Approved: 3-5-96
Date

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE

The meeting was called to order by Chairperson David Corbin at 10:00 a.m. on February 22, 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 McClaflin, Committee Secretary

Conferees appearing before the committee:
Mike Jensen, Kansas Pork Producers Council
Gary Stanford, President-elect of Kansas Pork Producers, Admire, KS
Ivan Wyatt, Kansas Farmer's Union

Others attending: See attached list

Joe Lieber's testimony supporting **SB 704** (Attachment 1) and **SB 705** (Attachment 2), was distributed. A fiscal note on **SB 641** was distributed.

**SB 641 - concerning agricultural corporation.**

Chairperson called on Mike Jensen to testify on **SB 641.**

Mike Jensen said his council ask to have the bill introduced, as it would allow producers to operate larger family farms. This bill would allow Kansas family farms to have the business choice of remaining competitive in the swine industry. They would still have to meet current Kansas statutory requirements (Attachment 3). He distributed a handout from the Kansas Pork Producers Council with information on the organization (Attachment 4). Mr. Jensen introduced Gary Stanford. Mr. Jensen responded to questions.

Mr. Stanford support **SB 641**. He is a pork producer from Admire, Kansas. No written testimony.

Ivan Wyatt testified in opposition to **SB 641**. No written testimony. Mr. Wyatt responded to questions.

Staff pointed out a technical amendment that was needed on page two of the bill.

A motion was made by Senator Steffes the bill be amended and be passed as amended. The motion was seconded by Senator Sallee. Motion carried.

The meeting adjourned at 11:00.

The next meeting is scheduled for February 23, 1996.

# SENATE AGRICULTURE COMMITTEE GUEST LIST

DATE: 2-22-96

| NAME | REPRESENTING |
|---|---|
| Mark Barcellina | KDOC&H |
| Ivan Wyatt | Ks Farmers Union |
| Gary Stanford | K.P.P.C. |
| Greg Krissek | KS Dept of Ag |
| Carole Jordan | Dept of Ag |
| Mary Jane Stattelman | KDA |
| Rick Hoffman | Seaboard Farms |
| Chris Wilson | KS Veterinary Medical Ass'n |
| Kerri Ebert | KS Dairy Assn. |
| Joe Lieber | KS Co-op Council |
| Marty Vanier | KS Ag Alliance |
| Rich McKee | KLA |
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Testimony of SB 704
Senate Agriculture Committee
February 21, 1996
By Joe Lieber
Kansas Cooperative Council

Mr. Chairman and members of the committee, I'm Joe Lieber, Executive Vice President of the Kansas Cooperative Council. The Council has a membership of over 200 cooperative businesses; with nearly 150 of them being local farm supply cooperatives. Most of these farm supply members sell petroleum products.

The cooperatives understand the importance of having correct dispensing devices when selling petroleum products. The majority of these sales are to their member/owners. If the devices are not functioning properly, it could be cheating the member/owners one of two ways.

First, if the device is charging the buyer more than it should, then the member/owners are paying additional money out of their pockets. Second, if the device is cheating the co-op, then the member/owners are losing money in the form of a patronage refund at the end of the year.

Even though the Council is opposed to any increase in fees, we feel that the half cent increase on a barrel of fuel is acceptable.

So, to insure that the dispensers are correct, we support the provision of SB 704.

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attachment 1

Testimony of SB 705
Senate Agriculture Committee
February 21, 1996
By Joe Lieber
Kansas Cooperative Council

Mr. Chairman and members of the committee, I'm Joe Lieber, Executive Vice President of the Kansas Cooperative Council. The Council has a membership of over 200 cooperative businesses; with nearly 150 of them being local farm supply cooperatives. Most of these farm supply members have large scales.

It is to the cooperative's advantage to have correct scales, because they buy and sell products over these scales, so it is important that they are in compliance.

The Council sees no problem with service companies checking the scales as long as the state does a good job checking the checkers.

The Council does not want to see any additional cost to our members and hopes the State can maintain their program by licensing fees for the service companies and certification fees and education programs for the technical representatives of the service companies.

The fees will not automatically be passed on to our members because the service companies will have to be competitive.

The Council is opposed to any fee including any type of scale registration fee.

We feel that SB 705 supports our position, so we therefore support it. Thank you.

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attachment 2

KANSAS • PORK PRODUCERS • COUNCIL
KPPC
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# Senate Bill 641

presented by Mike Jensen

on behalf of the

Kansas Pork Producers Council

Mr Chairman and members of the committee, I am Mike Jensen, Executive Vice-President of the Kansas Pork Producers Council. I also have with me today, Gary Stanford, the President-elect of our association. We are here today in support of SB 641.

