

Approved: 3-6-97  
Date

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE.

The meeting was called to order by Chairperson Steve Morris at 10:00 a.m. on March 5, 1997 in Room 423-S of the Capitol.

All members were present except: All present

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

Conferees appearing before the committee:

Senator Pat Ranson  
Tom Tunnell, President, Kansas Grain and Feed Association  
Allie Devine, Secretary, Kansas State Department of Agriculture  
David J. Warrington, Kansas Grain Advisory Commission

Others attending: See attached list

A motion was made by Senator Corbin to approve the minutes of the February 24 meeting as submitted. Senator Umbarger seconded. Motion carried.

**SB 317: An act abolishing the Kansas State Grain Inspection Department**

Senator Pat Ranson testified before the Committee in reference to a study done by the Privatization Council in 1994 in which the issues of privatization of public departments were studied. She noted that the Grain Inspection Department was identified in this study as a candidate for privatization. She stated Kansas is one of the few states in which the functions of the Grain Inspection Department are still conducted by a public department.

Tom Tunnell, President, Kansas Grain and Feed Association, provided testimony in support of **SB 317 (Attachment 1)**. He stated **SB 317** would relocate the grain warehouse licensing branch of the Kansas Grain Inspection Department to the Kansas Department of Agriculture and would privatize the inspection division. He noted that the grain inspection division is a designated agency of the U.S. Department of Agriculture's Grain Inspection, Packers and Stockyards Administration (Federal Grain Inspection Service), which means that all the division's grain grading activities are directly supervised and conducted pursuant to the U. S. grain standards. Mr. Tunnell advised the new grain grading entity would operate in exactly the same way as Kansas Grain Inspection Department because it would become the federally approved agency in Kansas.

Allie Devine, Secretary of the Kansas Department of Agriculture, provided written testimony in support of **SB 317 (Attachment 2)**. She gave some background regarding the licensing of grain elevators under either the state or federal law. She stated the licensing fees under federal law are generally slightly lower than state fees, however, the State of Kansas audits facilities every year and the federal facilities are audited once every three years. Secretary Devine advised her Department intends to blend the administration of this program into their current operations and, therefore, the Governor's FY 1998 Budget figures should be adequate. In the event there is a shortfall in FY 1999, the bill provides the Secretary of Agriculture the authority to raise fees, which they will likely need to do.

David Warrington, representing the Kansas Grain Advisory Commission, testified in support of **SB 317 (Attachment 3)**, stating they have studied other grain inspection services in other states that are the designated official inspection service. He advised they propose to pattern the private entity after the State of Nebraska's, Lincoln Grain Inspection Service, which is set up as a trust with three independent directors. Mr. Warrington stated it is necessary that the Grain Inspection Service be operated on a 24 hour a day, 7 day a week basis because the unloading and loading of grain requires official inspections and certified weighing at all hours of the day and night. The railroads now require loading of car trains in 12-18 hours, no matter what time of day

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE, Room 423-S Statehouse, at 10:00 a.m. on March 5, 1997.

or night the train comes in. He noted that the Kansas Grain and Feed Association represents 99% of the grain handling and storage space in Kansas and therefore is the appropriate organization under which to operate the grain inspection division. He advised that determining grain grading, practice and procedure is strictly governed by Federal Grain Inspection Services directly under the Grain Inspection, Packers and Stockyards Administration.

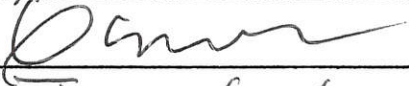
The hearing on **SB 317** is to be continued.

The meeting was adjourned at 11:00 a.m.

The next meeting is scheduled for March 6, 1997.

# SENATE AGRICULTURE COMMITTEE GUEST LIST

DATE: 3-5-97

NAME	REPRESENTING
Ron Scheibmeier	KS Grain Insp
Gary M Bothwell	Ks. Grain Insp.
Rebecca Fleming	Ks Grain Insp.
Don Watson	KS GRAIN INSP.
Bill Fuller	Kansas Farm Bureau
Jere White	KS Corn Growers
Dana Warrington	Collingwood Drain
JACK DUTRA	JD Information Services, Inc.
Allen Humphrey	DoA - DPS
NOBLE MORRELL	DoA - DPS
DEAN KENNEDY	LEADERSHIP WINFIELD
	KDA
Joe Lober	KS-Co-op Council
Greg Tugha	KDA
Frank Joubert	Winfield, KS
Mike Thi	Winfield KS
Krista McMerlin	Winfield, KS
Jerre W. Nolte	Winfield, KS.
Martin J. Koel	Winfield KS



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**STATEMENT OF THE  
KANSAS GRAIN AND FEED ASSOCIATION**

**BEFORE THE**

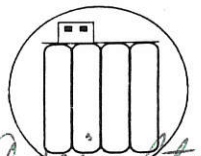
**SENATE AGRICULTURE COMMITTEE  
SENATOR STEPHEN MORRIS, CHAIRMAN**

**REGARDING SENATE BILL 317**

**MARCH 5, 1997**

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KGFA, promoting a viable business climate through  
sound public policy for a century.



