____ False _____.

4. No other person or entity (other than my spouse and/or minor children) will be a principal user of any part of the Project under any formal or informal arrangement or agreement. True _____ False _____. If false, please identify the user and describe the part and amount of use of the Project:

Occasional or casual use of it of the Project by a neighbor or relative will not make such person principal user; however, a person who is leasing the land to the Beginning Farmer, or is a co-owner of such land, upon which any immovable portion of the Project is being constructed may be considered a principal user of the Project under Federal law.

5. Neither I, my spouse and/or minor children nor any Related Person to us, as defined below, has (1) previously received tax-exempt financing from the KDFA or any other source for any kind of project or (2) been an owner or a principal user at any time of any other project or facility located in any state which has been financed with Bonds except for the following: (Write "None" or describe project and both the original and current principal balances of the tax-exempt Bonds outstanding with respect to the project. If a KDFA Bond, please list Project No.):

Note: "Related Person" as defined in Section 144(a)(3) of the Internal Revenue Code includes, among other persons: a father, mother, brother, sister, grandparent, grandchild, spouse or child, or a partnership or corporation in which the applicant or any of the foregoing relatives, individually or together, have more than a 50% interest.

6. If any other principal user of any part of the Project is named in Question 4 above or any lessor or co-owner of land upon which part of the Project will be constructed is named in Question 3 (c) of the first part of the Application, then to the best of my knowledge, neither such users, lessors, or co-owners nor any Related Persons to them, as defined above have been an owner or a principal user at any time of any other project or facility located in any state which has been financed with tax-exempt Bonds, except for the following (write "NONE" or describe project and both the original and current principal balances of the tax-exempt Bonds outstanding with respect to the Project):

Note: Federal tax law imposes a \$250,000 lifetime limit on the amount of tax-exempt financing for land and depreciable farm property which can benefit any one person, business entity or group of Related Persons, as defined above. Application of this limit is easily triggered. If you, your spouse, minor children, your landlord, co-owner of your land, or any one else who will be a user of your Project, or a Related Person (as defined above) to any of these persons, has previously received tax-exempt financing of any kind, please describe it below or on a separate sheet and immediately notify the Authority:

-
7. None of the proceeds of the Bond shall be used for the refinancing or restructuring of any existing indebtedness in whole or in part, working capital, operating purposes or for inventory or supplies for the Beginning Farmer or any Related Person, as defined above. True _____ False _____.
8. I have or will have access to adequate working capital, farm equipment, machinery or livestock (if the Bond is to be used for the acquisition of Agricultural Land) and I have or will have access to adequate working capital or Agricultural Land (if the Bond is to be used for the acquisition of Depreciable Agricultural Property). True _____ False _____.
9. I agree that the Bond may not be assumed by another person without the prior approval of the KDFA and then only if the purchaser of the property is an eligible applicant for a KDFA Bond. I presently plan to retain the property financed for the term of the Bond; however, I understand that equipment and other depreciable property may be exchanged or traded in on similar property, and other property such as breeding livestock may be added or substituted as collateral at the discretion of the Bond Purchaser without prior approval of the KDFA. I also understand that the benefits of the Bond, must be retained by myself, and no person to whom property is traded or otherwise transferred may obtain the benefits of the KDFA Bond. True _____ False _____.
10. Neither I, nor any Related Person (as described above), have commenced any acquisition or construction of any part of the Project to be financed with the proceeds of the Bond, and neither I, nor any Related Person, have entered into any contract or purchase agreement, installment or otherwise, in connection with the construction or acquisition of the Project or any part thereof, or commenced off-site fabrication, or acquisition of any portion of the Project. True _____ False _____. If false, explain:

-
11. I am not acquiring the Project directly or indirectly from a Related Person. True _____ False _____.
12. I understand and agree that an application fee shall be submitted with this application and that a Bond closing fee of 1% of the principal amount of the Bond shall be submitted to the KDFA at the time of closing; such fees may be paid from Bond proceeds and will be used by KDFA to pay expenses associated with the administration of the Beginning Farmer Loan Program. True _____ False _____.

All of the information I have provided in the application is true and complete.

