

Approved: 3-10-97  
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 6, 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:

Donald Watson, former Director of Kansas Grain Inspection Department  
Jere White, Executive Director, Kansas Corn Growers Association  
Bill R. Fuller, Associate Director, Public Affairs Division of Kansas Farm Bureau  
Joe Lieber, Executive Vice President, Kansas Cooperative Council  
Sherry Hernandez, Salina

Others attending: See attached list

Senator Biggs made a motion to approve the minutes from the March 5 meeting as amended. Senator Clark seconded. Motion carried.

Continued hearing on:

### **SB 317                      an act abolishing the Kansas State Grain Inspection Department**

Donald Watson provided testimony from his experience as the former Director of Kansas Grain Inspection Department as to the need to privatize the Inspection Division of the State Grain Inspection Department. He stated that the Department, as a state agency, had an extremely difficult time dealing with needed change in the industry and does not have the capability for rapid and responsive change as does the private sector (Attachment 1).

Jere White, Executive Director of the Kansas Corn Growers Association, testified in support of **SB 317** (Attachment 2). He stated he believes **SB 317** would set up a public-private relationship that would provide an increase in customer support, service and efficiency. Mr. White said credibility of any grain inspection service is of extreme importance to producers and under the oversight of USDA's Grain Inspection, Packers, Stockyards Administration, the growers would have the same confidence that currently exists.

Bill Fuller, Kansas Farm Bureau, expressed the support of the 105 county Farm Bureaus across the state in the continuation of an effective and adequately funded state warehouse program that will require licensing and bonding of all commercial elevators and grain warehouses. He also stated that Farm Bureau members have a long-standing philosophy supporting privatization of appropriate government activities. Mr. Fuller stated the Kansas Farm Bureau supports the concept of privatizing of the Inspection Division, however, would like additional information and a more thorough understanding of the proposal in the areas of efficiency, competition and benefits (Attachment 3).

Joe Lieber, Executive Vice President of the Kansas Cooperative Council, testified in support of, **SB 317** (Attachment 4). He stated the Council's members feel it is important that all eight inspection stations currently in operation, remain open and the same level of service now offered the grain industry be maintained.

Sherry Hernandez appeared before the Committee as an opponent of **SB 317** (Attachment 5). She stated although she was listed as an opponent, what she would like is the truth about **SB 317** in regard to the provisions for displaced workers. She advised the members of the Committee that there is a lot of concern among the employees because they have only verbal promises about their future employment and benefits and

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE, Room 423-S Statehouse, at 10:00 a.m. on March 6, 1997.

they would like to see something incorporated into the bill to guarantee whoever the new entity might be, the new grain inspection entity continue to offer the same benefits the employees of the Division currently have.

A letter was provided from Linda Stack with her concerns about the privatization of the Grain Inspection Department (Attachment 6).

Tom Tunnell, President, Kansas Grain and Feed Association, responded to questions and again stating how they envisioned the establishing of the new entity (Attachment 7).

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

The next meeting is scheduled for March 10, 1997.

# SENATE AGRICULTURE COMMITTEE GUEST LIST

DATE: 3-6-97

NAME	REPRESENTING
Tom TUNWELL	KGFA
Jim Allen	KGFA
Klo M Nelson	Women Involved in Farm Economics
Shirley J. Rae	Women Involved in Farm Economics
Helen M. Award	Women Involved in Farm Economics
Alayna Zobelmann	Women Involved in Farm Economics
Ann Watson	KGFA
Gary M. Bothwell	KSGID
Recky Fleming	"
NOBLE MORRELL	DoA - DPS
Jim Langford	DOB
Leslie Kaufman	Ks Farm Bureau
Joe Lieber	KS Cattle Council
Bill Fuller	Kansas Farm Bureau
Jere White	KS Corn Growers
Doug Wareham	Ks. Grain & Feed Assn.
Roy Scheibmeier	KS. Grain Insp.
JR Sabert	MAJORITY LEADER - SENATE OFFICE
Ellie Davis	Agriculture

Greg Tugman  
Allen Humphrey

" "  
DoA - DPS

SENATE AGRICULTURE COMMITTEE GUEST LIST

DATE: 3-6-97

NAME	REPRESENTING
Sherry Hernandez	KSGID employees
Tonya Hernandez	KSGID employees

**TESTIMONY BEFORE THE SENATE**

**AGRICULTURE COMMITTEE**

**CHAIRMAN STEPHEN MORRIS**

**REGARDING**

**SENATE BILL 317**

**BY DONALD WATSON**

Chairman Morris and Members of the Senate Agriculture Committee. My name is Don Watson and I reside in Topeka. My testimony today is in support of passing Senate Bill 317. I believe I can speak with some knowledge of the need to privatize the grain inspection division of the Kansas Grain Inspection Department because I served as Director of the Department for five years, from 1977 to 1982. I was appointed by Governor Robert Bennett and continued to serve as Director for over two years following the election of Governor Carlin in 1980. Prior to my years as Director I owned and managed an 890,000 bushel capacity elevator in Paola, Kansas for 24 years.

