Approved: March 5, 1997
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT AND TAXATION.

The meeting was called to order by Chairperson Audrey Langworthy at 11:00 a.m. on February 21, 1997, in Room 519--S of the Capitol.

Members present: Senator Langworthy, Senator Corbin, Senator Lee, Senator Bond, Senator Goodwin, Senator Hardenburger, Senator Harris, Senator Karr, Senator Praeger, Senator Steffes and Senator Steineger.

Committee staff present: Tom Severn, Legislative Research Department
Chris Courtwright, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Higgins, Secretary to the Committee

Conferees appearing before the committee: Senator Jerry Karr
Dr. Liz Boyle, Kansas State University
Justin Kastner, Manhattan City Commissioner
Bob Danler, Flint Hills Food Corporation
Gus Bogina, Kansas Board of Tax Appeals

Others attending: See attached list

SB 296--Concerning taxation; relating to meat and poultry packing facilities.

Senator Jerry Karr, author of the **SB 296**, testified in support. He explained that this legislation was discussed in the Senate Agriculture Committee. It addresses pending changes in federal meat and poultry inspection and the impact the changes will have on small meat and poultry plants throughout the state. Senator Karr summarized the four issues which have been the subject of discussion regarding **SB 296** as follows: (1) maintenance of a state meat inspection program, (2) technical assistance in the transition to and the maintaining of state programs, (3) low interest loans offered by the Department of Commerce, and (4) state tax credit to help keep small plants in operation as they physically overhaul their plants to comply with new federal mandates (cited in the bill) which will be implemented within the next three years. The fiscal note on the bill is estimated to be $330,000 as a tax credit. Senator Karr noted that a tax credit is not permitted on the federal return nor in any states as the new set of rules and regulations has just come into effect. Information on this legislation has been forwarded to Washington to inform the federal government what is being done in Kansas with regard to the new federal meat and poultry inspection rules and regulations. Although Senator Karr's main concern was the impact on small plants, he noted that the new federal rules and regulations will have an impact on all meat packing plants in the state. Senator Karr called attention to a letter in support of **SB 296** from Tom Pyle, Kansas Meat Processors Association. (Attachment 1)

Senator Steffes commented that the federal rules and regulations could critically affect the deer harvest as it is a major portion of many small meat locker plants. Senator Corbin responded that plants that do only custom slaughtering for individuals will not be subject to the federal regulations as the regulations apply only to plants who sell meat to the general public.

Dr. Liz Boyle of Kansas State University testified in support of **SB 296.** She provided science based background information about the USDA mandate requiring all meat processors to implement new food safety programs in their establishments. It was determined that the E. coli outbreak in 1993 was caused by undercooked ground beef that had been fully inspected and approved by USDA's Food Safety and Inspection Service. To better protect public health, the federal meat inspection system was reformed to change its focus from animal disease detection to one that addresses the risks posed by food borne pathogens. The new regulations required establishment of four new programs. She explained that Kansas is one of more than twenty states having a state inspection program; and to maintain the state inspection program, it is necessary that the state program be equal to the federal inspection program. The potential impact of this mandate on small and medium sized meat establishments prompted introduction of **SB 296**, which is designed to provide tax credits to meat and poultry establishments in Kansas. (Attachment 2)

Justin Kastner, Manhattan City Commissioner, followed with further testimony in support of **SB 296**. He said there are 197 plants in Kansas which are subject to the new regulations. The bill enables small meat companies to comply with the new regulations and survive a period of transition in meat inspection policy. All business size classes would be limited to a maximum of $10,000 in tax credits per plant over five years. It is estimated that 172 plants would qualify for the tax credit program. Mr. Kastner stressed that the tax credit program is imperative to the survival of local, rural businesses and their communities. (Attachment 3)

Bob Danler, representing Flint Hills Food Corporation, testified in support of **SB 296**. He noted that he was very familiar with the small meat processors as he had served as President of the Kansas Meat Processor Association. Mr. Danler felt the most costly portion of the new federal inspection regulations was the requirement to develop and implement Hazard Analysis and Critical Control Point (HACCP) programs. Most of the small processors do not have separate coolers for raw and cooked products as is required by HACCP. The cost to either petition coolers already in existence or to build separate new coolers will be extensive. Another critical control point is cooking. To meet HACCP requirements, meat processors must be able to verify that the house vessel temperatures reach certain degree levels and that the internal temperature of the product reaches certain degree levels which are safe. This involves the installation of recording devices to monitor cooking temperatures or the purchase of new cooking instruments that include the recording devices. The chilling rate of the product also must be monitored. Mr. Danler felt the bill would help offset some of the costs of the mandated updating of the facilities.