*Senate Agriculture  
Attachment 1  
March 5, 1997*

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The Kansas Grain and Feed Association .....  
..... a voluntary state organization founded in 1896 providing  
governmental representation, educational opportunities and a wide  
variety of professional services to the vast and indispensable grain  
and feed industry. The 1150 member firms of the KGFA include  
country elevators, terminal elevators, flour mills, feed manufacturers,  
grain merchandisers and allied industries.

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Chairman Morris and members of the Senate Agriculture Committee, thank you for the opportunity to appear before you today to explain why the Kansas Grain and Feed Association supports Senate Bill 317.

I am Tom R. Tunnell, and I am employed by the Kansas Grain and Feed Association in the capacity of President. The Kansas Grain and Feed Association is a 100-year old, voluntary, not-for-profit trade association that includes member firms who receive, store, process and ship grain. We are proud to say KGFA's over 900 member elevators represent 99% of all commercially licensed grain storage in Kansas. Here is a Kansas map that depicts where our member elevators are located.

Senate Bill 317 would accomplish two objectives should it become law. First it would relocate the grain warehouse licensing branch of the Kansas Grain Inspection Department to the Kansas Department of Agriculture. Secondly, it would privatize the inspection division. Gary Bothwell, Director and Ron Scheibmeir, Chief Warehouse Examiner are here today should you have questions, but as I understand it, they will not testify. However, Secretary of Agriculture Allie Devine will follow me and speak to the specifics of how the grain warehouse licensing division transfer would be handled. Consequently, I will focus most of my remarks on the grain inspection division.

But before I do, let me direct your attention to the Department's organization chart.

The Kansas Grain Inspection Department was established in 1897, one year after the Kansas Grain and Feed Association. Its grain inspection division is a designated agency of the United States Department of Agriculture's Grain Inspection, Packers and Stockyards Administration, Federal Grain Inspection Service. What this means in simple terms is, all of the division's grain grading activities are directly supervised and conducted pursuant to the

United States Grain Standards. Here are a couple of recently graded samples of wheat. Can you tell which is U.S. #1 and which one is not?

Under changes proposed in SB 317, the new entity -- Kansas Grain Inspection Service, Inc. -- would operate in exactly the same way as KGID because it would become the federally approved agency in Kansas.

Why are we asking the Legislature to allow grain inspection to be privatized? The answer is this: we want a more efficient, responsive, cost-effective service, that can better deal with changes in our marketplace. Now under state control the department must abide by state purchasing and work rules. This causes inefficiencies and cost overruns. As an example, in the recent past, the agency paid \$45,000 more for protein analyzers and \$7,500 more for computer software than would have been paid had both been purchased in a timely fashion from the open market. Also if one of our elevators wants to load a 100-car unit train on Martin Luther King's Birthday, or the day after Thanksgiving or Veteran's Day, it is too bad because the state grain inspection offices are closed. Further, if personnel changes are needed at one of the eight inspection stations the division must go through the long difficult process required by state personnel rules that can take up to six months before changes can be accomplished. These are only a few examples of the inefficiencies. If you want a more complete list it can be provided.

Finally, for the privilege of being a fully fee-funded state agency--*let me add emphasis here*--since 1897 NOT ONE DOLLAR OF TAX PAYER MONEY HAS EVER GONE TO SUPPORT THE STATE GRAIN INSPECTION DIVISION, it has always been supported by fees from the GRAIN INDUSTRY--a \$200,000 payment must be paid annually to the state's general fund. I have a letter dated January 18, 1995, from the Department of Administration, Division of Accounts and reports to then KGID Director Hamm that says the



state spent \$32,708 on the department for the year ending June 30, 1995. Not too bad a deal for the state, but certainly not fair to the Kansas grain industry.

In order for the Kansas Grain Inspection Service, Inc.--the envisioned privatized agency to receive the "official" designation from the USDA, it must be established in such a way as to demonstrate it is clearly independent and shielded from the direct influence of our association or its membership. To do this our attorney has reviewed organizational structures previously approved by USDA and has patterned ours after a structure used to set up the Lincoln Inspection Service in Lincoln, Nebraska. Please turn your attention to this flow chart. This chart describes the method by which the Kansas Grain and Feed Association will establish a private agency to maintain the viability of official grain inspection in Kansas. Again, the reason the association cannot operate the agency is the need to avoid all conflicts which would compromise the integrity of the service in any way. We are confident this can be done to the satisfaction of the USDA and at a lower cost to the producers and grain companies who use the service.

First on the chart is the Kansas Grain and Feed Association which, as I said is the organization sponsoring the effort. The Kansas Grain and Feed Association's support supplies an interest by the industry in the continued operation of an "official" agency supplying services to all in Kansas needing those services.