Date

Signature of Beginning Farmer

Signature of Beginning Farmer's Spouse

CERTIFICATIONS OF BOND PURCHASER
(To be completed by Lender, Contract Seller or Other Investor)

The undersigned Bond Purchaser has read the following statements and hereby certifies that:

1. The Beginning Farmer is not acquiring the Project directly or indirectly from a Related Person. "Related Person" as defined in Section 144(a)(3) of the Internal Revenue Code includes, among others: a father, mother, brother, sister, grandparent, grandchild, spouse or child, or a partnership or corporation in which the applicant or any of the foregoing relatives, individually or together, have more than a 50% interest.
2. All of the proceeds of the Bond will be used for the acquisition, construction, reconstruction, equipping and installation of land, or property of a character subject to the allowance for depreciation under Section 167 of the Internal Revenue Code or other authorized costs.
3. To the best of the Bond Purchaser's knowledge, each of the Certifications of the Beginning Farmer and all other information with respect to the Project or Beginning Farmer set forth in this Application is true and correct.
4. None of the proceeds of the Bond will be used to provide working capital or the financing of inventory, supplies or other operating expenses.
5. The Bond Purchaser requests the Authority to issue and sell its Bond to the Bond Purchaser for the purpose of financing the Project.
6. The Bond Purchaser has not on the date hereof, and shall not prior to the Authority approving this application, financed or otherwise advanced moneys to the Beginning Farmer or any Related Person in connection with the Project which the Beginning Farmer expects to finance with proceeds of the Bond.

Date _____

Printed Name of Bond Purchaser _____

Printed Name of Bond Purchaser Representative and Title if Applicable _____

Signature of Bond Purchaser Representative _____

Street Address _____

City _____

State _____

Zip _____

Telephone (_____) _____

Facsimile (_____) _____

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Beginning Farm Loan Checklist

If you can answer "true" to all of the following questions, you may be able to obtain a loan at a "below market" interest rate to finance your farming projects.

- | | | | | |
|--------------------------|------|--------------------------|-------|--|
| <input type="checkbox"/> | true | <input type="checkbox"/> | false | I feel that with a "little extra help" with my financing, I could be successful in farming. |
| <input type="checkbox"/> | true | <input type="checkbox"/> | false | I want to purchase either agricultural land, agricultural improvements, depreciable agricultural property or a combination of these projects. |
| <input type="checkbox"/> | true | <input type="checkbox"/> | false | I have never had a direct or indirect ownership interest in substantial farmland. |
| <input type="checkbox"/> | true | <input type="checkbox"/> | false | I need a loan of \$250,000 or less to purchase land or to purchase or construct buildings and improvements on land, or to purchase depreciable agricultural property. Not more than \$62,500 will be used to purchase <u>used</u> depreciable agricultural property. |
| <input type="checkbox"/> | true | <input type="checkbox"/> | false | I do not intend to refinance existing debt with money borrowed through this program. |
| <input type="checkbox"/> | true | <input type="checkbox"/> | false | I am not trying to purchase land or other agricultural property from a father, mother, grandfather, grandmother, son, daughter, brother, sister, or spouse. |

The Financing Process

- The borrower seeking financing obtains an application form from his/her local lending institution, extension agent or from K DFA's office.
- The borrower and lender complete the application and negotiate terms of the loan.
- The application, background letter and application fee of the borrower is submitted to K DFA.
- K DFA will consider the application for approval shortly after its receipt. If approved, K DFA will issue a letter of intent to issue its bond. (PLEASE NOTE - THIS IS NOT A FINAL APPROVAL AND DOES NOT BIND K DFA TO THE ISSUANCE OF A BOND.)
- When the documentation and all terms of the bond issue are finalized, the borrower and lender may request final approval from the K DFA Board. K DFA must conduct a public hearing on the loan (public notice of the public hearing must be given at least 14 days before the hearing is conducted). K DFA may then approve a final bond resolution. The public hearing and final bond resolution may occur at the same Board meeting.
- After K DFA's adoption of the bond resolution, all parties may execute documents and close the bond issue. K DFA will issue a tax-exempt bond which is purchased by an investor (usually a lending institution a contract seller or other investor) with terms identical to the loan terms. The proceeds of the bond issue will then be used to fund the loan to the borrower.