The hearing was closed on **SB 296**. The bill will be discussed further by the committee on February 24.

Senator Langworthy called the committee's attention to a previously heard bill, **SB 162**, regarding the exemption of farm machinery and equipment from property taxation.

Senator Lee withdrew her motion of February 19 to amend **SB 162** by inserting "being leased or" after "which is".

Senator Lee moved to amend **SB 162** on page 1, line 20, by removing "exclusively" and by removing "Any such property which is being acquired pursuant to a lease-purchase agreement shall be deemed to be actually and regularly used exclusively for the purposes of this subsection" appearing on page 1 (lines 20 through 23 and lines 33 through 36) and on page 2 (lines 1 through 4). Senator Corbin seconded the motion.

Senator Lee, noting that the broader issue of exclusive use would be discussed in an interim study, said the amendment was offered to get the bill at a necessary point at the end of the 1997 legislative session.

Senator Bond noted that the original intent of **SB 162** was to address the issue of lease-purchase and suggested that the bill be passed out of committee as drafted. He felt it would be wise not to amend the bill at this time but rather wait until the exclusive use issue is explored by the interim study committee.

Don Hayward, Revisor of Statutes office, explained that the intent of the amendment was to comply with the constitutional exemption for farm machinery and equipment. He reminded the committee that an Attorney General's opinion states that the "exclusively" provision in the bill is a restriction of the constitutional exemption because of the use test. Mr. Hayward believed that removing "exclusively" will bring the statute closer to the meaning of the constitutional exemption. He pointed out that the removal of "exclusively" from **SB 162** applies to only one statute. The summer interim study will address "exclusively" as it applies to many other statutes.

On a call for a vote on Senator Lee's motion to amend **SB 162**, the motion carried.

Senator Lee moved to recommend **SB 162** favorable for passage as amended, seconded by Senator Hardenburger. The motion carried.

Discussion, continued from February 19, was reopened on **SB 161** concerning the hearing officer procedure for taxation appeals on appraised property.

Gus Bogina, BOTA, stood to answer committee questions with regard to how the bill would be administered and if appeals over the $500,000 mark could be handled in a timely manner by BOTA. With regard to the commercial and residential appeals over $500,000, Mr. Bogina stated that BOTA would assume jurisdiction on the effective date of the bill, July 1, 1997. BOTA would assume control of the hearing officers on January 1, 1998. He said the provisions would be acceptable and workable because the equalization of appeals must be completed by August 1. Therefore, if the counties retain this calendar year's budget to do that work, they can continue to hear appeals to August 1. BOTA would have six months to gear up to the assumption of the duties on January 1, 1998. In answer to concerns expressed that counties would have no control over the length of time in which the appeals were settled, Mr. Bogina said BOTA would continue to make every effort to complete residential hearings within the year in which they are filed.

Mr. Bogina also answered questions in regard to the training of hearing officers and the areas which they would be assigned to cover, noting that the hearing officers must be familiar with the areas they cover; therefore, an attempt would be made to make the areas as small as possible. Mr. Bogina explained the reason for limiting the hearing officers to appeals on single-family residences. The definition of single-family residence is difficult with regard to duplexes and the like; and circumstances in large apartment projects, residential nursing homes, and retirement villages are complicated issues which he felt are not hearing officer issues. There being no further time, the discussion on **SB 161** was continued.

The meeting was adjourned at 12:02 p.m.

The next meeting is scheduled for February 24, 1997.

