

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE.

The meeting was called to order by Chairperson Joann Flower at 3:30 p.m. on March 17, 1999, in Room 423-S of the Capitol.

All members were present except:

Committee staff present: Raney Gilliland, Legislative Research Department
 Gordon Self, Revisor of Statutes
 Kay Scarlett, Committee Secretary

Conferees appearing before the committee:

Steven Graham, Assistant to the Dean and Director, K-State Research and Extension, College of Agriculture, Kansas State University
Dr. Barry Flinchbaugh, Extension State Leader in Agricultural Economics, K-State Research and Extension, Kansas State University
Dr. Fredrick DeLano, Administrator, Farm Management Association Program, K-State Research and Extension, Kansas State University
Duane Hund, Extension Assistant, Farm Analyst Program, K-State Research and Extension, Kansas State University
Forrest Buhler, Director, Kansas Agricultural Mediation Services, K-State Research and Extension, Kansas State University

Others attending: See attached list

Steven Graham, Assistant to the Dean and Director, K-State Research and Extension and College of Agriculture, Kansas State University, addressed the committee to discuss the Kansas agricultural outlook and assistance available from K-State Research and Extension. He said it is important to recognize that the farm crisis is a nationally and internationally influenced event, that we are limited in the effect we can have at the state level. However, he said K-State can have an impact in the areas of teaching, research, and extension. He noted that K-State is a primary vendor to USDA Farm Service Agency's Ag Credit Division in supplying educational workshops for their borrowers, primarily farmers who are highly levered and acquiring funds through USDA guaranteed or direct loan programs. Mr. Graham discussed a new program K-State Research and Extension is launching this year to train Extension Agents to understand and appreciate the complexities and potential conflicts of farm family goals, farm business goals, environmental stewardship, and the reality of profitability on the farm. He said it is important Kansans realize the many and varied services K-State provides to farming/ranching families and enterprises. (Attachment 1)

Dr. Barry Flinchbaugh, Extension State Leader in Agricultural Economics, K-State Research and Extension, provided an overview of the current agricultural economic outlook, stating that while it is a serious problem, it should not be compared to the 1980's. He stated that the current situation is not a crisis 1980's style; the 1980's debt-to-asset ratio was 25 percent, today it is 15 percent; land values declined 50 percent in the 1980's, today's land values are relatively stable. He said that, today, we have a strong equity position in the aggregate; individually, problems are increasing, especially, for the highly leveraged producer. He noted that 1996 and 1997 were very good years, hence, 1998 is viewed with alarm. Dr. Flinchbaugh foresees improvement in the livestock sector in 1999, mainly, in cattle, not hogs. He felt the crop sector was likely to further decline in 1999, depending on government programs and exports; to show a slight improvement in 2000; a decent improvement in 2001; and likely back to normal in 2002. He cautioned that back to normal does not mean 1996 and 1997 income levels.

In answer to committee questions, Dr. Flinchbaugh said the environment was a much easier problem to solve through technology than food safety; food safety is a consumer education problem. In regard to mandatory price reporting and related issues, he said he gets very concerned when any state legislature attempts to alter

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE, Room 423-S Statehouse, at 3:30 p.m. on March 17, 1999.

national or international markets; all they simply do is create another set of problems and put themselves at a competitive disadvantage. When asked what the Kansas Legislature can do to assist agriculture, Dr. Flinchbaugh said to contribute to an accurate description of the current situation, it is not as bad as the 1980's. He emphasized that agriculture policy is a federal issue, there is little that can be done state by state. He advised the legislature to use its influence and persuasion with Congress and to support K-State's efforts and programs to assist Kansas farmers.

Dr. Fredrick DeLano, Administrator, Farm Management Association Program, K-State Research and Extension, distributed copies of the 1997 Executive Summary ProfitLink Analysis. He explained that the efforts of many Kansas farm families keeping detailed farm business and financial records make possible the annual report of whole farm and enterprise cost-of-production analysis information. He noted that 80 percent of the funds for the Farm Management Program are paid by the participating farmers, with the remaining 20 percent funded by the state. He said the 1998 annual report should be ready by the middle of April. (Attachment 2)

Duane Hund, Extension Assistant, Farm Analyst Program, K-State Research and Extension, provided an overview of the Farm Analyst Program organized in 1985 to provide intensive one-on-one consultation using farmers trained as para-professionals. He said the program is aimed at strengthening the management ability of the farm manager as well as the decision-making ability of the agricultural lender. He said the major benefit provided by the Farm Analyst is in determining a producer's competitiveness, profitability, and efficiency; equally important is Extension's commitment to improving a producer's risk management knowledge and skills. He noted that a recent review of 109 farm operations where base line and outcome data were collected showed an average increase of \$20,340 in annual net farm income per farm by incorporating information provided by the Farm Analyst. He said the Farm Analyst Program has allowed many Kansas producers to maintain their farms and find the resources to improve the odds of their success. He included a letter from James M. Koch, President, Peoples Exchange Bank of Belleville and Clyde, Kansas, sharing his experience with the Farm Analyst Program. (Attachment 3)

Forest Buhler, Director, Kansas Agricultural Mediation Services, K-State Research and Extension, addressed the committee. He said Kansas Agricultural Mediation Services, funded through a USDA grant program and administered by K-State Research and Extension, has been the officially certified agricultural mediation program in Kansas since 1988. The program may be requested by any Kansas agricultural borrower or creditor. Mediation, also, may be requested by any Kansas agricultural producer who receives an adverse decision from a USDA agency. In addition to free mediation service, low-cost financial counseling and legal assistance can be provided to assist participants in preparing for mediation. He included maps of Kansas comparing USDA Farm Service Agency Farm Credit Program Delinquency Reports by region as of February 10, 1999, with February 10, 1998. (Attachment 4)

The meeting adjourned at 5:20 p.m. The next meeting is scheduled for March 22, 1999.