About K DFA

The Kansas Development Finance Authority (K DFA) was created by the 1987 Kansas Legislature to finance capital improvements and improve access to long-term capital financing for state agencies, political subdivisions, public and private non-profit organizations and businesses. K DFA is authorized, subject to certain restrictions, to issue revenue bonds and various other debt instruments for the purpose of financing agricultural business enterprises.

K DFA is governed by a five-member Board of Directors, consisting of the Secretary of Commerce and four public members appointed by the Governor subject to confirmation by the State Senate. The Governor also appoints the K DFA President who serves at the pleasure of the Governor and who is an ex-officio, non-voting member of the Board. Not less than three members of the Board must be representative of the general public, and not more than three members may be members of the same political party. K DFA employs a permanent full-time staff of nine.

MEDIAN FARM SIZE TABLE

<u>COUNTY</u>	<u>MEDIAN FARM SIZE (ACRES)</u>	<u>15% OF MEDIAN FARM SIZE</u>	<u>COUNTY</u>	<u>MEDIAN FARM SIZE (ACRES)</u>	<u>15% OF MEDIAN FARM SIZE</u>
Allen	266	40	Linn	221	33
Anderson	302	45	Logan	978	147
Atchison	178	27	Lyon	253	38
Barber	728	109	Marion	323	48
Barton	390	58	Marshall	394	59
Bourbon	176	26	McPherson	262	39
Brown	291	44	Meade	787	118
Butler	204	31	Miami	128	19
Chase	472	71	Mitchell	484	73
Chautauqua	348	52	Montgomery	150	22
Cherokee	156	23	Morris	401	60
Cheyenne	881	132	Morton	1,096	164
Clark	886	133	Nemaha	310	47
Clay	418	63	Neosho	217	32
Cloud	675	58	Ness	780	117
Coffey	326	49	Norton	731	110
Comanche	865	130	Osage	202	30
Cowley	270	40	Osborne	602	90
Crawford	192	29	Ottawa	456	68
Decatur	867	130	Pawnee	615	92
Dickinson	335	50	Phillips	629	94
Doniphan	229	34	Pottawatomie	302	45
Douglas	133	20	Pratt	643	96
Edwards	731	110	Rawlins	863	129
Elk	409	61	Reno	270	41
Ellis	375	56	Republic	382	57
Ellsworth	541	81	Rice	466	70
Finney	888	133	Riley	264	40
Ford	516	77	Rooks	742	111
Franklin	150	22	Rush	549	82
Geary	302	45	Russell	479	72
Gove	808	121	Saline	270	41
Graham	747	112	Scott	757	114
Grant	772	116	Sedgwick	155	23
Gray	620	93	Seward	806	121
Greeley	808	121	Shawnee	129	19
Greenwood	352	53	Sheridan	735	110
Hamilton	1,117	168	Sherman	823	124
Harper	474	71	Smith	600	90
Harvey	177	27	Stafford	607	91
Haskell	878	132	Stanton	1,108	166
Hodgeman	846	127	Stevens	1,138	171
Jackson	165	25	Sumner	329	49
Jefferson	140	21	Thomas	748	112
Jewell	442	66	Trego	728	109
Johnson	105	16	Wabaunsee	323	48
Kearny	1,036	155	Wallace	964	145
Kingman	399	60	Washington	380	57
Kiowa	844	127	Wichita	821	123
Labette	172	26	Wilson	323	49
Lane	1,024	154	Woodson	379	57
Leavenworth	110	18	Wyandotte	41	6
Lincoln	471	71			

FOR MORE INFORMATION
CONTACT YOUR LOCAL BANK, COUNTY EXTENSION OFFICE OR

Dana Colombo
Kansas Development Finance Authority
Jayhawk Tower
700 S.W. Jackson, Suite 1000
Topeka, Kansas 66603
Office: (913) 296-6746
Fax: (913) 296-6810
SW Bell TDD Service: 1-800-766-3777