Second is the new entity, a Kansas Corporation established for the purpose of assuming the role of the State agency now designated by the USDA to provide the official services in Kansas.

Third is the Voting Trust which is the tool used to ensure the Association's interest does not interfere with the operation of the agency. Trustees named in the voting trust agreement hold and control the shares of the new corporation in their names. They exercise

the voting rights attendant to ownership of those shares. The three trustees in the organization of the Agency in Lincoln were parties free from conflicts under USDA standards and were designated because of their professional qualifications. These individuals included a banker, a university professor and an attorney.

Fourth is the Board of Directors elected by the designated trustees in the voting trust above. These individuals also must be free of any conflict and may or may not be the same as the trustees.

Fifth are the officers of the new corporation. The President and the Secretary are chosen by the Directors and the corporation may have other officers as prescribed by the by-laws of the corporation. The officers are charged with the responsibility of operating the agency in providing the inspection services pursuant to the agency designation by the USDA.

Sixth listed are the prospective employees of the new corporation who are presently employees of the state of Kansas. The new private corporation intends to employ the same employees and use the same facilities currently used by the state.

Two weeks ago Secretary Devine, Director Bothwell and I met with USDA officials in Washington DC, and the just described organizational structure was the outgrowth of that meeting. The USDA designation for the Kansas grain inspection is up for renewal this year as it expires effective August 31, 1997. However, if this Legislature passes SB 317, the new service can begin on July 1, 1997. I have attached the March 5, 1997 *Federal Register* which contains this renewal announcement.

We recently met with Budget Director Timmer and understand amendments are needed to the bill to satisfy certain concerns regarding the transfer of the grain inspection

equipment and reserve fund to the new Kansas Grain Inspection Service, Inc. I believe the revisor has those amendments.

I have also discussed the proposal in depth with Attorney General Stovall. Her office conducted a preliminary overview of state law pertaining to asset transfer from state to private entity and they believe such a transfer is legal.

We have also received complete support and encouragement from the Graves Administration in the pursuance of this legislation.

In closing let me say, SB 317 provides you, as legislators, with the unique and rare opportunity to improve the efficiency and effectiveness of a vitally important service provided to the rapidly changing Kansas grain industry. Specifically, it will emancipate the burden of a totally fee-funded program having to forfeit \$200,000 to the state of Kansas, and will enable new, innovative services to be provided at the least possible cost to the Kansas grain industry.

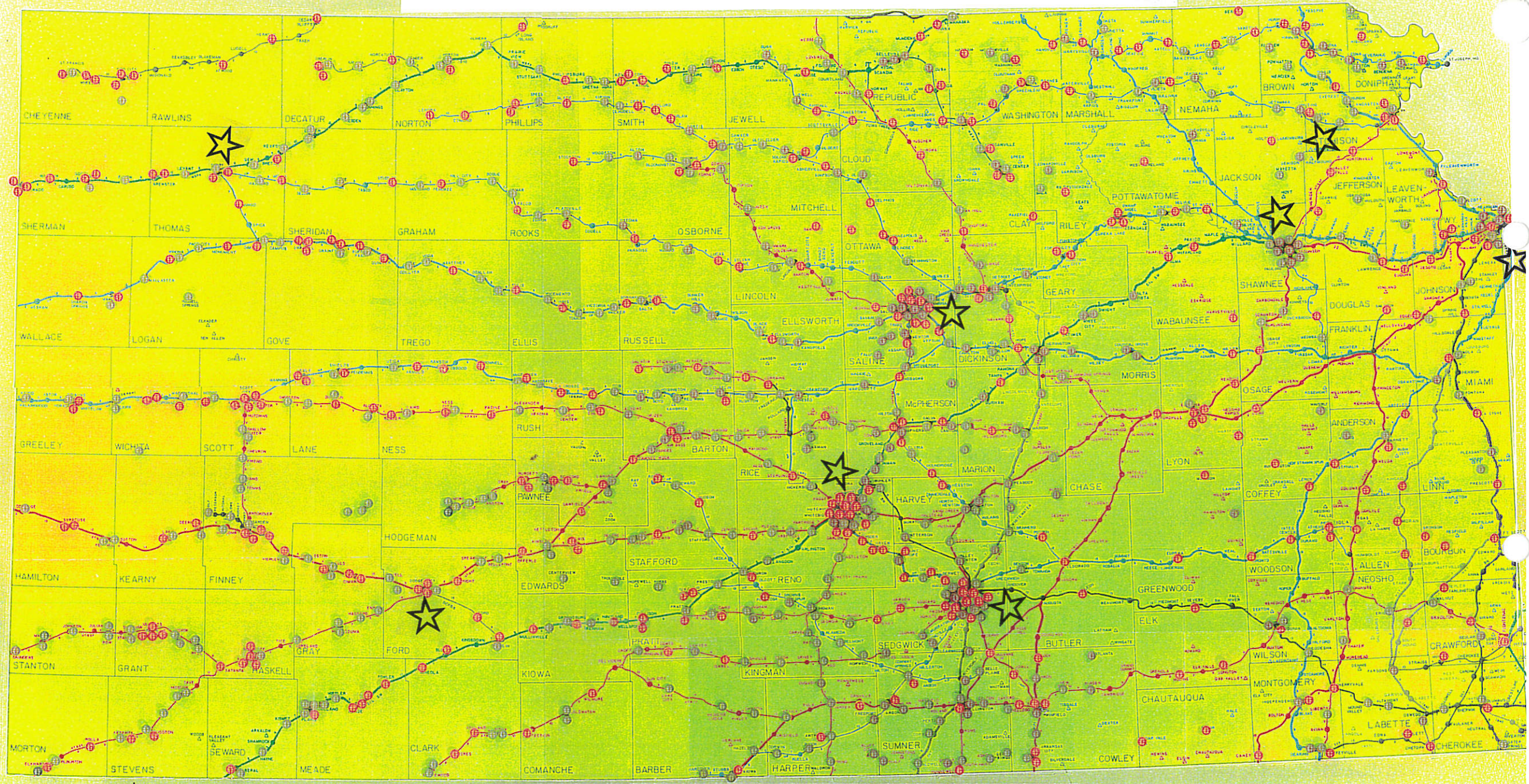
I encourage your favorable consideration of Senate Bill 317.