Currently. Kansas family farmers who operate under Kansas statutes as "Family Farm Corporations" (FFC's) or "Limited Liability Agricultural Companies" (LLAC's) cannot pool their financial resources in business with others of the same.

The past decade has brought exponential technological changes to the swine industry. Our producers have attempted to utilize these changes to increase their profitability and competitiveness. However, in order to adopt some of these advances, producers find they need to operate a larger family farm than they currently have. One avenue they have is to pool their resources with other producers to achieve an effective "larger size". This bill would allow that opportunity. Specifically this bill does the following:

1. Establishes a new business entity of " Family Farm Limited Liability Agricultural Company" (FFLLAC). This is a Limited Liability Company that has the business restrictions of a Limited Liability Agricultural Company with the additional restrictions of family ownership as reflected in current Kansas statute as a Family Farm Corporation. This requires that the <u>majority</u> of both <u>owners</u> and <u>ownership</u> be related to common ancestry within the third degree.

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2.Changes the definition of Limited Liability Agricultural Companies and Authorized Farm Corporations (AFC's) to allow either or both Family Farm Corporations and Family Farm Limited Liability Agricultural Companies to be owners. Current statute essentially allows only " natural persons', not any business entity from ownership.

3. Deletes the requirement that LLAC's or AFC's have a minimum number or percentage of owners "actively engaged in day to day labor or management of the farming operation". It retains this requirement on FFC's and FFLLAC's.

This bill will not expand the ability of any entity, not currently able to own land in Kansas, from doing so. This bill will allow Kansas family farms to have the business choice of remaining competitive in our industry.

The deletion of the " active management" language is very important for our producers. Our overall goal is to produce a consistent, quality product for the consumer. As such, we are striving to reduce the usage of antibiotics on our farms. By utilizing production sites that are physically separated, and restricting human traffic between them, our producers can actually eliminate antibiotic usage and even increase their production.

This deletion only impacts the AFC's and LLAC's. It would still be required of our own family operations. The net result is - if you want to pool your business resources with other family farmers you would still have to meet current Kansas statutory requirements.

I have also include a reprint of a trade publication that briefly outlines some of the business opportunities open to producers who want to pool their resources. I would also encourage you to address any questions to Gary Stanford regarding production issues and how he or any Kansas producer might utilize these opportunities.

# EVALUTATING PRODUCER NETWORKS

A growing number of independent pork producers are looking to production alliances as a way to make their operations more competitive. The previous article looked at some of the important factors that should be considered before starting or joining a network.

The purpose and structure of production alliances is limited only by the imagination of the participants. Many of these alliances are designed to allow individual producers to specialize in the phase or phases of pork production for which their operation and talents are best suited. However, a cooperative production arrangement will work only if all parties have the same goal and share in the benefits.

Here are some examples of the most popular and successful production alliances being formed and operated today.

### Cooperative Farrowing

These are improved versions of the "feeder pig coops" that popped up in the 1970s. Few of those units enjoyed long-term success for a variety of reasons, but many feel the lessons learned then give this type of production network a greater opportunity to succeed today.

Why is cooperative farrowing working better now than 15 to 20 years ago? Those involved with successful groups say better facility design and management techniques for farrowing units are a huge plus. Even more important, participants now understand these units cannot be managed by committee. Owners are normally not involved in the day-to-day operation of successful farrowing cooperatives. It's usually best to hire an outside manager or management group to make all operational decisions.

The concept calls for a group of farmers to pool their resources and build a high-quality farrowing unit that will provide investors with a steady supply of pigs. Breeding and gestation units are also jointly-owned in most cases. Some cooperative farrowing groups also have nursery facilities, while others move young pigs to independently-owned nurseries at weaning to capture the benefits of segregated early weaning (SEW).

Who would be interested in this type of production alliance? Typically, members of a cooperative farrowing arrangement would fall into one of two categories:

(1) Pork producers who want to specialize in finishing hogs. These operations often have outdated farrowing houses. Some of these older buildings can be converted to either a high-quality nursery or additional finishing space.

(2) Grain farmers looking for a way to add value to corn production and have a more consistent cash flow. In addition to investing in the jointly-owned farrowing unit, most of these participants also invest in their own finishing and/or nursery facilities.

### Co-mingling Nurseries

This type of production alliance is designed to use segregated early weaning techniques to put together large groups of feeder pigs of similar health status. Feeder pig producers who don't raise large enough groups of pigs to command top prices are attracted to co-mingling nurseries. So are individuals who enjoy managing their own farrowing unit and want to concentrate on that phase of production.

Yet another candidate for this type of production network is a farrow-to-finish producer who needs to made a major capital investment to upgrade nursery facilities. A cooperative nursery can reduce the amount of capital needed to stay competitive.