	PARTICIPATING LENDERS	CITY AND STATE
1	Citizens Bank & Trust Co.	Abilene, KS
2	Farmers National Bank	Abilene, KS
3	First National Bank	Alma, KS
4	First National Bank	Anthony, KS
5	The Citizens National Bank	Belleville, KS
6	The Bennington State Bank	Bennington, KS
7	Beverly State Bank	Beverly, KS
8	Ernest W. Mitts	Bonner Springs, KS
9	Bucklin State Bank	Bucklin, KS
10	First State Bank	Burlingame, KS
11	Caldwell State Bank	Caldwell, KS
12	Farmers State Bank & Trust Co.	Canton, KS
13	Union State Bank	Clay Center, KS
14	First National Bank	Clifton, KS
15	Thomas County National Bank	Colby, KS
16	The Citizens National Bank	Concordia, KS
17	State Bank of Conway Springs	Conway Springs, KS
18	Farmers & Drovers Bank	Council Grove, KS
19	State Bank of Delphos	Delphos, KS
20	Bank of the Southwest	Dodge City, KS
21	Fidelity State Bank and Trust Co.	Dodge City, KS
22	First National Bank & Trust Co.	Dodge City, KS
23	First United National Bank & Trust Co.	Ellinwood, KS
24	State Bank of Esbon	Esbon, KS
25	First National Bank	Frankfort, KS
26	First National Bank	Goodland, KS
27	American State Bank & Trust Co.	Great Bend, KS
28	First United National Bank & Trust Co.	Great Bend, KS
29	Citizens State Bank	Gridley, KS
30	The Halstead Bank	Halstead, KS
31	Hanston State Bank	Hanston, KS
32	Farmers State Bank	Hardtner, KS
33	Freeport State Bank	Harper, KS
34	First National Bank & Trust	Hays, KS
35	The Hesston State Bank	Hesston, KS
36	The Consolidated State Bank	Hill City, KS
37	Emprise Bank, N.A.	Hillsboro, KS
38	First National Bank	Hoxie, KS
39	United Bank	Inman, KS
40	Central National Bank	Junction City, KS
41	First National Bank & Trust Co.	Junction City, KS
42	The Kearny County Bank	Lakin, KS
43	Douglas County Bank	Lawrence, KS
44	First National Bank	Lawrence, KS
45	State Bank of Lebo	Lebo, KS
46	First State Bank	Leoti, KS
47	First National Bank & Trust	Logan, KS
48	First National Bank & Trust	Long Island, KS
49	Lyndon Sate Bank	Lyndon, KS

	PARTICIPATING LENDERS	CITY AND STATE
50	Manhattan National Bank	Manhattan, KS
51	Citizens State Bank	Marysville, KS
52	Bank of Minden	Mindenmines, MO
53	The Bennington State Bank	Minneapolis, KS
54	Citizens State Bank	Moundridge, KS
55	First State Bank	Norton, KS
56	The Bank	Oakley, KS
57	Farmers National Bank	Oberlin, KS
58	The Bank	Oberlin, KS
59	Farmers State Bank	Offerle, KS
60	Olpe State Bank	Olpe, KS
61	Citizens State Bank	Osage City, KS
62	Citizens State Bank	Paola, KS
63	Farmers National Bank	Phillipsburg, KS
64	First National Bank & Trust	Phillipsburg, KS
65	First National Bank	Pratt, KS
66	Peoples State Bank	Rexford, KS
67	Peoples State Bank	Rossville, KS
68	Russell State Bank	Russell, KS
69	Bank of Tescott	Salina, KS
70	Sunflower Bank, N.A.	Salina, KS
71	The Bennington State Bank	Salina, KS
72	Selden State Bank	Selden, KS
73	Community National Bank	Seneca, KS
74	The First National Bank of Centralia	Seneca, KS
75	Smith County State Bank & Trust Co.	Smith Center, KS
76	First National Bank	St. Marys, KS
77	Haskell County State Bank	Sublette, KS
78	Sylvan State Bank	Sylvan Gove, KS
79	Tampa State Bank	Tampa, KS
80	Merchants National Bank of Topeka	Topeka, KS
81	Grant County Bank	Ulysses, KS
82	Kaw Valley State Bank & Trust Co.	Wamego, KS
83	First National Bank	Wellington, KS
84	Farmers State Bank	Westmoreland, KS
85	Silver Lake Bank	White Cloud, KS
86	The Bank	Winona, KS
87	Girard National Bank - Yates Center Branch	Yates Center, KS