Privatization: *"The transfer of public-sector assets to the private sector, the transfer of management of state activities through contracts and leases, and the contracting out of activities previously conducted by the state."*

Capitalism: *"All possible activities are performed by private business or persons rather than by the government."*

--Source: International Business: The Challenge of Global Competition.  
Donald A. Ball. Irwin, 1996. United States of America, page 320,738

# KANSAS GRAIN & FEED ASSN. MEMBERS



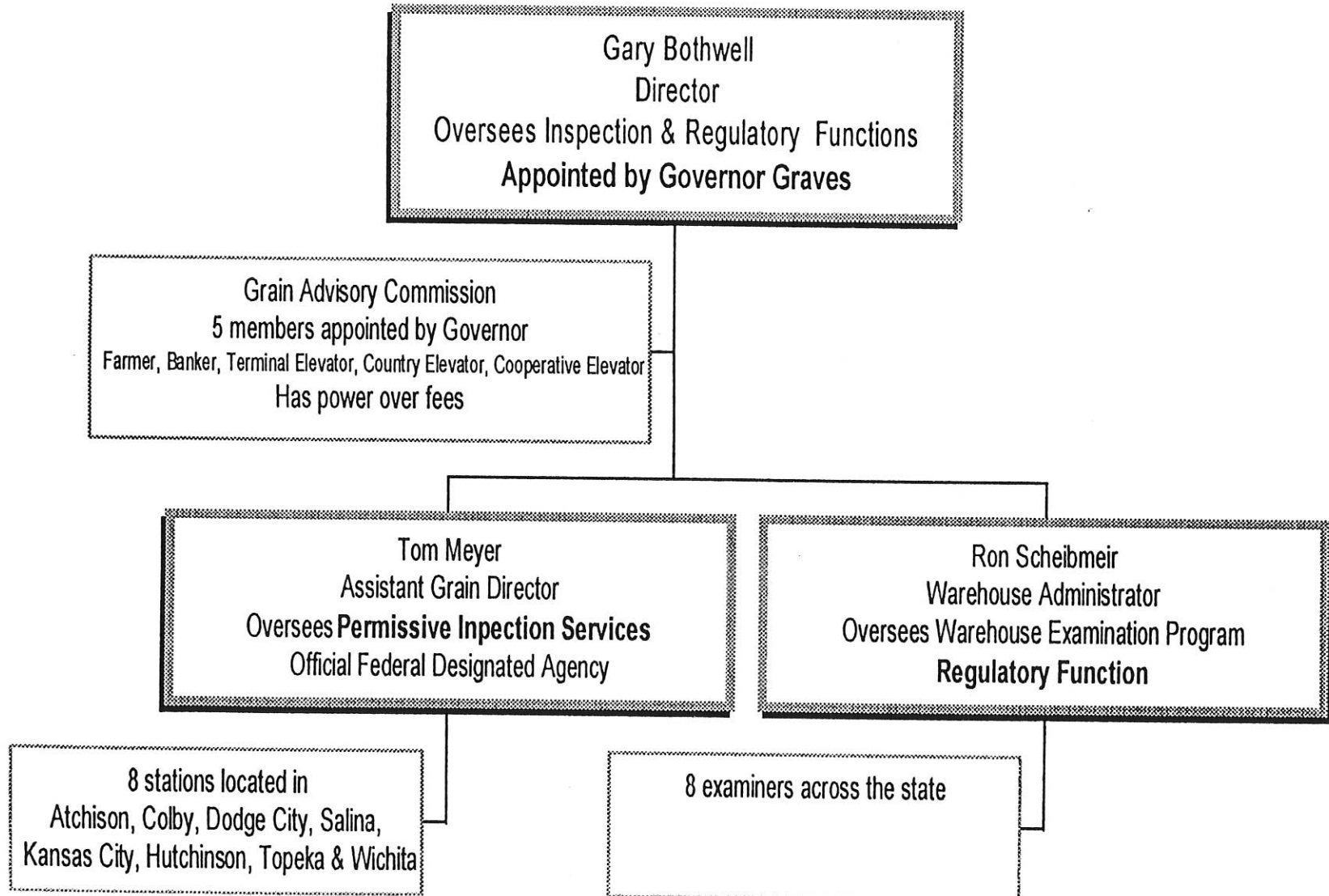
★ INSPECTION STATION

● ACTIVE HEADQUARTER

● BRANCH STATION

8-1

# KANSAS GRAIN INSPECTION DEPARTMENT



Delegated States--8

Alabama Department of Agriculture and Industries.....	Alabama
California Department of Food and Agriculture.....	California
Minnesota Department of Agriculture.....	Minnesota
Mississippi Department of Agriculture and Commerce.....	Mississippi
South Carolina Department of Agriculture.....	South Carolina
Virginia Department of Agriculture and Consumer Services.....	Virginia
Washington Department of Agriculture.....	Washington
Wisconsin Department of Agriculture, Trade and Consumer Protection.....	Wisconsin

Designated States--9

Georgia Department of Agriculture.....	Georgia
Kansas State Grain Inspection Department.....	Kansas
Louisiana Department of Agriculture and Forestry.....	Louisiana
Missouri Department of Agriculture.....	Missouri
Montana Department of Agriculture.....	Montana
New York State Department of Agriculture and Markets.....	New York
North Carolina Department of Agriculture.....	North Carolina
Oregon Department of Agriculture.....	Oregon
Utah Department of Agriculture.....	Utah

Designated Private Agencies--48

Aberdeen Grain Inspection, Inc.....	Aberdeen
Alton Grain Inspection Department.....	Alton
Amarillo Grain Exchange, Inc.....	Amarillo
Arkansas Grain Inspection Service.....	Arkansas
J.W. Barton Grain Inspection Service, Inc.....	Barton
Cairo Grain Inspection Agency, Inc.....	Cairo
Central Illinois Grain Inspection, Inc.....	Central Illinois
