

Approved: March 26, 1999  
Date

MINUTES OF THE HOUSE FINANCIAL INSTITUTIONS.

The meeting was called to order by Chairperson Ray Cox at 3:30 p.m. on March 15, 1999 in Room 527-S of the Capitol.

All members were present except:

Committee staff present: Dr. Bill Wolff, Legislative Research  
Bruce Kinzie, Office of Revisor  
Maggie Breen, Committee Secretary

Conferees appearing before the committee: Representative Vaughn Flora  
Tom Strickler, Past President, Kansas Ag Bankers  
Ed Reznicek, Kansas Organic Producers  
Pete Lorenz, National Farmers Association  
Ray Kohman, National Farmers Association  
Harold Walker, Producer  
Daryl Stouts, Kansas Seed Industry Association  
Kent Symns, American White Wheat Association  
Chuck Stones, Kansas Bankers Association  
Doug Wareham, Kansas Grain & Feed Association

Others attending: See Attached List

Chairman Cox said the committee would work **SB 240 - Bank Commissioner; duties and qualifications.** Representative Minor presented an amendment: on line 18, scratch the sentence that begins " No person shall be eligible for appointment as"; on line 27 after bank, include "in the state"; delete lines 28 and 29; and on line 33 before consultant, insert "paid".

Representative Cox asked Representative Minor what the net result of the amendment would be. Representative Minor said we'd have a commissioner who would be full time, who would have had at least 5 years actual experience with a state or national bank in Kansas, and who could not be an officer or voting director in a bank. Also, a person with only regulator experience could not be bank commissioner.

Bruce Kinzie said there was slight cleanup which needs to be included in the amendment, on line 25, the colon needs to come out, also "(1) At" needs to be struck on line 26 and "at" inserted.

Representative Minor made a motion to adopt the amendment including the cleanup items . The motion was seconded by Representative Toelkes. The motion carried.

Representative Minor made a motion to pass the bill favorably as amended. Representative Sharp seconded the motion. The motion carried.

Chairman Cox opened the hearing on **HB 2554 - Creating the Kansas agricultural linked deposit program.**

**Representative Vaughn Flora**, appeared in favor of **HB 2554.** Its purpose is to provide low interest loans to farmers for construction of new or used grain storage facilities on farms. He covered the 6 components of the program. **(Attachment 1)** It's a three year program which would allow loans up to \$7 million each year. There's a major problem with grain storage and there was a lot of grain ( 78 million bushels) stored on the ground in 1998. This bill only addresses grain storage on farms. However, he's been told by K DFA that there are low interest rate Ag Industrial Revenue Bonds available for commercial elevators to utilize. He did have some cleanup balloons on the bill.

CONTINUATION SHEET

MINUTES OF THE HOUSE FINANCIAL INSTITUTIONS, Room 527-S Statehouse, at 3:30 p.m. on March 15, 1999.

Representative Minor asked if the loans were sent out to the banks interest free. Representative Flora said yes, then the bank is responsible for the loan. If the farmer doesn't pay back the loan, the bank has to pay it to the state.

Representative Cox asked how far a \$10,000 loan would go. Representative Flora said it cost about \$1.35 per bushel for grain storage.

**Doug Wareham**, Kansas Grain and Feed Association, appeared in opposition to **HB 2554** in its current form. **(Attachment 2)** His organization concedes that additional short-term storage space may be needed, if we again experience above average harvests this coming year. However, they do not agree that **HB2554** is the appropriate method for addressing this industry-wide dilemma. They do not believe it will address the long-term grain storage needs of Kansas producers, nor is it good for the Kansas taxpayer. Instead of uniformly addressing the needs of the entire grain storage industry, it will likely provide only the most financially sound producers in Kansas with an unfair advantage over commercial grain storage operators and even farmer who fail to qualify for these low-interest loans. The bill clearly unbalances the playing field for grain handlers Kansas. If adopted, it will benefit a few at the expense of the entire industry. **HB 2037**, which was introduced by Governor Graves following recommendations from a Special Grain Storage and Transportation working Group, would provide a sales tax exemption for both commercial and on-farm grain storage operations that expand to construct grain storage facilities. They support that bill because it provides a uniform incentive for the entire grain storage industry. If **HB 2554** is adopted, it should also apply to commercial grain storage operations, giving them the same low-interest loans.

**Tom Strickler**, Past President Kansas Ag Bankers, appeared and presented testimony written by Jerry Renk, President Kansas Ag Bankers, in favor of **HB 2554**. Mr. Renk strongly supports the concepts. There has been an increased storage of grain on the ground during the last 2 crop seasons. Production levels have reached new highs. The availability of transportation sources continues to be more of a problem. Volatility in market prices results in some producers holding grain hoping for a better price. It is Mr. Renk's opinion that if the legislation were passed, the program would be utilized and would be an effective way to help subsidize agriculture in Kansas. **(Attachment 3)**

**Edward Reznicek**, Kansas Organic Producers General Manager, testified on behalf of Kansas Organic Producers in favor of **HB 2554**. Organic certification gives a value-added product and an identity preserved audit trail. There are significant price premiums for good quality organic grains, and this improves their members viability as family farmers. The organic farmer's grain storage needs call for smaller, more numerous grain bins than what most farmers need. His only concern with the bill is that the \$50,000 loan limit may be too high, it will only take 140 up-to-the-limit loans to use up the \$7 million of funds. The bill will help their members, and many other farmers, develop the on-farm infrastructure necessary in the changing farm economy. **(Attachment 4)**