TESTIMONY BEFORE THE
HOUSE AGRICULTURE COMMITTEE
BY MEMBERS OF
K-STATE RESEARCH AND EXTENSION
MARCH 17, 1999

Madam Chair, Members of the Committee, Ladies and Gentlemen of the audience, my name is Steven Graham. I am the Assistant to Dr. Marc Johnson, who is the Dean of Kansas State University's College of Agriculture and also Director of the KSU Agricultural Experiment Station and Cooperative Service, which we call K-State Research and Extension for short.

Today, we will discuss the Kansas Agricultural Outlook and Assistance Available. You will hear from several members of K-State Research and Extension. They are:

Dr. Barry Flinchbaugh, Extension State Leader in Agricultural Economics, who will review with us the Kansas Agricultural Outlook.

Dr. Fred DeLano, Administrator of Extension's Farm Management Association Program, who will describe the role of the Farm Management Association and cover some specific examples of what is happening out on Kansas farms and ranches and why.

Duane Hund, Extension Assistant, will next speak about the Farm Analyst Program and discuss how this K-State service helps farm families who are experiencing financial challenges.

Last, we will hear from Forrest Buhler, an attorney and Director of the Kansas Agricultural Mediation Service. This organization provides mediation services and legal counseling to producers who are experiencing problems with financing, whether at their banks or with various Federal agencies.

Before Dr. Flinchbaugh comes up to speak, I think it is important to recognize that the farm crisis is a nationally and internationally influenced event. At the state level, we are limited in the effects we can have. However, at Kansas State University, we can have an impact in the areas of teaching, research and extension.

I think it is important to note that K-State Research and Extension embarked on its new Five-Year Work Plan this past January 1999. We are concentrating our efforts on Four Core Mission Themes. When you look at the 16 major subheadings of activities under these four themes, all apply to our farming and ranching families and enterprises.

Thus, whether our faculty are developing new higher yielding and disease resistant Crops; Agricultural Risk Management Strategies; Efficient and Integrated Crop Production Systems; Efficient and Coordinated Livestock and Poultry Production Systems; new ways of Enhancing the Value to our Kansas Agricultural Goods; or of keeping a Safe Food Supply from Production to Consumption, K-State Research and Extension personnel are in touch with producers and are worrying about and working on their problems.

*House Agriculture Committee
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Attachment 1*

Our Research and Extension personnel are working statewide to assist farm and ranch families in diverse ways including: advising local processing businesses of new HACCP regulations to keep those local plants in business and providing a market for our producers; assisting with environmentally safe but economic ways of treating animal wastes; helping families with inter-generational land and trust transfer issues; developing consumer and financial management skills; and even providing some assistance or referrals in stress and mental health counseling.

Kansas State University is a primary vendor for the USDA Farm Service Agency's Ag Credit Division in supplying educational workshops for their borrowers. This is a 25 hour series of workshops in which we teach basic principles of financial management, record keeping, production management, and marketing. We are training an average of 200 clients per year through these workshops. These individuals all represent farmers who are highly levered and acquiring funds through USDA guaranteed or direct loan programs.

Another new program we will be launching this year involves training Extension Agents to understand and appreciate the complexities and potential conflicts of farm family goals, farm business goals, environmental stewardship, and the reality of profitability on the farm. Our agents are the target audience to receive comprehensive training and access to resources designed for farm/ranch family, environmental, production, and financial goal setting, assessment, planning and monitoring to lead to sustainable agriculture.

We will be conducting five or six workshops. The workshop training will provide hands-on use of a newly-developed Kansas environmental farm assessment and planning tool along with financial planning tools. The workshop training will include use of the tools on a case farm. The objectives of the training, which we hope will also include NRCS, and state and federal agency personnel, are:

1. Increase understanding of integrated decision making on potential farm business economics, family goals, and environmental impact.
2. Gain first-hand exposure to farm family goal setting, farm financial analysis, and environmental farm planning tools.
3. Practice the integration of best management practices for environmental stewardship on farm level decision making.
4. Improve understanding and skills for teaching whole farm environmental assessment, analysis, and implementation planning.

This last effort to sensitize our Extension Agents and others to Whole Farm Planning is a reaction to criticisms we have received in the past for making recommendations which affected only one piece of the puzzle on the farm/ranch and overlooked the other pieces. We have heard the criticisms and are now responding with a unified plan of action.

I do not want to pretend that we have all the answers or all the services, because we do not and will never have. However, I think it is important to realize the many and varied services K-State does provide to our farming/ranching families and enterprises. When our friends and neighbors are hurting, we are too, and that spurs us to work harder on behalf of our Kansas agriculture friends and partners.

We thank you for today's opportunity to discuss the Kansas Agricultural Outlook and some of the assistance available from K-State Research and Extension.



Kansas State University

April 14, 1998

Dear Farm Manager:

Cooperative Extension Service
K-State Research and Extension
Department of Agricultural
Economics
344 Waters Hall
Manhattan, KS 66506-4026
785-532-5823
Fax: 785-532-6925

EXECUTIVE SUMMARY
1997 ProfitLink Analysis
Kansas Farm Management Associations

The efforts of many farm families throughout Kansas keeping detailed farm business and financial records make possible the annual report of whole farm and enterprise cost-of-production analysis information. The Association Economists, clerical staff, and the K-MAR-105 staff, have just completed a very successful year of working with the Farm Management Association member families to make this information available.

Detailed analysis for comparison with individual farm business records will soon be available from the Association Economists, County Agents, or the Department of Agricultural Economics, Kansas State University.

The following tables provide you with a glimpse of the information on a state-wide basis.

Very truly yours,

Handwritten signature of Fredrick D. DeLano

Fredrick D. DeLano
Administrator
Farm Management Association Program

Handwritten signature of Larry N. Langemeier

Larry N. Langemeier
Extension Agricultural Economist
Farm Studies & Administrator K-MAR-105

ANNUAL NET FARM INCOME AVERAGES OF ASSOCIATION FARMS

Table with 6 columns: Association (NW, NC, NE, SW, SC, SE), Year, Net Income. Rows list years from 1988 to 1997 and 10 Year Averages for each association.