Central Iowa Grain Inspection Service, Inc.....	Central Iowa
Champaign-Danville Grain Inspection Departments, Inc.....	Champaign
Columbus Grain Inspection, Inc.....	Columbus
Decatur Grain Inspection, Inc.....	Decatur
Denver Grain Inspection.....	Denver
Detroit Grain Inspection Service, Inc.....	Detroit
East Indiana Grain Inspection, Inc.....	East Indiana
Eastern Iowa Grain Inspection and Weighing Service, Inc.....	Eastern Iowa
Enid Grain Inspection Company, Inc.....	Enid
Farwell Grain Inspection, Inc.....	Farwell
Fostoria Grain Inspection, Inc.....	Fostoria
Frankfort Grain Inspection, Inc.....	Frankfort
Fremont Grain Inspection Department, Inc.....	Fremont
Grain Inspection, Inc.....	Jamestown
Grand Forks Grain Inspection Department, Inc.....	Grand Forks
Hastings Grain Inspection, Inc.....	Hastings
Idaho Grain Inspection service, Inc.....	Idaho
Indianapolis Grain Inspection & Weighing Service, Inc.....	Indianapolis
Kankakee Grain Inspection, Inc.....	Kankakee
Keokuk Grain Inspection Service.....	Keokuk
Lewiston Grain Inspection Service, Inc.....	Lewiston
Lima Grain Inspection Service, Inc.....	Lima
Lincoln Inspection Service, Inc.....	Lincoln
Los Angeles Grain Inspection Service, Inc.....	Los Angeles
John R. McCrea Agency, Inc.....	McCrea
Memphis Grain Inspection Service.....	Memphis
Michigan Grain Inspection Services, Inc.....	Michigan
Mid-Iowa Grain Inspection, Inc.....	Mid-Iowa
Minot Grain Inspection, Inc.....	Minot
North Dakota Grain Inspection Service, Inc.....	North Dakota
Ohio Valley Grain Inspection, Inc.....	Ohio Valley
Omaha Grain Inspection Service, Inc.....	Omaha
Plainview Grain Inspection and Weighing Service, Inc.....	Plainview
D.R. Schaal Agency, Inc.....	Schaal
Schneider Inspection Service, Inc.....	Schneider
Sioux City Inspection and Weighing Service Company.....	Sioux City
Southern Illinois Grain Inspection Service, Inc.....	Southern Illinois
Springfield Grain Inspection, Inc.....	Springfield
A.V. Tischer and son, Inc.....	Tischer
Titus Grain Inspection, Inc.....	Titus
Tri-State Grain Inspection Service, Inc.....	Tri-State