Following my tenure as KGID Director, I managed the Western Grain Company elevator in White City, Kansas for 4 years. During this 30-year period I witnessed a dramatic change in the Kansas grain storage and

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Attachment 1  
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handling industry. And the one thing I can say with certainty, the Kansas Grain Inspection Department as a state agency, had an extremely difficult time dealing with needed change. Private industry can respond quickly to changes in the marketplace. The Department does not have the capability for rapid and responsive change. We could not change our fees or level of service without first getting the changes approved by the Legislature. When new technology became available, such as protein analyzers, we could not buy the equipment we needed without first getting legislative budget approval. As you are aware, this can be a very time consuming process. When it became necessary to adjust our personnel at one of our inspection stations, we had to abide by state work rules which usually meant long delays in doing what needed to be done in terms of adding or deleting people. I know these same problems plague the department today. Legislative oversight is a necessary and important part of state government. It does, however, often stand in the way of needed change.

In closing, I want to say privatizing the department under the plan being put forth by the Kansas Grain and Feed Association is an excellent idea. The KGFA is a 100-year old, highly respected organization and is supported by virtually the entire grain industry. The time for change is now and I say please, get it done!

Thank you, and I would be happy to respond to any questions.



SB-317  
Testimony of  
Jere White, Executive Director

The Kansas Corn Growers Association supports public-private relationships as a replacement for government provided services whenever there can be an increase in customer support, service, and efficiency. Senate Bill #317 would set up such a relationship in the area of grain inspection. And while the transfer of the Grain Warehouse Division is a somewhat different endeavor, the efficiency gained by placing it under the proven administration of the Kansas Department of Agriculture makes good sense.

The provisions of SB-317 were endorsed unanimously by the members of the Kansas Grain Advisory Commission. They apparently have agreed with the industry concerns over efficiency, not because of any fallacy in the staff or it's mission, but rather from the system itself. Our corn producers rely on a strong grain handling industry. That industry must have the support of an equally strong and efficient inspections service. The State of Kansas provides a variety of services to it's citizens. Grain inspection has been provided by our state but paid for by the users of the service. It would seem appropriate for those users to seek out the best return on their grain inspection investment. Clearly that doesn't seem to be the case under the current system.

Credibility of any grain inspection service is of extreme importance to our producers. Under the oversight of USDA's Grain Inspection, Packers, Stockyards Administration or GIPSA, growers will have the same confidence that currently exists. The flexibility of managing necessary seasonal employees and the elimination of funding \$ 200,000 into the state general fund are real world benefits. And while only a very small percentage of grain inspections currently being done by the grain inspections department are done directly for Kansas farmers, the savings to the grain handlers is of indirect benefit to the vast majority of producers who are their customers. We urge favorable consideration on SB-317.

*Ken Abigail*  
*Attachment 2*

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*March 6, 1997*



# PUBLIC POLICY STATEMENT

## SENATE COMMITTEE ON AGRICULTURE

**RE: SB 317 - Abolishes the Kansas State Grain Inspection Department, transfers Warehouse Division to Department of Agriculture and authorizes privatization of the functions of the Grain Inspection Division.**

**March 6, 1997  
Topeka, Kansas**

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

Chairman Morris and members of the Senate Committee on Agriculture, I am Bill Fuller, Associate Director of the Public Affairs Division for Kansas Farm Bureau.

We certainly appreciate this opportunity to express the views of the Farm Bureau members on SB 317. The bill abolishes the Kansas State Grain Inspection Department, transfers the Warehouse Division to the Department of Agriculture and authorizes privatization of the functions of the Grain Inspection Division.

A section of KFB policy, developed by the farm and ranch members of the 105 county Farm Bureaus states, "We support the continuation of an effective and adequately funded state warehouse program that requires licensing and bonding of all commercial elevators and grain warehouses in

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Kansas.” The complete resolution adopted by the Voting Delegates at the 78<sup>th</sup> Annual Meeting of KFB is attached to this statement.

The Warehouse Division has been under financial pressure for a number of years. Fees have been raised several times. Excess revenues from the Inspection Division can no longer be used to supplement Warehouse Division revenue shortfalls.

Financially secure elevators and properly managed grain storage is vital to crop producers. We believe the time has come that the prudent method of preserving a strong state grain warehouse program is to transfer the responsibility to the Kansas Department of Agriculture. Kansas Farm Bureau supports this merger. We believe the regulatory functions of the Warehouse Division are compatible with the current regulatory responsibilities of the Department of Agriculture.