Kansas State University Agricultural Experiment Station and Cooperative Extension Service
K-State, County Extension Councils, Extension Districts, and U.S. Department of Agriculture Cooperating.
All educational programs and materials available without discrimination on the basis of race, color, religion, national origin, sex, age, or disability.

House Agriculture Committee
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Attachment 2

"Knowledge for Life"

PERCENT OF FARMS IN INCOME GROUPS*
FARM MANAGEMENT ASSOCIATIONS
1997

	NC %	SC %	SW %	NE %	NW %	SE %	All Assn. %
Over \$140,000 Net Income	6.21	10.40	8.17	8.05	3.51	17.55	10.44
\$120,000 - \$140,000	1.89	3.20	3.85	3.90	1.75	4.03	3.28
\$100,000 - \$120,000	6.21	6.13	6.25	4.63	2.63	5.96	5.45
\$ 80,000 - \$100,000	8.39	9.60	7.21	5.37	6.58	8.70	7.81
\$ 60,000 - \$ 80,000	10.87	12.80	10.10	11.46	9.21	11.92	11.37
\$ 40,000 - \$ 60,000	17.39	16.00	12.50	14.63	14.47	12.08	14.33
\$ 20,000 - \$ 40,000	22.36	17.87	17.31	18.78	15.79	18.20	18.53
\$ 0 - \$ 20,000	15.84	15.47	17.31	20.49	24.12	15.14	17.47
\$ 0 - \$ 20,000 Loss	7.45	5.33	8.65	7.80	12.28	5.31	7.16
\$ 20,000 - \$ 40,000 Loss	2.17	1.87	4.81	3.90	4.82	1.13	2.68
\$ 40,000 - \$ 60,000 Loss	-	-	-	-	2.63	-	.55
Over - \$ 60,000 Loss	-	-	3.37	-	2.19	-	.92
TOTAL NUMBER OF FARMS	322	375	208	410	228	621	2,164
AVERAGE NET FARM INCOME	\$51,263	\$60,919	\$48,589	\$51,698	\$30,228	\$81,951	\$59,352

FOUR-YEAR TREND ANALYSIS
TYPE OF FARM
1994-1997

Type of Farm	No. of Farms (1997)	Net Income/Operator			
		1997	1996	1995	1994
All Farms	2,164	\$58,235	\$60,360	\$21,726	\$27,478
Cash Crop Dryland	1,282	61,975	63,904	21,813	31,715
Cash Crop Irrigated	154	50,127	92,067	47,405	40,749
Stock-Ranch Cowherd	26	26,644	1,967	(23,588)	8,132
Cowherd	26	15,056	20,827	(6,313)	(6,202)
Dairy	74	39,179	39,953	26,286	31,555
Sow & Litter (Market)	15	103,127	122,573	92,049	3,442
Backgrounding	41	58,220	55,754	(16,707)	18,431
Background-Finish	19	77,831	121,786	11,738	(3,017)
Cash Crop-Cowherd	155	31,147	16,812	8,650	14,102
Cash Crop-Dairy	19	65,888	58,436	23,786	46,329
Cash Crop-Sow & Litter (Market)	31	58,709	65,687	39,487	8,825
General Farm	97	60,211	49,758	18,536	9,502
Cash Crop-Backgrounding	80	67,982	67,658	(4,997)	16,267
Cash Crop-Background Finish	18	89,072	96,783	23,130	37,975
Cash Crop-Beef	79	60,433	62,900	22,850	29,506
Turkeys	17	42,122	18,287	21,023	14,205

**GROSS INCOME, TOTAL EXPENSES, and NET FARM INCOME
by INCOME—1997**

2.3

Region	High Income Farms (25%)			Low Income Farms (25%)			Average of all Farms				
	Number Farms (25%) of Total	Gross Farm Income	Total Farm Expenses	Net Farm Income	Gross Farm Income	Total Farm Expenses	Net Farm Income	Number of Farms	Gross Farm Income	Total Farm Expenses	Net Farm Income
NC	81	\$426,279	\$305,312	\$120,967	\$124,884	\$125,886	(\$ 1,002)	322	\$225,513	\$174,250	\$ 51,263
SC	94	\$398,210	\$255,247	\$142,963	\$116,390	\$117,281	(\$ 892)	375	\$234,486	\$173,566	\$ 60,919
SW	52	\$430,088	\$296,166	\$133,923	\$169,448	\$191,059	(\$21,611)	208	\$259,323	\$210,734	\$ 48,589
NE	103	\$474,190	\$339,138	\$135,052	\$143,889	\$151,219	(\$ 7,330)	410	\$256,301	\$204,603	\$ 51,698
NW	57	\$392,714	\$291,921	\$100,793	\$196,172	\$229,895	(\$33,722)	228	\$233,338	\$203,110	\$ 30,228
SE	155	\$556,150	\$352,831	\$203,319	\$112,135	\$105,749	\$ 6,386	621	\$272,281	\$190,330	\$ 81,951
1997	541	\$466,055	\$313,451	\$122,819	\$138,723	\$145,178	(\$6,455)	2,164	\$250,396	\$191,044	\$ 59,352
State Average											
1996	529	\$470,763	\$308,422	\$162,341	\$117,472	\$122,309	(\$ 4,837)	2,115	\$237,862	\$175,947	\$ 61,915
1995	532	\$313,174	\$224,747	\$ 88,427	\$145,332	\$175,165	(\$30,774)	2,126	\$185,697	\$163,344	\$22,353
1994	534	\$325,492	\$234,757	\$ 90,736	\$139,561	\$160,020	(\$20,459)	2,136	\$187,717	\$159,064	\$28,652
1993	529	\$329,903	\$223,784	\$106,120	\$118,487	\$129,411	(\$10,924)	2,110	\$186,156	\$147,987	\$ 38,169
1992	524	\$359,532	\$243,233	\$116,299	\$103,581	\$107,333	(\$ 3,752)	2,096	\$190,942	\$145,468	\$ 45,475
1991	504	\$275,628	\$196,973	\$ 78,655	\$137,195	\$160,399	(\$23,204)	2,013	\$164,114	\$141,227	\$ 22,887
1990	551	\$329,700	\$232,355	\$ 97,345	\$109,231	\$117,316	(\$ 8,085)	2,043	\$184,103	\$147,766	\$ 36,337
1989	495	\$289,703	\$207,727	\$ 81,976	\$117,643	\$133,712	(\$16,069)	1,981	\$167,428	\$142,832	\$ 26,596
1988	508	\$351,511	\$231,619	\$119,893	\$100,698	\$101,641	(\$ 943)	2,030	\$191,205	\$142,523	\$ 48,682