**DEPARTMENT OF ADMINISTRATION**  
**DIVISION OF ACCOUNTS AND REPORTS**

**BILL GRAVES**  
 Governor

**ROGER C. ROOKER**  
 Acting Director of Accounts and Reports

January 18, 1995

900 Jackson, Room 251  
 Landon State Office Building  
 Topeka, KS 66612-1220  
 (913) 296-2311  
 FAX (913) 296-6841

Mr. Lee Hamm, Director  
 Grain Inspection Department  
 700 S.W. Jackson, Suite 800  
 Jayhawk Towers  
 Topeka, Kansas 66603-1918

Dear Mr. Hamm:

A negotiation agreement was recently executed between the Director of the Division of Accounts and Reports for the State of Kansas and the Director of the division of Cost Allocation of the Department of Health and Human Services for the federal government. This agreement fixes the amount of statewide indirect central service costs allocated to each state agency for the fiscal year ending June 30, 1995. The amount allocated to your agency is as follows:

Allocated Share of Statewide Indirect Central Service Costs	\$32,708
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The above costs represent expenditures incurred for such central services as accounting, payroll, purchasing, personnel, budget, etc. These costs should be included in your agency's departmental indirect cost plan so that applicable overhead may be charged to federal grants.

State agencies administering federal grants are encouraged to prepare departmental indirect cost plans even if indirect costs cannot be directly recovered from a federal grant. In many cases, the indirect costs may be utilized to: (1) offset disallowed direct costs against indirect (overhead) costs to avoid further expenditure of state funds; or (2) provide matching funds for federal grants.

Questions concerning this matter should be directed to the Accounting Control and Services Section at (913) 296-3521.

Very truly yours,

Roger C. Rooker, Acting Director  
 Division of Accounts and Reports

RCR:JV:wem

**KANSAS GRAIN & FEED ASSOCIATION  
A NOT FOR PROFIT KANSAS CORPORATION**

**KANSAS GRAIN INSPECTION SERVICE, INC.  
A KANSAS CORPORATION (KGIS)  
(Stock Authorized & Issued to Kansas Grain & Feed)**

**VOTING TRUST  
HOLDING 100% OF KGIS STOCK ISSUED  
(Trustees Appointed Subject to USDA Review Re: Conflicts)**

**KGIS BOARD OF DIRECTORS  
ELECTED BY TRUSTEES OF TRUST HOLDING SHARES OF KGIS  
(Directors Elected Subject to USDA Review Re: Conflicts)**

**KGIS OFFICERS  
APPOINTED BY KGIS BOARD OF DIRECTORS  
(Officers Subject to USDA Review Re: Conflicts)**

**KGIS EMPLOYEES  
EMPLOYEES HIRED BY KGIS OFFICERS  
(Employees Subject to USDA Review Re: Conflicts)**



This section of the FEDERAL REGISTER contains documents other than rules or proposed rules that are applicable to the public. Notices of hearings and investigations, committee meetings, agency decisions and rulings, delegations of authority, filing of petitions and applications and agency statements of organization and functions are examples of documents appearing in this section.

**DEPARTMENT OF AGRICULTURE**

Grain Inspection, Packers and Stockyards Administration

**Opportunity for Designation in Kansas - Termination of Kansas' Designation, Possible Cancellation of Kansas' Designation, and Requests for Applications for Designation from Persons Interested in Providing Official Services in Kansas**

AGENCY: Grain Inspection, Packers and Stockyards Administration (GIPSA).

ACTION: Notice.

**SUMMARY:** The United States Grain Standards Act, as amended (Act), provides that official agency designations will end not later than triennially and may be renewed. The designation of the Kansas State Grain Inspection Department (Kansas) will end August 31, 1997, according to the Act. GIPSA is asking persons interested in providing official services in Kansas to submit an application for designation. In addition, Kansas has advised GIPSA that it is considering asking for cancellation of its designation effective July 1, 1997. Accordingly, GIPSA is also asking that the

persons submitting applications be prepared to provide service effective July 1, 1997.

**DATES:** Applications must be postmarked or sent by telecopier (FAX) on or before March 31, 1997.

**ADDRESSES:** Applications must be submitted to USDA, GIPSA, Neil E. Porter, Director, Compliance Division, AG Code 3604, 1400 Independence Avenue, S.W., Washington, D.C. 20250-3604. Internet and GroupWise users may respond to

[nporter@gisdc.usda.gov](mailto:nporter@gisdc.usda.gov). Applications may be submitted by FAX on 202-690-2755. If an application is submitted by FAX, GIPSA reserves the right to request an original application. All applications will be made available for public inspection at this address located at 1400 Independence Avenue, S.W., during regular business hours.

**FOR FURTHER INFORMATION CONTACT:** Neil E. Porter, telephone 202-720-8262.

**SUPPLEMENTARY INFORMATION:**

This action has been reviewed and determined not to be a rule or regulation as defined in Executive Order 12866 and Departmental Regulation 1512-1; therefore, the Executive Order and Departmental Regulation do not apply to this action.