Although successful in some situations, co-mingling nurseries have not worked as well as many veterinarians expected when SEW technology emerged a few years ago. Differences in the health status of the sow herds the pigs come out of can make health care in the co-owned nursery a constant challenge.

### Gilt Production Alliances

Jointly-owned gilt multiplier units are a production alliance that allows producers to capture the benefits of a terminal crossbreeding program at a more reasonable cost for replacement gilts. Another potential payoff of this type of arrangement is higher carcass premiums for market hogs, especially if it allows a farrow-to-finish operation to switch from a rotational to a terminal crossbreeding program.

The network's goal is to produce a consistent number of gilts of known health status and genetics. Gilts from most multiplier units are used to produce market hogs. In some cases, however, they're used to produce outstanding grandparent females to stock the members' gilt multiplier herds.

The role of gilt production coops is sometimes carried a step further to include a gilt breeding unit. Under this type of arrangement, gilts are not moved to members' farms until they're bred. Normally, these females are not returned to be rebred after weaning.

### Sow Pools

This is a concept that's very popular in Sweden and is starting to be utilized in the United States. Jointly-owned breeding centers are used during breeding and at least a portion of the gestation period. Bred females are moved to members' farms to farrow, then are returned to breeding units after weaning.

This strategy allows small and mid-sized operations to improve breeding performance, better utilize superior boars and make more rapid genetic progress. Because this is a highly specialized facility, heat detection and breeding management can be fine-tuned. Artificial insemination can be utilized with the members sharing the higher cost for facilities and management.

Because sows are moved to a different location immediately after weaning, some of the health advantages of SEW may be captured without having an off-site nursery. However, there are also health risks associated with a central breeding facility. Sows returning to the breeding center may carry diseases from participants' herds.

### Boar Studs

The growing popularity of artificial insemination to hasten genetic improvement has opened several networking possibilities, including joint ownership of a boar stud, semen collection and distribution center. By working with other operations, a producer can tap into the benefits of AI without investing in high-quality facilities. A cooperative approach can also reduce the cost of buying and maintaining superior boars.

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## Introduction

The Kansas Pork Producers Council represents pork producers across the state. Since 1956, the organization has been involved in producer education programs, pork promotion and research initiatives. The producer membership has also charged the organization with monitoring regulatory and legislative issues affecting our industry.

## Background

The pork industry across the United States has experienced a phenomenal growth in the utilization of alliances and networking to enhance profitability. These alliances are often characterized by producers banding together in production ventures to own or control their own source of breeding stock, feed supplies and marketing.

Currently, Kansas law prohibits any family farm corporation or limited liability agricultural company from being involved as a stockholder in any of those same ventures. Producers in other states have experienced a revitalization of their own family farms when they were allowed to have the business tools to allow them to be competitive.

## Goals

The law changes, as we propose, would expand the authority of Limited Liability Agricultural Companies and Authorized Farm Corporations to allow Family Farm Corporations and Family Farm Limited Liability Agricultural Companies to participate as business entities.

The common link in all these changes revolves specifically around family operations. The accompanying sheet graphically represents what the changes would allow. Also attached is specific legal language with the changes that we are seeking to accomplish.

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attachment 4

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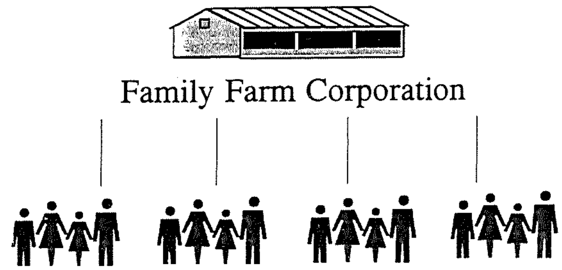
# Multiple-ownership Business Structures Currently Available in Kansas

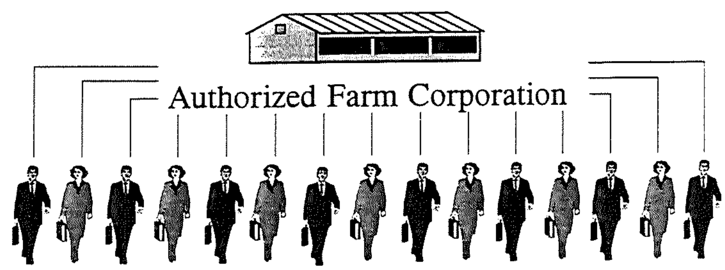
Family Farm Corporation

1. The majority of stockholders must be related.
2. There is no limit on the number of stockholders.
3. All stockholders must be natural people.*
4. At least 1 stockholder must be involved in daily management.