SENATE ASSESSMENT & TAXATION COMMITTEE
GUEST LIST

DATE: February 21, 1997

NAME	REPRESENTING
Bill Waters	PVD - KDOR
Kelly Karr	KSU
Liz Boyle	KSU
Bob Danler	Flint Hills Foods Inc.
JUSTIN KASTNER	KSU
Jim Maag	KBA
Cindee Stratton	AHA
Eric Sexton	WSU
SUE PETERSON	K-State
Marvin Burris	Bd of Regents
Bob Corkins	

Kansas Meat Processors Association
Thomas R. Pyle, Executive Director
800 Main St. • Box 490
Eudora, Kansas 66025
(913) 542-2151 • FAX (913) 542-2152

February 20, 1997

TO: Senator Jerry Karr

FROM: Tom Pyle, Executive Director
Kansas Meat Processors Association

Concerning Senate Bill Number 296, we stand in full support of passage of this bill to allow tax credits because of the HAACP law that is being passed on to us and the added expense it will create for the small plant operators.

Thank you for the opportunity to voice our support and allow our voices to be entered into the record of the committee.

Tom Pyle

Senate Assessment + Taxation
2-21-97
Attachment 1

KSU
KANSAS STATE UNIVERSITY

Cooperative Extension Service
Extension Animal Sciences and Industry
241 Weber Hall
Manhattan, Kansas 66506–0201
913-532-6131
FAX: 913-532-7059

STATEMENT OF

ELIZABETH BOYLE, Ph.D.
ASSISTANT PROFESSOR AND EXTENSION SPECIALIST, MEATS
KANSAS STATE UNIVERSITY

SENATE BILL No. 296

PRESENTED TO THE
SENATE ASSESSMENT AND TAXATION COMMITTEE

SENATOR LANGWORTHY, CHAIRPERSON

FEBRUARY 21, 1997

Brief Summary of the USDA FSIS Final Rule on Pathogen Reduction; Hazard Analysis and Critical Control Point (HACCP) Systems and impact on small meat processing businesses

Senate Assessment & Taxation
2-21-97
Attachment 2

Chairperson Langworthy and members of the committee, I am Elizabeth Boyle, an Assistant Professor and Extension Specialist in Meats at Kansas State University. In my position at KSU, I work closely with small and medium sized state and federally inspected meat processing businesses. I am here today to provide science based background information about the USDA mandate requiring all meat processors to implement new food safety programs in their establishments. The potential impact of this mandate has prompted introduction of Senate Bill No. 296, which is designed to provide tax credits to meat and poultry establishments in Kansas.

In January 1993, more than 500 persons were sickened and four children died from an outbreak of *E. coli* 0157:H7 in the Pacific Northwest. It was determined that this outbreak was caused by undercooked ground beef that had been fully inspected and approved by USDA's Food Safety and Inspection Service. In Congressional Testimony following the outbreak, then Secretary of Agriculture, Mike Espy, pledged to reform the federal meat inspection system, changing its focus from animal disease detection to one that address the risks posed by foodborne pathogens, therby better protecting public health.

This led USDA to propose the implementation of new food safety programs in all federally inspected establishments. Following the comment period to the proposed rule, the USDA FSIS published its Final rule on Pathogen Reduction; Hazard Analysis and Critical Control Point (HACCP) Systems on July 25, 1996. The rule mandated requirements in efforts to reduce the occurrence and numbers of pathogens on meat and poultry products, reduce the incidence of foodborne illness associated with consuming these products, and provide a framework for modernization of the meat and poultry inspection system.

The new regulations require establishment of four new programs. The first program requires that each establishment develop and implement written sanitation standard operating procedures (SSOP's). Secondly, regular microbial testing will be required for slaughter establishments to verify the adequacy of a plants' process controls for the prevention and removal of fecal contamination and associated bacteria. All slaughter plants and plants producing raw ground products must meet pathogen reduction performance standards for *Salmonella* for the third program. Lastly, all meat and poultry plants must develop and implement Hazard Analysis and Critical Control Point (HACCP) programs.

USDA FSIS established dates for implementing these programs in plants:
HACCP Programs

- ❖ January 26, 1998 in large establishments, defined as all establishments with 500 or more employees.
- ❖ January 25, 1999 in smaller establishments, defined as all establishments with 10 or more employees but fewer than 500.
- ❖ January 25, 2000 in very small establishments, defined as all establishments with fewer than 10 employees or annual sales of less than $2.5 million.

Sanitation SOP's

- ❖ January 27, 1997 for all establishments.