FIVE-YEAR TREND ANALYSIS
AVERAGE OF ALL FARMS
1993 - 1997

	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
No. of Farms for Analysis	2,164	2,115	2,126	2,136	2,110
Livestock Gross Income	79,679	70,511	60,839	67,435	72,563
Gross Farm Income	250,396	237,862	185,697	187,717	186,156
Cash Operating Expense	174,209	160,816	148,813	144,999	134,603
Depreciation	16,835	15,131	14,531	14,065	13,384
Total Farm Expense	191,044	175,947	163,344	159,064	147,987
Net Farm Income	59,352	61,915	22,353	28,652	38,169
Return to Labor-Management	24,202	29,972	(8,189)	(1,306)	8,032
Return to Capital	18,913	26,670	(772)	1,892	8,049
Return on Net Worth (%)	0.81	2.78	(4.44)	(3.42)	(1.57)
Total Loans	207,818	191,863	185,991	189,803	180,970
Current-Intermediate Assets**	338,619	302,981	270,863	278,422	280,403
Total Assets**	634,881	593,680	553,618	549,019	548,334
Total Capital Managed**	1,163,752	1,090,695	1,046,430	998,072	972,541
C & I Ratio*	.38	.37	.41	.40	.38
Loans/Net Worth Ratio*	.49	.48	.51	.53	.49
Total Acres	1,686	1,683	1,668	1,610	1,603
Crop Acres	1,062	1,069	1,048	999	1,003
No. of Workers	1.49	1.46	1.49	1.50	1.49
No. of Operators	1.02	1.03	1.03	1.04	1.05
Gross Crop Value/Crop Acre	203.31	199.65	149.84	157.53	147.91
Crop Production Costs/Crop Acre	111.29	99.61	92.23	89.90	83.47
Machinery Invest./Crop Acre**	94.72	86.94	81.32	77.76	72.59
Machinery Costs/Crop Acre	46.73	42.45	39.54	39.22	38.20
Total Family Living Expense	33,059	30,456	29,772	29,367	28,929

*C & I Ratio equals current plus intermediate loans divided by current plus intermediate assets. Ratios computed as of December 31.

**Machinery investment calculated using management depreciation resulting in a value closer to fair market value.

KSU Research and Extension
Farm Analyst Program

Overview:

In support of the five year planning effort for Research and Extension, the Farm Analyst Program provides strong linkage to the issues of :

1. Develop tools to evaluate risks of crop and livestock production and management systems by thoroughly analyzing the resources individual operators utilize.
2. Develop decision support systems to meet the production needs of large and small scale farms by introducing the role of consultants to operations not familiar with Extension and KSU Farm Management Associations.
3. Provide risk assessment and risk management education through analysis of the operations competitiveness with each enterprise in the business.
4. Develop strategies and options for intergenerational transfer of the farm by facilitation communication between diverse age groups with empathy and guidance towards critical thinking of various alternatives.
5. Design and evaluate alternative risk management products through feedback from producers and providing assistance with understanding the various strategies available.

The role of a farm analyst is centered around the use of a computer software program called Finpack, which is a set of software programs designed to be used as tools by farm and ranch managers and those who work with them. Finpack assists in individualized business planning and financial analysis. Finpack is an effective educational tool. It teaches financial concepts through their application on individual farms. The program is aimed at strengthening the management ability of the farm manager as well as the decision-making ability of the agricultural lender.

When a debtor/creditor dispute arises, the typical farm manager's goal is to restructure and keep operating. It is not in the farmer's or the creditor's interest to resume operation without a clear analysis of:

- What went wrong?
- What will change?
- Restructuring alternatives.
- Reviewing annual results.

Finpack is the tool that can be used to accomplish these tasks. A typical Finpack analysis involves formulation of a base plan which outlines how the business is currently structured. When a consensus is developed that the base plan is accurate, alternative plans are formulated. These can range from restructuring debts, or looking at alternative enterprises.

The Farm Analysts Program has a 14 year history of responding to farm families encountering a variety of challenges. Even though the foundation of the program was born out of the farm crisis of the 1980's and funded with crisis grant moneys, it is apparent the demand for Extension to provide intensive one-on-one consultation using farmers trained as paraprofessionals, has merit.

House Agriculture Committee
March 17, 1999
Attachment 3

-Analysts Help Farm Families Make Transitions-

The computer is only a tool for the more personalized nature of what analysts do. Analysts stimulate producers to think beyond the present. The need for planning to prosper during transitions like "Freedom to Farm" has never been more important. Involvement of all family members strengthens the family unit to aide in the burdens felt by many sole proprietors who feel isolated as change accelerates around them. Supportive family units not only strengthen the farm business they also give opportunity to younger family members who wish to avail themselves of the opportunity to become future agricultural producers.

Times of transition challenge farmers to place themselves in a more competitive position for the future. Extension has the knowledge system in place. The Analysts Program provides the delivery mechanism needed to empower producers with this knowledge. Mobilizing fellow farmers as analysts provides validity and acceptance by producers of the changes they must make.

Integrating the research activities with the education of farm analysts will provide Extension a lasting link for the future. Support for Extension at the local level will increase as farmers realize the necessity to move beyond their traditional independent posture to one of interdependence. This link will facilitate research into new opportunities for competing in a global economy.