Section 7(f)(1) of the Act authorizes GIPSA's Administrator to designate a qualified applicant to provide official services in a specified area after determining that the applicant is better able than any other applicant to provide such official services. GIPSA designated Kansas, main office located in Topeka, Kansas, to provide official inspection services under the Act on September 1, 1994.

Section 7(g)(1) of the Act provides that designations of official agencies shall end not

later than triennially and may be renewed according to the criteria and procedures prescribed in Section 7(f) of the Act. The designation of Kansas ends on August 31, 1997, according to the Act.

Pursuant to Section 7(f)(2) of the Act, the following geographic area, the entire State of Kansas, is assigned to Kansas.

Interested persons, including Kansas, are hereby given the opportunity to apply for designation to provide official services in the geographic area specified above under the provisions of Section 7(f) of the Act and section 800.196(d) of the regulations issued thereunder. Designation in the Kansas geographic area is for the period beginning September 1, 1997, and ending August 31, 2000. Persons wishing to apply for designation should contact the Compliance Division at the address listed above for forms and information.

Applications and other available information will be considered in determining which applicant(s) will be designated.

Further, Kansas has advised GIPSA that it is considering asking for cancellation of its designation effective July 1, 1997. As a result, GIPSA is also asking persons submitting applications to be prepared to provide official services effective July 1, 1997.

**AUTHORITY:** Pub. L. 94-582, 90 Stat. 2367, as amended (7 U.S.C. 71 *et seq.*)

Dated: February 26, 1996

Neil E. Porter

Director, Compliance Division

BILLING CODE 3410-EN-F

STATE OF KANSAS

BILL GRAVES, GOVERNOR  
Alice A. Devine, Secretary of Agriculture  
901 S. Kansas Avenue  
Topeka, Kansas 66612-1280  
(913) 296-3558  
FAX: (913) 296-8389



KANSAS DEPARTMENT OF AGRICULTURE

Senate Agriculture Committee

March 5, 1997

SB 317

Good morning, Chairman Morris and members of the Senate Agriculture Committee. I am Allie Devine, Secretary of the Kansas Department of Agriculture and I appear before you in support of SB 317.

As a matter of background, a grain elevator can elect to either be licensed under state or federal law. The annual licensing fees under federal law are generally slightly lower than state fees. However, it is our understanding that the federal facilities only receive an audit once every three years. Under the state program, facilities must be audited every year and as a matter of operation, some facilities have received more than one audit a year. Many of you will recall that the federal government stored grain in the mid to late 1980's, which provided the regulators with much work and significant fee funding. When the government sold the stocks of grain, the regulatory work was reduced and also the fees generated. This in turn has led to a shortfall in funding for both state and federal regulatory bodies. Yesterday we confirmed with USDA that they will be proposing significant fee increases this year and into the future to become a self funded program.

SB 317 proposes that the warehouse program of the Kansas Grain Inspection Department be transferred to the Kansas Department of Agriculture. It is no secret that funding for the program has been a historical problem. The Governor's FY 1998 Budget totals \$492,126. This amount is comprised of \$312,136 of fees and \$180,000 of reserve funds. The Governor's budget includes 12 FTE positions one of which is currently vacant. It is our understanding that the Grain Inspection Department proposed eliminating 3 FTE. Further, the Kansas Grain Inspection Department had planned to increase warehouse fees by approximately 15 percent pursuant to their rule and regulation authority so as to adequately fund the program.

For FY 1998 the Senate Budget Committee recommended a 7.5 percent fee increase generating \$33,292 and an additional \$33,292 state general fund monies. Further, the Senate recommended 10 FTE. The House Budget Committee concurred with the Governor's Budget.

If the program is shifted to the Department of Agriculture we propose to operate the program with 8 field inspectors conducting one inspection per year per facility as required by statute. The

Governor's Budget of \$492,126 should be adequate. It is our intent to blend the administration of the program into current operations. We will use the other FTE for administration only if necessary.

In FY 1999 there will be a shortfall of at least \$180,000 because we no longer have the reserve fund. The bill provides the Secretary of Agriculture the authority to raise fees which we will likely need to do. We will be monitoring the program very closely.

Thank you for your time and consideration. I'd be glad to try and answer any questions you may have.

**STATEMENT BEFORE THE  
SENATE AGRICULTURE COMMITTEE  
SENATOR STEPHEN MORRIS, CHAIRMAN  
REGARDING SENATE BILL 317  
BY DAVID J. WARRINGTON  
MARCH 5, 1997**

My name is David J. Warrington and I am here today representing the Kansas Grain Advisory Commission. The Commission is made up of five members including Shirley Strnad, United Grain, Scandia, Kansas--Country Elevator Representative; Dean Shelor, Ingalls, Kansas--Farmer/Producer Representative; Roger Pine, Lawrence, Kansas--Cooperative Representative; Ben Zimmerman III, Fidelity State Bank of Dodge City--Bank Representative; and myself. I work for Collingwood Grain, Inc., in Hutchinson, Kansas and I serve as the Terminal Elevator Representative.