Farm Bureau members have a long-standing philosophy supporting privatization of appropriate government activities. Current American Farm Bureau Federation policy includes this supporting statement: “Those government-owned enterprises that could be privatized should be sold to the private sector as a means of providing more efficient service and cost reduction.”

KFB supports the concept of privatizing the Inspection Division. However, before we can fully support the grain inspection provisions of SB 317, we must have additional information and a more thorough understanding of the proposal in the following areas:

- **Efficiency** - What efficiencies can we expect? We recognize privatization will allow quicker responses to industry needs and adoption of new technology, bypass the time consuming legislative process when purchasing needed equipment and managing employees and eliminate the annual \$200,000 contribution to the SGF from inspection fees. Are there other efficiencies that can be gained?

- **Competition** - Will there be competition among private entities wanting to provide the inspection service? We understand the Federal Grain Inspection Service (FGIS) is inviting interested parties, through notice in the Federal Register this week, to submit bids for providing the grain inspection service in Kansas. How many businesses are interested in providing this service in Kansas?
- **Benefits** - We must be aware of the benefits to agricultural producers, our farm and ranch members. While the overwhelming number of requests for grain grading currently comes from grain elevators and warehouses, we must assure farmer producers continue to have the opportunity to request and receive grades on a timely basis at an affordable cost?

In closing, we ask you to give careful consideration to SB 317 and encourage you to protect the interests of the grain producers of the State of Kansas. We support transferring the Grain Warehouse Division to the Department of Agriculture. We also support the concept of privatizing the functions of the Grain Inspection Division, however we have a number of questions about the details in implementing the program and ask if all alternatives have been adequately explored.

Thank You!

## **Agricultural Commodity Storage**

**AG-3**

A strong state grain warehouse program is important to the financial security of Kansas grain producers to ensure producer grain is safely deposited in a financially stable warehousing operation. We support the continuation of an effective and adequately funded state warehouse program that requires licensing and bonding of all commercial elevators and grain warehouses in Kansas.

We recommend and support legislation to require grain dealers and grain brokerage firms to be bonded or otherwise provide proof of financial responsibility.

Testimony on SB 317  
Senate Agriculture Committee  
March 5, 1997  
Prepared by Joe Lieber  
Kansas Cooperative Council

Mr. Chairman and members of the Committee, for the record, I'm Joe Lieber, Executive Vice President of the Kansas Cooperative Council. The Council has a membership of nearly 200 cooperative businesses, which have a combined membership of 200,000 Kansans. Approximately 130 of our members handle grain for their member/owners.

The Kansas Cooperative Council supports SB 317 for the following reasons:

1. There are many areas of the government that should and can be privatized. We feel the Grain Inspection Division is one of them.
2. Privatization of grain inspection will save the industry money.
3. The warehouse division, which protects the producer's interest, would still be a government entity and will be in the Department of Agriculture.
4. The private inspection entity must be designated as an official agency of the USDA Grain Inspection Packers and Stockyards Administration.
5. The new private entity will be a trust and the trustees will be comprised of individuals representing agriculture producers, bankers, etc.
6. It is my understanding that Secretary of Agriculture Allie Devine is supportive of SB 317.
7. The current Grain Advisory Commission is supportive of SB 317.

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Attachment 4  
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The Council's members feel it is important that all eight inspection stations that are currently in operation remain open and the same level of service now offered the grain industry will be maintained. It is our understanding that this service will be provided, therefore we support the passage of SB 317.

I will be happy to attempt to answer any questions.

Testimony of Sherry Hernandez  
March 6, 1997

John Dryden once said, "Truth is the foundation of all knowledge and the cement of all societies." I come before you today asking that you seek the truth regarding Senate Bill 317. I have been labeled an opponent, this is not entirely accurate. I am open to change and do not oppose privatization itself. I do, however, oppose the wording of Senate Bill 317 because it offers no provisions for displaced workers and fails to meet the most basic guidelines that have been established for privatization.

Many verbal promises have been made to the current employees of the Kansas state grain inspection department. These promises include: The formation of a new corporation which would hire all current employees. Employees choosing to accept jobs with the new corporation would receive the same pay they were receiving as state employees. Comparable health insurance, sick leave, vacation, and a retirement program will be offered. Downsizing will only be done through attrition. Tom Tunnell has stated, "It is our goal that the transition will be so smooth employees will not even notice there has been a change."

My concerns regarding displaced workers are: First, no written guarantee of these benefits has been offered. Second, questions regarding health insurance have not been answered adequately. For instance, will family coverage be provided? What will the cost to the employee be? Will there be dental and prescription coverage? What about coverage for pre-existing conditions? Can we keep our current physician?