-Analysts Provide Major Benefits-

The major benefit provided by the Farm Analyst is in determining a producers competitiveness, profitability and efficiency. By using Finpack and researching producers abilities in utilizing their resources most effectively, opportunities arising from the changes in farm and trade legislation leading to globalization of markets can be addressed. New technologies and management practices can be advanced on a case by case basis.

The purpose of providing each producer a plan to increase international competitiveness, efficiency and profitability has always been the goal of the Analysts Program. Equally important is Extension's commitment to improving producers risk management knowledge and skills.

Analysts provide the link for producers to find solutions and do so with the understanding that someone (in this case a fellow farmer) truly cares. This caring attitude empowers a producer to meet the challenges facing them. The producer is ready to find solutions based upon facts without defensiveness. This is often the greatest barrier producers face in utilizing the knowledge or technology which enables solutions to complex problems.

The majority of producers previously served by the analysts program have been small to moderate size. Many are economically viable provided alternative (off-farm) income is available to cover family living expenses. As the need for additional disposable income increases, some families quality of life factors decline, thus pressuring the health of the individual producer, the spouse and children. Often an elderly family member is

part of the equation, kept out of a care home by the ability to function at some level of proficiency. Farmers never really retire if they can help it.

Analysts realize the importance of facilitating the function of these family units and strive to provide insight for producers to find realism in their expectations of themselves and their families. Small farmers are important to the survival of many small communities. Education, health care, and retail stores require volume. Each farm family lost has a ripple effect that endangers the fabric of what remains. Analysts provide ideas and opportunities for families to remain in their communities.

Many of the management skills necessary for a small farm unit to remain economically viable, require intensive management innovations. Analysts provide a framework to integrate crop and livestock systems. Economies of scale are explored which enable a small producer to find niches available with higher returns than those routinely available to larger more commercialized farms which concentrate on specialization.

-Results Help Farmers Increase Profit-

Recently a review of computer Finpack analysis on 109 farm operations where base line and outcome data were collected, showed an average increase of \$20,340 in annual net farm income per farm by incorporating information provided by farm analysts. This translates into a total potential increase of annual net farm income for those 109 farms of over \$2,218,000.

The increase in net farm income can be taken one step further by applying the overall agricultural income multiplier for the state of Kansas of 2.495. This value shows that for every new dollar of primary income earned in agriculture, an additional \$1.50 of personal income will be generated throughout the state. Using this formula, the \$2,218,000 of net farm income translates into an additional \$3,315,910 of personal income generated throughout the state directly in local businesses and indirectly in more income available to local households.

Change requires experimentation. Farmers need resources to buffer the risks of experimentation. The advent of "Freedom to Farm" legislation could be described as a great experiment. Virtually no farmer living today has farmed without the availability of government programs. If Kansas agriculture is to move into the arena of global competitiveness, producers must be buffered through the risks. The Farm Analyst Program provides a history of accomplishment by which many Kansas producers have maintained their farms and found the resources to improve the odds of their success.

Testimony before the House Agriculture Committee, March 17, 1999, by:

Duane Hund, Extension Assistant
Farm Analyst, K-State Research and Extension



Peoples Exchange Bank

March 16, 1999

Madame Chairman Joann Flower
Members, Kansas House of Representatives Agricultural Committee
Kansas Statehouse
Topeka, Kansas

Dear Madame Chairman and Committee Members:

The Farm Analyst Program that has operated under the auspices of Dr. Barry Flinchbaugh and which has been coordinated by Duane Hund has been, still is and should remain an important tool for Kansas farmers and bankers. My experience with this program began at my previous banking affiliation and has continued here at Peoples Exchange Bank. Why is this program beneficial?

Communication is critical in any lending relationship, but even more so in an ag lending relationship where critical factors such as the weather and commodity prices are beyond the control of the borrower or lender. This is especially true when the financial condition of the borrower is marginal and even more so when troubled economic times arise. Effective communication often becomes difficult in such situations because both Borrower and Lender have their specific priorities which are not always compatible. It has been our experience that the use of a third party consultant (i.e., the farm analyst) often provides a common ground for discussion far short of the ultimate discussion that too often occurs in the bankruptcy court.

The analyst is often successful in reopening communication because the farm customer senses that the analyst is "in his corner". Yet, as a Lender, my experience has been that the analyst is very objective in analyzing the financial condition of the Borrower. Why does communication improve while objectivity is retained? One of the foremost reasons in my opinion is that the analyst often works from the home of the Borrower. There, the Borrower is on his turf where it is easier to produce information with no fear that the questions are being asked by a banker with an ulterior motive in mind. Second, the involvement of the spouse is generally facilitated. Third, the analyst can discuss repayment capacity from a different perspective than can the banker who, in the opinion of the customer, is only concerned with getting the bank's loan repaid without regard to the overall well-being of the customer. Finally, the use of the analyst often creates a sense of urgency to take action. Such urgency often fails to materialize when the customer simply feels that "it's just the old banker nagging him again".

Our overall experience with the use of the farm analyst program has been very beneficial. Many customers who have used the program have completed successful restructurings. Some cases have resulted in liquidation, but in none of those cases has the process proceeded to bankruptcy where all parties-the customer, the lender and the taxpayer-are losers. With the current low commodity prices, another ag crisis is upon us; many more farm families and their lenders will benefit from the availability of the farm analyst program in the next several years. Thank you for your consideration of our experience with the farm analyst program.

Sincerely,

James M. Koch
President

1902 M Street • PO Box 160 • Bellville, Kansas 66935-0160
(785) 527-2213 • Fax (785) 527-5750 • peoples-bank@nckcn.com

413 Washington • P O Drawer 9 • Clyde, Kansas 66938-0009
(785)446-3331 • Fax (785) 446-2823 • exchangebank@nckcn.com

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What is KAMS?

Kansas Agricultural Mediation Services (KAMS) has been the officially certified agricultural mediation program for Kansas since 1988. The program's goal is to help resolve conflicts and disputes using mediation.

KAMS specialists provide initial information and guidance at no cost through a toll-free hot line **1-800-321-FARM (3276)**.

What is KAMS Doing for Kansans?