E. coli Process Control Testing

- ❖ January 27, 1997 for all establishments.

Salmonella Pathogen Reduction Performance Standards

- Simultaneously with applicability dates for implementation of HACCP

Kansas is one of more that twenty states having a state inspection program. To maintain our state inpection program, it is necessary that our program be "equal to" the federal inspection program. As stated in testimony presented Febraury 5, 1997, by Dr. Joe Beuerlein, Program Manager of Kansas Meat and Poultry Inspection, failure to properly adopt, implement and enforce this regulation will jeopardize the continuation of our state program.

Potential Impact on Small Meat Processing Businesses

To assess the impact of this rule on low volume plants, USDA FSIS developed cost estimates. Costs are presented three ways. First, USDA prepared a summary of costs for a typical low volume establishment.

Cost Category	Year 1	Year 2	Year 3	Year 4	Year 5+
1. SSOP's plans and training	[a]$190				
Observation and recording	1,242	1,242	1,242	1,242	1,242
2. Compliance with *Salmonella* standards				[b]0-1,200	[b]0-1,200
3. HACCP plan development				[c]4,231-7,952	
Annual plan reassessment					177
Initial training				[d]2,937-3,368	
Recurring training					294-337
Recordkeeping				2,015	4,030
4. Additional overtime				[e]0-3,702	[e]0-7,404
Total	1,432	1,242	1,242	10,425-11,625	5,743-6,986

[a]This cost for the 112 low volume TQC plants would be $64.

[b]The estimate of $1,200 is based on monthly testing for two products and an antimicrobial rinse for one.

[c]The cost analysis is based on estimated that low volume federally inspected establishments will require an average of 2.29 plans each, at a cost of $3,479 per plan for a total plan development cost of $7,952. The number of plans for federally inspected establishments is based on data from existing FSIS data bases. **It was assumed that state plans have an average of 2.12 plans each for a total cost of $4,231 per plant ($2,000 per plan).**

[d]Average training cost for state plants ($3,368 per plant) were estimated to ve slightly higher than the average federally inspected low volume establishment ($2,937 per plant) because the state programs have a higher percentage of combination slaughter and processing plants. The cost analysis assumed that plants would train one individual for each processing, red meat slaughter and poultry slaughter operation.

[e]The preliminary analysis estimated that 112 of 287 active TQC plants are low volume producers. The average TQC plant avoids an annual overtime charge of $7,404. The cost estimated for additional overtime costs apply only to those 112 plants and assume the TQC provisions will be phased out as HACCP is phased in.

Over a five year period, USDA has estimated that it will cost low volume plants **$20,084-$22,527** to implement the programs associated with the final rule on pathogen reduction.

USDA developed costs for a small, single-shift processing plant having no previous TQC or sanitation PQC program, and has two distinct production operations other than raw ground product.

Requirement	Development and Implementation Costs	Recurring Annual Costs
SSOP's	$190	$1,242
HACCP plan development	6,958	0
Annual plan reassessment	0	102
Training	2,514	251
Recordkeeping	0	6,480
Total	9,662	8,075

Costs for a small, single-shift, combination (slaughter and further processing) plant that slaughters cattle or swine, but not both, and has a single further processing operation other than raw ground product were also presented by USDA.

Requirement	Development and Implementation Costs	Recurring Annual Costs
SSOP's	$190	$1,242
Compliance with *Salmonella* standards	0	800
E. coli sampling	1,043	653
HACCP plan development	6,958	0
Annual plan reassessment	0	102
Training	5,028	503
Recordkeeping	0	5,434
Total	13,219	8,734

Additional Considerations:

✦ "FSIS assumed that the Sanitation SOP's would be developed by a quality control manager at a cost of $25.60 per hour." FSIS estimated that it would cost an average of $128 for low volume establishments to develop SSOP's and therefore take approximately 5 hours to develop the written SSOP's, corrective action plans and documentation forms. Many small Kansas meat processing businesses do not have a trained QC manager on staff to develop SSOP's. It will become the responsibility of the operator/owner or other employee to develop SSOP's for the plant. Processors will need to take time from their regular responsibilities to develop SSOP's, and these procedures may take longer than 5 hours to develop since processors may not be experienced in developing written SSOP's. Some establishments do not have computers which may make the development of documents for SSOP's more difficult, especially preparing checklists or when revisions need to be incorporated into the program. Financial assistance to purchase computers and word processing training may be needed.