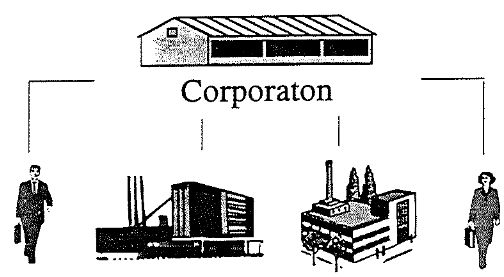

Authorized Farm Corporation

1. The primary business is farming.
2. There are no more than 15 stockholders.
3. All stockholders must be natural people.
4. At least 1/3 of stockholders must be in daily management.



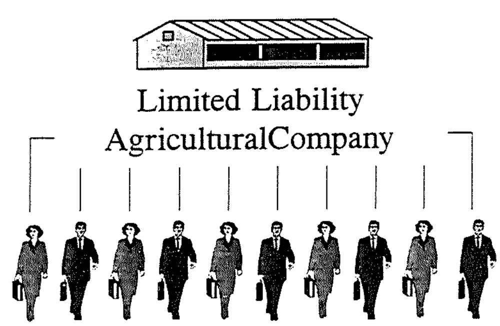

Corporation

1. There is no limit on number of stockholders or type -- natural person, corporation, etc.
2. It is legal to raise hogs in Kansas only in approved counties.




Limited Liability <u>Company</u>
(Limited Liability Agricultural <u>Company</u>)

1. There are no more than 10 owners.
2. All owners must be natural people.
3. At least 1 owner must be involved in daily management.




*A natural person is an individual, not any type of business -- partnership, corporation, or other.

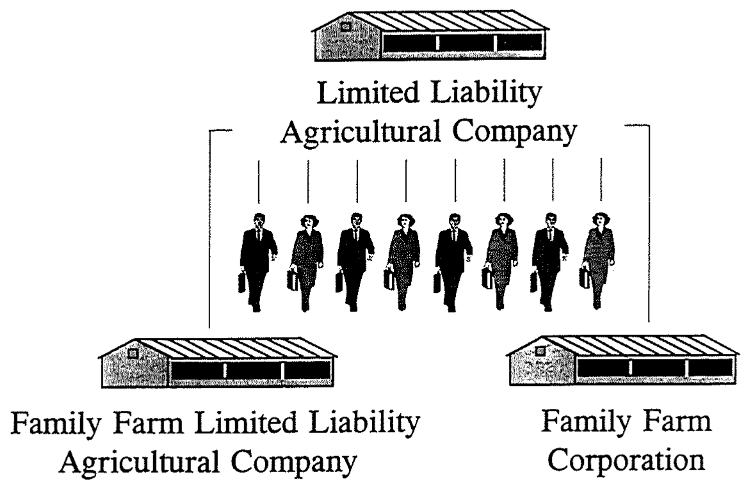
# Proposed Business Structures

Family Farm Limited Liability Agricultural Company

1. The majority of owners must be related.
2. There is no limit on the number of owners.
3. All owners must be natural people.*
4. At least 1 owner must be involved in daily management.

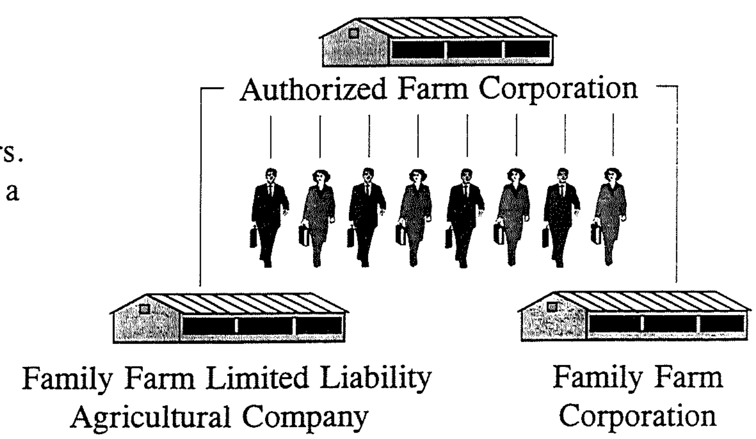

Limited Liability Agricultural Company

1. There are no more than 10 owners.
2. Owners can be natural people, a Family Farm Corporation or a Family Farm Limited Liability Agricultural Company.




Authorized Farm Corporation

1. The primary business is farming.
2. There are no more than 15 stockholders.
3. Stockholders may be natural people or a Family Farm Corporation or a Family Farm Limited Liability Agricultural Company




*A natural person is an individual, not any type of business -- partnership, corporation, or other.