- Providing alternative dispute resolution opportunities for Kansas agricultural borrowers and creditors.
- Providing dispute resolution for farmers with non-credit issues concerning other USDA agencies (FSA and NRCS).
- Helping Kansas farmers facing financial adversity through the mediation process.
- Revitalizing the economic base of rural communities.

What is Mediation?

The mediation process assists farmers, agricultural lenders and USDA agencies resolve disputes in a confidential and non-adversarial setting outside the traditional legal process.

Mediation is a voluntary, confidential process in which a neutral third party (the mediator) helps those in conflict identify issues, options, and possible solutions. A mediator does not make a determination nor a judgment of who is right or wrong. The mediator is there to facilitate open, frank discussion of the issues. The participants are encouraged to discuss all issues, options and possible solutions. A successful mediation is almost always based on the voluntary cooperation and participation of all the parties.

Why Participate in Mediation?

- Maintains confidentiality
- Restores communication and fosters important business relationships
- Allows the parties to reach their own mutually acceptable solutions
- Provides a time-saving, affordable alternative to appeals and litigation
- Provides a neutral setting in which to openly discuss sensitive issues

KAMS is funded through a United States Department of Agriculture (USDA) grant program and administered by K-State Research and Extension. Kansas along with more than 20 agricultural states make up the Coalition of Agriculture Mediation Programs (CAMP).

Kansas Agricultural Mediation Services

2-A Edwards Hall
Kansas State University
Manhattan KS 66506-4806

1-800-321-FARM (3276)

Fax: 785-532-6532

http://www.oznet.ksu.edu/dp_kams/
E-mail: kams@oz.oznet.ksu.edu



**Kansas State University
Agricultural Experiment Station
and Cooperative Extension Service**

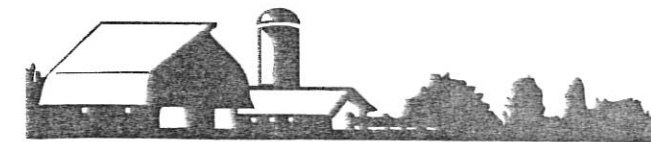
It is the policy of Kansas State University Agricultural Experiment Station and Cooperative Extension Service that all persons shall have equal opportunity and access to its educational programs, services, activities, and materials without regard to race, color, religion, national origin, sex, age or disability. Kansas State University is an equal opportunity organization. Issued in furtherance of Cooperative Extension Work, Acts of May 8 and June 30, 1914, as amended. Kansas State University, County Extension Councils, Extension Districts, and United States Department of Agriculture Cooperating, Marc A. Johnson, Director.



Kansas Agricultural Mediation Services

*Solving Problems;
Resolving Disputes*

1-800-321-FARM



Kansas Agricultural Mediation Services
March 17, 1999
Attachment 4

Confidentiality

The mediation process allows the parties to speak openly about the issues in a confidential manner. Kansas law provides, with some limitations, that mediations are confidential and privileged. None of the parties to a mediation can subpoena the mediator, and nothing specific to the mediation can be discussed in any later administrative or judicial proceeding.

Who May Request Mediation?

- **Ag Credit Mediations.** A mediation involving an ag credit issue may be requested by any Kansas agricultural borrower or creditor. Typical creditors include banks, suppliers, co-ops, implement dealers, Farm Credit Services, and the Farm Service Agency (FSA).
- **USDA Adverse Decision Mediations.** Any Kansas agricultural producer who receives an "adverse decision" from a USDA agency will be given the option to request mediation as an alternative to a formal appeal of that decision.

When Can Mediation Be Requested?

- **Ag Credit Mediations.** In an ag credit situation, mediation may be requested at any time. Typically, it is requested after a creditor (bank, supplier, co-op, implement dealer, etc.) advises the farmer that a loan or account is delinquent. More specifically, mediation is a formal step in the FSA's loan restructuring process if a borrower's request to restructure a direct Farmer Program loan(s) is denied.
- **USDA Adverse Decision Mediations.** Mediation also may be requested when USDA sends written notice to a producer that an adverse decision has been made with respect to the producer's participation in a USDA program.

What Is the Cost of Mediation?

Ag credit mediations are free to all Kansas agricultural borrowers and creditors.

For non-credit mediations involving USDA adverse decisions, there is a modest administrative fee plus the cost of the mediator, who is paid an hourly rate for time spent at the mediation session. Both the agency and the agricultural producer involved share equally in the cost of a non-credit mediation. A full or partial waiver of the mediator fee may be granted to producers who meet certain income criteria.

If participants wish to engage additional legal or financial advisors, they will be responsible for the cost of such advisors.

Support Services Available to Help Prepare for Mediation

Low-cost financial counseling and legal assistance can be provided to Kansas producers who request service through KAMS. These services are designed to assist participants in preparing for mediation. Preparation of participants is a key element for mediation to be successful in resolving a dispute. The financial and legal services include the following:

- **Agricultural Financial Counseling.** KAMS works with K-State Research and Extension to provide farm financial analysts who work with the family to analyze the profitability of the farm or ranch operation and develop options and alternative plans for the farm business to present at the mediation.
- **Legal Assistance.** KAMS has an agreement with Kansas Legal Services, Inc., (KLS) to provide direct legal representation to Kansas farmers and ranchers on a reduced-fee basis, depending on that person's level of income. KLS attorneys help clients understand the laws and regulations governing the issue involved in the mediation, as well as their rights and options.