Another concern regards the benefits unique to the State. Early retirement and longevity benefits will be lost. I was asked to be brief and so I will not list the numerous other concerns that I have regarding benefits, however, it seems I have been left with more questions than answers on this issue.

My anxiety regarding this bill doesn't stop with the displaced worker. I also question whether guidelines set forth in the Final Report of the Kansas Council on Privatization were met. First, it is stated on page twenty-one of the report that "the PERM process would only be activated if there was more than one private sector provider for a given public sector service." Are there other providers? If so, how will this affect the corporation slated to hire all current employees?

Second, the following issues of risk are documented (page 9). What chance is there that the private firm may fail to provide the service? What are the consequences if service is interrupted or stopped? Does the risk of corruption or abuse increase? Senators, have these questions been answered to your satisfaction? They certainly have not been answered to my satisfaction.

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Last, I understand the need to offer incentives for hiring displaced workers. I question, however, if this bill goes beyond incentives. New Sec. 7. (a) states On and after July 1, 1997, the Kansas grain inspection service shall succeed to whatever right, title or interest the Kansas state grain inspection department has acquired in any property in this state concerning grain inspection, including equipment and supplies from the protein laboratories and inspection laboratories. Considering at least two stations received new computers within the last two weeks, this seems like quite a give-a-way. But wait, the perks don't stop here! New Sec. 7 (c) states, ... After such payment of all outstanding liabilities of the grain inspection fee fund, the secretary of agriculture shall pay all remaining moneys credited to the grain inspection fee fund to the Kansas grain inspection service. After such payment to the Kansas grain inspection service, the grain inspection fee fund is hereby abolished. I'd suggest, and I suspect other taxpayers would agree, the extra cash should be turned over to the state treasurer.

In closing, I ask that you not only seek the truth, but refuse to pass Senate Bill 317 until all of these questions have been answered to your satisfaction and documented within the body of the bill. I would like to see an effort made to follow the recommendations of the Council on Privatization. While I would like to take Mr. Tunnell and others at their word, my common sense tells me that if it isn't in writing, it isn't easily enforced. If the intentions of the new corporation are as they have been stated to employees, then the corporation should not hesitate a moment to put it in writing.

Thank you for allowing me to speak today.

March 6, 1997

Re: Privatization of the Grain Inspection Department

To whom it may concern:

It would be relatively easy to list all of the ways that this action would effect me as an individual. All employees who work for the Grain Inspection Department would be able to compile their individual list. This not only would be repetitious but pretty boring. I choose to take another approach.

The Governor of Kansas signed Senate Bill SB 102 into law May 10, 1996. This law sets out certain criteria that must be met in order to proceed with privatization.

- 1) There must be guaranteed savings to the taxpayer or a significant improvement in services.
  - a) Under the proposed privatization of the Grain Inspection Department there would be two divisions. The Grain Inspection Division would be under the umbrella of the Kansas Grain & Feed Dealers Association, (a private entity). This division has been self supporting through the years and does not operate with taxpayer monies.
  - b) The Warehouse Division would become a part of the Kansas Department of Agriculture. The warehouse division operation is a heavy user of dollars and would remain as such.
  - c) There is no indication that service would improve or change significantly.
- 2) There must be a guarantee of the same quality of services.
  - a) It could be assumed that this criteria would be met.
- 3) There must be prohibitions against conflicts of interest
  - a) It has been suggested that the Department would operate under the supervision of a Board of Directors within the Kansas Grain & Feed Dealers Association. There is absolutely no way that this could be considered as a method to eliminate conflict of interest. It would be a blatant conflict and directly opposed to the intent of SB 102.
- 4) There must be included a plan for any displaced workers.
  - a) The employees have seen no plan in writing and have in fact been given very limited time to voice their concerns. They have been told "Don't Worry". That is pretty scary.

I have worked for the Department since I was 18 years old and will be eligible for retirement in 7 years. Although I will not lose my KPERS I will lose the retirement option. The possibility of finding another civil service position in Salina is very limited. This may be selfish but it does concern me because of plans I have developed through the years.

If the privatization of the Grain Inspection Department moves forward it will be a conflict of the intent of SB 102 which was passed, signed by the Governor and became law July 1, 1996.

Thank you for the consideration of my concerns.

Sincerely,

*Linda Stack*  
*Senate Agriculture*  
*Attachment 6*  
*March 6, 1997*



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 is as follows:

First, the Kansas Grain and Feed Association is the organizing entity 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, 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. All shares authorized at the time of incorporation will be issued to the Kansas Grain and Feed Association.

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 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. A similar approach may be desirable in this situation.

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.

It is clear that the USDA is comfortable with an organizational structure like the structure used in Lincoln, Nebraska. That same structure should accomplish the objective of the Kansas Grain and Feed Association.

*Senate Agriculture*  
*Attachment 7*  
*March 6, 1997*