	PARTICIPATING SELLERS	CITY AND STATE
1	Ridge Whitelaw	Anthony, KS
2	David L. Blomberg	Clay Center, KS
3	Pamela A. Schmid	Council Grove, KS
4	Tom L. & Kay A. Herrmann	Dodge City, KS
5	Ronald E. & Carolyn L. Holland	Osage City, KS
6	Anita J. Evans	Topeka, KS

Beginning Farmer Loan Program Number of Loans Closed & Amount in Dollars May 1, 1990 – June 30, 1995

By County

	<u>1</u> \$67,860	<u>3</u> \$512,796	<u>5</u> \$227,673	<u>5</u> \$220,005		<u>2</u> \$99,255	<u>1</u> \$90,000		<u>5</u> \$189,400	<u>5</u> \$316,800	<u>1</u> \$50,000	<u>3</u> \$358,632	
CHEYENNE	RAWLINS	DECATUR	NORTON	PHILLIPS	SMITH	JEWELL	REPUBLIC	WASHINGTON	MARSHALL	NEMAHA	BROWN	DONIPHAN	
<u>2</u> \$216,548	<u>3</u> \$324,284	<u>3</u> \$301,000	<u>3</u> \$232,791		<u>1</u> \$53,695		<u>6</u> \$502,451	<u>3</u> \$163,628		<u>2</u> \$96,071	<u>4</u> \$192,372	<u>3</u> \$287,120	
SHERMAN	THOMAS	SHERIDAN	GRAHAM	ROOKS	OSBORNE	MITCHELL	CLOUD	CLAY	RILEY	POTTAWATOMIE	JACKSON	ATCHISON	LEAVENWORTH
	<u>1</u> \$169,700	<u>1</u> \$180,000		<u>1</u> \$100,000	<u>3</u> \$118,151	<u>9</u> \$447,549	<u>16</u> \$1,429,125	<u>5</u> \$218,020	<u>1</u> \$90,000	<u>2</u> \$65,577	<u>2</u> \$82,282	<u>3</u> \$287,120	WY.
WALLACE	LOGAN	GOVE	TREGO	ELLIS	RUSSELL	LINCOLN	OTTAWA	CLAY	GEARY	WABAUNSEE	SHAWNEE	DOUGLAS	JOHNSON
	<u>1</u> \$50,939				<u>1</u> \$30,000	<u>2</u> \$134,693	<u>9</u> \$607,751	<u>5</u> \$218,020	<u>1</u> \$66,600	<u>5</u> \$307,960	<u>15</u> \$1,162,469	<u>1</u> \$19,458	
DREELEY	WICHITA	SCOTT	LANE	NESS	RUSH	ELLSWORTH	SALINE	DICKINSON	MORRIS	OSAGE	FRANKLIN	MIAMI	
	<u>1</u> \$114,375	<u>12</u> \$1,050,812		<u>1</u> \$41,500			<u>4</u> \$119,000	<u>3</u> \$155,480		<u>1.5</u> \$59,600		<u>4</u> \$267,336	
HAMILTON	KEARNY	FINNEY	HODGEMAN	PAWNEE	BARTON	RICE	MCPHERSON	MARION	CHASE	LYON	COFFEY	ANDERSON	UNN
	<u>1</u> \$114,213	<u>2</u> \$268,680	<u>10</u> \$988,050	<u>2</u> \$137,292		<u>1</u> \$41,090	<u>4</u> \$241,143			<u>1</u> \$25,000	<u>2.5</u> \$187,200		
STANTON	GRANT	HASKELL	GRAY	FORD	EDWARDS	STAFFORD	HARVEY	RENO	GREENWOOD	WOODSON	ALLEN	BOURBON	
	<u>1</u> \$114,213	<u>2</u> \$268,680		<u>3</u> \$253,492								<u>1</u> \$33,500	
MORTON	STEVENS	SEWARD	MEADE	CLARK	PRATT	KINGMAN	SEDGWICK	BUTLER	ELK	WILSON	NEOSHO	CRAWFORD	
				<u>1</u> \$97,500	<u>1</u> \$51,776	<u>6</u> \$453,281	<u>19</u> \$1,320,280						
				COMANCHE	BARBER	HARPER	SUMNER	COWLEY	CHAUTAUQUA	MONTGOMERY	LABETTE	CHEROKEE	