1-800-321-FARM



KANSAS AGRICULTURAL MEDIATION SERVICES

(4)

Kansas Agricultural Mediation Services
 "Summary of Formal Mediation Case Activity"
 Ag Credit Cases
 For October 1, 1997 to September 30, 1998

<u>Ag Credit Mediations</u>	<u>FSA</u>	<u>Borrower</u>	<u>KAMS Total</u>
Cases Carried Forward 10-01-97	7	3	10
Requests Received From: 10-01-97 to 9-30-98	15	9	24
Subtotal of Cases	22	12	34
Cases Closed During Period	19	8	27
Open Cases Remaining 09-30-98	3	4	7

Disposition of "CLOSED" Ag Credit Cases:

	<u>FSA</u>	<u>Borrower</u>	<u>KAMS Total</u>
1. DECLINED	2	5	7
2. TOTAL--No Face-to-Face (NFF)	8	2	10
NFF-- With Agreement	8	2	10
NFF-- No Agreement	0	0	0
3. TOTAL--Face-to-Face (FF)	10	1	11
FF-- With Agreement	7	1	8
FF-- No Agreement	3	0	3
Agreement Rate	83.3%	100%	85.7%

Kansas Agricultural Mediation Services
 "Summary of Formal Mediation Case Activity"
 USDA Non-Credit "Expanded" Mediations
 For October 1, 1997 to September 30, 1998

Non-Credit "Expanded" Mediations	<u>NRCS*</u>	<u>FSA</u>	<u>ORM</u>	<u>KAMS Total</u>
Cases Carried Forward 10-1-97:	3	5	0	8
Requests Received From: 10-01-97 to 9-30-98	1	20	0	21
Subtotal of Cases	4	25	0	29
Cases Closed During Period	4	18	0	22
Open Cases Remaining 09-30-98	0	7	0	7

Disposition of "CLOSED" Non-Credit Cases:

	<u>NRCS</u>	<u>FSA</u>	<u>ORM</u>	<u>KAMS Total</u>
1. DECLINED	3	3	0	6
2. TOTAL--No Face-to-Face (NFF)	0	6	0	6
NFF-- With Agreement	0	6	0	6
NFF-- No Agreement	0	0	0	0
3. TOTAL--Face-to-Face (FF)	1	10	0	11
FF-- With Agreement	0	9**	0	9
FF-- No Agreement	1	1	0	2
Agreement Rate	0.0%	90.0%	N/A	88%

* It should be noted that mediations/appeals of NRCS adverse decisions are now handled by FSA and are thus reflected in the FSA statistics, which is different from last year.

** Some of these agreements were procedural in nature in that they provided for resubmission, with or without recommendations, to the appropriate decision maker for further action.

Kansas Agricultural Mediation Services

Summary CES/KSU Financial Counseling Cases

(Statistics only available for 7-1-97 to 6-30-98)

	<u>CES/KSU Total</u>
Cases Carried Forward	0
Requests Received for Financial Counseling	94
Subtotal of Cases	94
Cases Closed During Period	94
Open Cases Remaining	0

Disposition of "CLOSED" CES/KSU Cases:

1.	Services provided without the need for formal or informal mediation	55
2.	TOTAL--Informal Mediation	34
	With Agreement	27
	No Agreement	7
3.	TOTAL--Formal Mediation	5
	With Agreement	5
	No Agreement	0
	Agreement Rate	82%
	$(27 + 5)/(34 + 5)$	

Kansas Agricultural Mediation Services

Summary KLS Legal Assistance Cases

(Statistics only available for 10-1-97 to 8-31-98)

	<u>KLS Total</u>
Cases Carried Forward	76
Requests Received for Legal Assistance	54
Subtotal of Cases	130
Cases Closed During Period	89
Open Cases Remaining	41

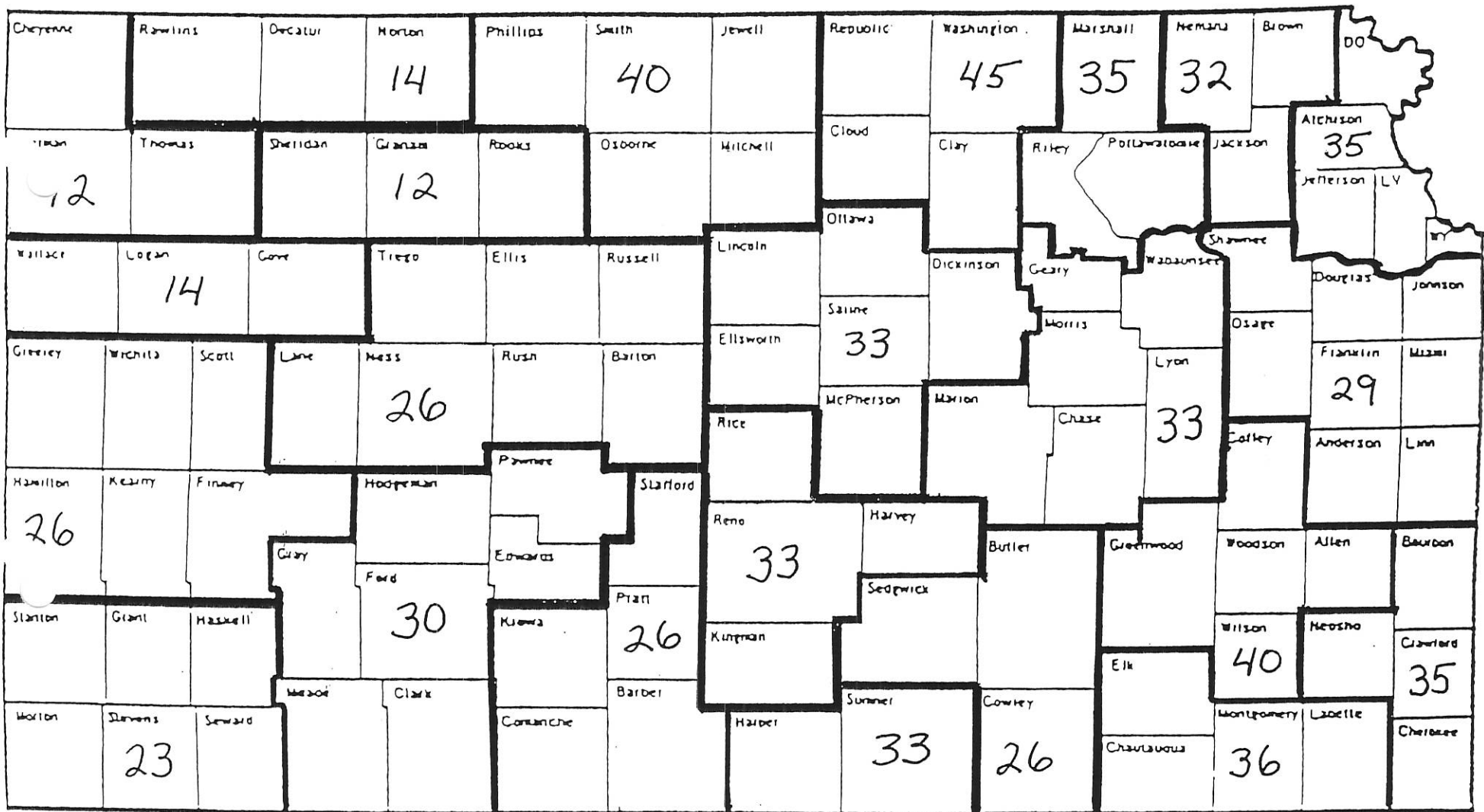
Disposition of "CLOSED" KLS Cases:

1.	Services provided without the need for formal or informal mediation	26
2.	TOTAL--Informal Mediation	47
	With Agreement	31
	No Agreement	16
3.	TOTAL--Formal Mediation	16
	With Agreement	14
	No Agreement	2
Agreement Rate	$(31 + 14) / (47 + 16)$	71.4%

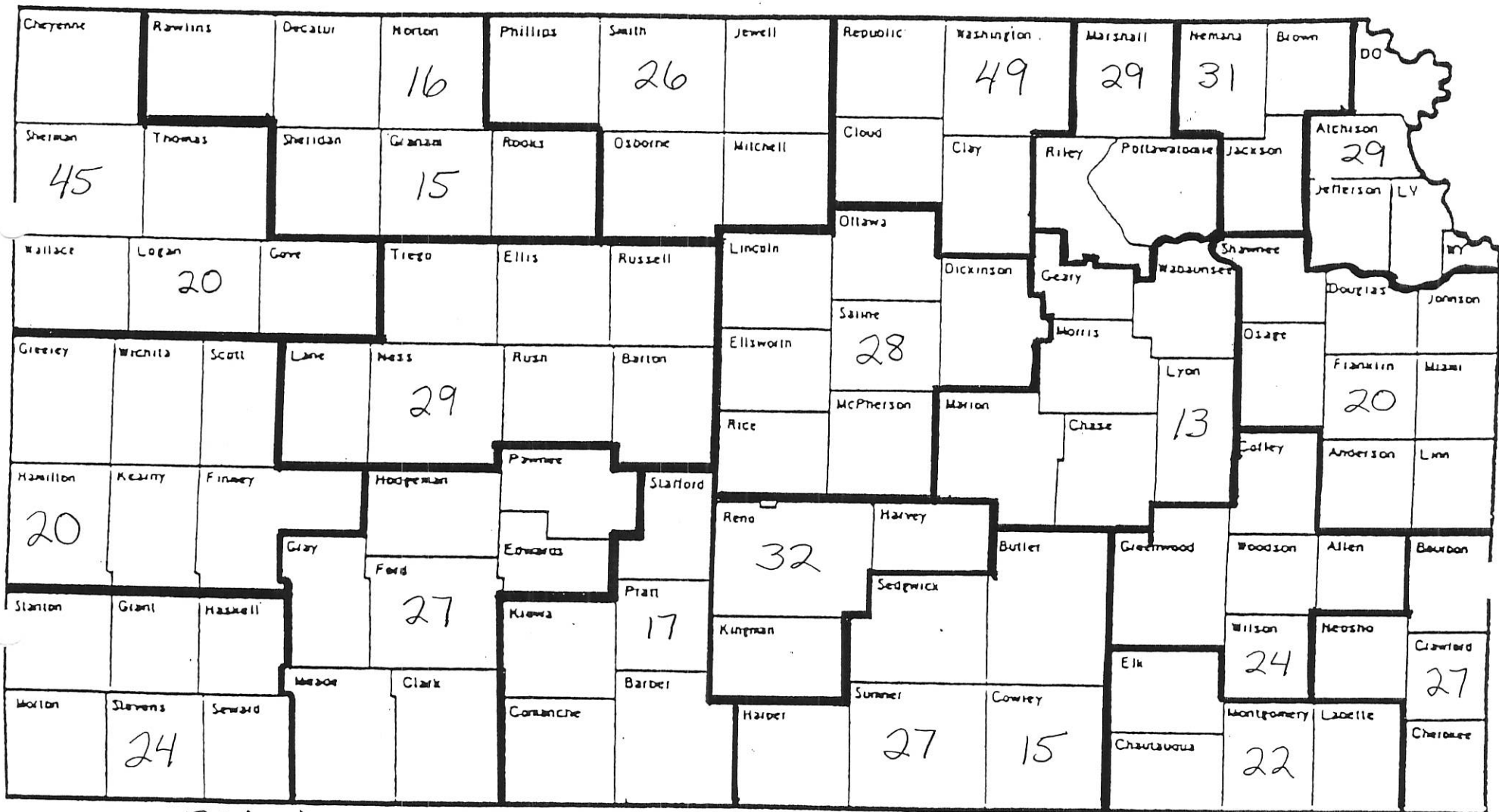
Summary of USDA Farm Service Agency Farm Credit Programs Delinquency Report for Kansas as of February 10, 1999

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Total Active FSA Borrowers-- 3,678 / Total FSA Borrowers Delinquent-- 698
Total Percent Delinquent-- 19%



(Note: The numbers on the above map are placed in the county where the FSA Farm Loan Program Office is located that serves several counties in the regional area outlined with a thick black line. The numbers represent the number of delinquent borrowers located in that regional service area.)



FSA DELINQUENCY STATEWIDE TOTALS AS OF 2-10-98
 TOTAL ACTIVE BORROWERS 3,808 TOTAL BORROWERS DELINQUENT 585
 TOTAL PERCENT DELINQUENT 15.4%