We have talked about this issue of privatization of the grain inspection division for the last five years. I think our group has wrestled with many of the questions that may come up today, but I think a solution is forthcoming.

We have studied other grain inspection services in other states which are the designated "official" inspection service. These have been private entities set up as private companies working for profit. The one that we are proposing to pattern after, the Lincoln Grain Inspection Service, is an entity set up as a trust with 3 independent directors. This trust was created by an attorney, Clayton Yeutter, who later became the U.S. Secretary of Agriculture. The plan or format of this trust was

*Senate Agriculture  
Attachment 3  
3-5-97*

accepted by the Federal Grain Inspection Service which is now governed by the Grain Inspection, Packers and Stockyards Administration, better known as GIPSA.

This trust would direct the workings of the grain inspection service under the watchful eye on procedures by the Federal Grain Inspection Service. Procedures, practices, methods, and monitoring of grain samples would continue just as it is today. There would be no compromising of the integrity of the system.

The Grain Inspection Service has to be efficient, cost effective and responsive to the changing grain industry. It has to be operated and managed as a business, a business that operates 24 hours a day, 7 days a week.

The grain industry now has to work the hours of the farmer/producer -- you work when the work has to be done. We unload and load grain requiring official inspections and certified weighing at all hours of the day and night. The railroads now require loading 100 car trains of 350,000 bushels in 12-18 hours--no matter what time the train comes in to your operation.

Our state of Kansas is blessed with abundant grain production and the need to move this grain to market everywhere. The ability to continue to give excellent service is a must to allow the best possible prices be paid to our Kansas producers.

Privatization will only improve upon this service and should also push to succeed in attracting the most business possible at a competitive price. Grain inspection is, and will remain a permissive service--grain growers, grain handlers and warehousemen are not required to use the grain inspection service. Other private inspection services or "in house" grading of grain quality can be used by the grain handling and processing industry in order to cut costs and be more efficient. A privatized grain inspection service will be able to compete because: 1) They have good, well trained, conscientious people; 2) Using procedures under the guidelines

of GIPSA and the former Federal Grain Inspection Services; 3) Will still be the designated official inspection services which is very important when shipping grain for export; 4) Will be able to continue to offer a competitively priced service and have the flexibility to supply that service 24-hours per day; 5) Already have offices set up across the state equipped with modern testing approved equipment ready to serve those customers who need their service; 6) Will still be completely fee-funded and will not be needing additional state money other than the \$1.5 million already in the state treasury reserve fund which was collected from the grain industry over the past years. Capitalization is very important in that it takes almost \$300,000 per month to operate the grain inspection division and their business is effected by weather, crop size and exporting of grain.

No one likes change, but I, as everyone else, have and will continue to go through changes in business. The long term viability of a privatized grain inspection service has a better chance of survival and offering its employees a sustaining place of employment that provides an efficient, cost-effective and responsive grain inspection service.

The Commission discussed other associations that a grain inspection division could operate under, such as Farm Bureau, or the various commodity commissions, but there is no other organization like the Kansas Grain and Feed Association that represents 99% of the grain handling and storage space in Kansas. These people want this service available to them and know that being the designated official inspection service by USDA, GIPSA, supervision, direction, procedures and guidelines will be under the continued control of the Grain Inspection, Packers and Stockyards Administration. As has been the case in the past, not the industry, nor the Kansas Grain and Feed Association will have **any** authority or jurisdiction in determining grain grading, practice or procedure. This is strictly governed by GIPSA.

To touch briefly on the Warehouse Division, I will say only that Kansas law has made it obligatory or compulsory to have a warehouse division to protect the depositors of grain in our state public warehouses. The producer, the landlord, the lending institution, and the commercial buyer of grain are all protected by a strong warehouse law.

There are strong feelings that our state warehouse programs are superior to federal warehouse protection programs. This is especially true as the federal warehouse program goes through some drastic cost cutting measures which will weaken their warehouse audit program. The state has and should continue to be a more efficient and fiscally responsible grain warehouse program to protect the interests of grain producers and depositors.

The warehouse division has been receiving federal monetary support because of the cooperative agreement with USDA to audit State of Kansas licensed facilities that are handling/warehousing grain that is the property of Commodity Credit Corporation due to grain forfeitures or is collateral under some federal loan program. Effective October 1, 1997, Commodity Credit Corporation will terminate all cooperative agreements with state licensing. This will be the end of approximately \$200,000 per year of funding coming into the warehouse division from the commodity Credit Corporation. Under current law, the State of Kansas needs to maintain a strong warehouse division under the supervision of the Kansas Department of Agriculture to protect the depositors of grain in our public warehouses.

Thank you.