✦ FSIS assumed that training costs for a low volume establishment will be $62, take 2 hours and involve both a QC technician and a production worker. Many small Kansas meat processing businesses do not have a trained QC technician. SSOP training courses typically average 4 to 8 hours in length and costs may range from $30 to $300 for a one day course, not including travel and accommodation expenses.

✦ Many small meat processing operations have one cooler to hold raw and cooked product. This will pose difficulties for product separation within a HACCP program.

✦ Product flow within plants. Opportunities for potential cross contamination between raw and cooked product with limited processing space in small facilities.

✦ Lack of expertise in collecting microbial samples (will require training in aseptic sampling), access to overnight shipment in remote locations, cost of microbial sampling supplies and shipping containers.

✦ Many plants slaughter three species including beef, hogs and sheep, in addition to processing a large variety of products in small quantities. This will necessitate the need to develop more HACCP plans than estimated by USDA.

✦ Plants may need to invest in temperature chart recorders if they do not have them in their coolers or on their thermal processing chambers. One cost estimate for a simple temperature chart recorder is approximately $600.

This list is not comprehensive and processors may encounter additional expenses as these programs evolve.

It is widely recognized that the continued existence of small and medium sized meat establishments is important to the economic survival of many rural towns throughout Kansas. Efforts need to be continued to be made which represent a commitment to the continued existence of these establishments.

STATEMENT OF

JUSTIN J. KASTNER
MANHATTAN CITY COMMISSIONER

BEFORE THE

KANSAS SENATE ASSESSMENT AND TAXATION COMMITTEE

SENATOR LANGWORTHY, CHAIRPERSON

FEBRUARY 21, 1997

Senator Langworthy, members of the Senate Assessment and Taxation Committee, I am Justin Kastner, member of the Manhattan City Commission. I am here today to make comments regarding Senate Bill 296 which calls for a meat safety tax credit program.

As Dr. Boyle previously mentioned and described, last summer the United States Department of Agriculture adopted the "Pathogen Reduction; HACCP" regulations.

The new regulations apply to both federally and state inspected meat slaughter and processing plants in the United States. In Kansas, there are 210 meat plants. Of these, 50 are "Federally inspected," 147 are "State inspected," and 13 are "Custom exempt." Only the 13 Custom exempt plants are not under the purview of the new regulations. This means, of course, that there are 197 plants in our state which are subject to the new regulations.

Senate Assessment & Taxation
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Attachment 3

The new "Pathogen Reduction; HACCP" regulations will call many companies to make significant capital formation investments. For example, the regulations—to go into effect over the next three years—will call plants to construct new refrigeration units to separate raw and cooked product and some business owners will have to reconfigure their plant layouts to meet HACCP requirements. Large companies, due to their market share, are more able to meet the requirements of the new regulations and many already have. However, small firms, with limited sales, staff, and expertise, are not.

Senate Bill 296 enables these small meat companies to comply with the new regulations and survive a period of transition in meat inspection policy. Plants with between one and 10 employees would qualify for 30% credits against state income tax for capital investments made to comply with the new regulations. Those with between 11 and 250 employees would qualify for 20% credits against tax for such investments. Both business size classes would be limited to a maximum of $10,000 in tax credits per plant over five years.

Of the 197 plants in Kansas subject to the new regulations, it is estimated that 172 plants would qualify for the tax credit program.

The tax credit program is imperative to the survival of local, rural businesses and their communities. Many small companies and locker plants will change their status to Custom exempt or close down completely if no financial support is provided. This would have detrimental effects on local economies in our state. According to the 1996 version of *Kansas Covered Employment*, there are 1,680 jobs in meat plants with less than 250 employees.

The tax credit program would retain over 1,600 jobs in Kansas, maintain and expand local rural tax bases, and help prevent a critical industry in Kansas from being further concentrated into large corporations.

I encourage you to support Senate Bill 296. It would empower our state's small meat plants to meet the new "Pathogen Reduction; HACCP" regulations. Thank you for your consideration.