**Pete Lorenz**, National Farmers Organization, encouraged the committee's support of **HB 2554**. The bill will be an incentive for producers to build badly needed storage, something that hasn't been done since the mid 80's. It's needed to ease harvest grain gluts. On farm grain storage gives producers more marketing options. He doesn't see any storage problems in the Northern states because they have more on-farm storage. There is broad, strong support of the bill from the rural community. **(Attachment 5)**

**Ray Kohman**, National Farmer's Organization, appeared in favor of **HB 2554**. The bill will provide professional farmers, who plan on farming long term, the ability to help solve the problems facing the Kansas Grain Industry. Cost to the State of Kansas is the interest on these loans, not the principle. When farmers store on-the-farm and haul to town during non-harvest months, it makes the whole grain handling and transportation system more efficient. It even helps older farmers who chose not to build farm storage because they are too close to retirement, by reducing the wait at elevators. **(Attachment 6)**

**Harold Walker**, Producer, testified that as a full-time agricultural producer, he supports passage of **HB 2554**. The legislation provides significant benefits and increased flexibility in marketing for the producer; reduces harvest time problems and waste for country elevators and terminals; and decreases peak harvest time problems for the transportation industry. This is at a relatively low cost to the taxpayer, when compared to many of the existing and proposed "solutions" to the plight of agriculture. **(Attachment 7)**

CONTINUATION SHEET

MINUTES OF THE HOUSE FINANCIAL INSTITUTIONS, Room 527-S Statehouse, at 3:30 p.m. on March 15, 1999.

**Daryl Stouts**, Kansas Seed Industry Association, Executive Secretary, appeared in favor of **HB 2554**. The result of the bill will be improved profitability and stability for crop production in Kansas. The best chance for farmers to remain solvent and competitive is by an improvement in the value of their products and an identity preservation (IP) system. The bill will enable Kansas farmers to invest in on-farm storage facilities, giving them the opportunity to take full advantage of the advances in biotechnology and IP programs. **(Attachment 8)**

**Kent Symns**, General Manager of American White Wheat Producers Association (AWWPA), appeared to urge the committee's favorable recommendation of **HB 2554**. AWWPA has been producing, processing, and target delivering value-added identity preserved white wheat ingredients to food industry manufacturers and bakers. Local elevators will be able to handle all of the different classes and qualities of grain products in the frenzy of harvest and separate and deliver them for maximum value. He also included 2 articles from Seed and Crops Digest with his testimony. **(Attachments 9)**

**Chuck Stones**, Kansas Bankers Association, appeared in favor of **HB 2554**. He said Representative Flora asked him to appear and answer the question of whether the program would be used by banks. The only thing he has to go on is a similar program from the eighties established when Governor Finney was State Treasurer. Banks used that program and he assumes they would use this one, if established in a usable way. He presented a suggested amendment. Rather than the lending institution certifying that each applicant is an eligible farm operation, require the applicant to include such a certification. **(Attachment 10)**

Presenting written testimony only on **HB 2554**:

**Leslie J. Kaufman**, Assistant Director Public Affairs Division, Kansas Farm Bureau **(Attachment 11)**

**Carl Reed**, Research Associate, Department of Grain Science, K-State **(Attachment 12)**

**Tim Shallenburger**, Treasure, State of Kansas **(Attachment 13)**

Chairman Cox closed the hearing on **HB 2554**.

The meeting adjourned at 4:56 p.m.

The next meeting is scheduled for 3-17-99.

# HOUSE FINANCIAL INSTITUTIONS COMMITTEE GUEST LIST

DATE: March 15, 1999

NAME	REPRESENTING
Judi Stork	OSBC
Kevin Glendening	OSBC
Sonya Allen	OSBC
Daryl Strouzes	KSIA/KEIA
Ray Kohman	Ks. Natl. Farmers Org.
Chuck Stokes	KBA
Danielle Noe	Governor's Office
Tom Strackler	Iola Bank & Trust
R. Trause	KGC
Matt Goddard	HCBA
Shelley H. King	McGill, Coaches & Assoc.
Edward Reynolds	KS Organic Producers
Alan Steppat	CBA
Joe Lieben	KS Co-op Council
Harold Walker	Farmer Interests
Tom TUNNELL	KS GRAIN AND FEED ASSN
DOVA WAREHAM	" " " "
Lee Masenthin	KS Dept. of Comm & Housing
Peter Lorenz	KS NATIONAL FARMERS ORG





STATE OF KANSAS

VAUGHN L. FLORA  
REPRESENTATIVE, 57TH DISTRICT  
431 WOODLAND AVE.  
TOPEKA, KANSAS 66607

STATE CAPITOL  
RM 278-W  
TOPEKA, KANSAS 66612-1504  
785-296-7647



TOPEKA

HOUSE OF  
REPRESENTATIVES  
MEMORANDUM

COMMITTEE ASSIGNMENTS  
ENVIRONMENT: RANKING MINORITY MEMBER  
AGRICULTURE  
TAXATION  
TRANSPORTATION

DATE: March 15, 1999  
TO: Members of Financial Institutions Committee  
FROM: Representative Vaughn Flora  
RE: HB 2554 Creating the Kansas Agricultural Linked Deposit Program

The purpose of this bill is to provide low interest loans to farmers for construction of new or used grain storage facilities on their farms. Components of the bill include:

1. The state treasurer shall disseminate information to lenders.
2. Any lender who can receive agricultural linked deposits from the state, may take applications from farmers who want loans up to \$50,000 to construct new or used grain storage facilities.
3. Lender can charge what the market will bear for interest on these loans up to 4% per annum, with not more than an 8 year amortization period on the loans.
4. Lender sends approved application to the state treasurer and enters into a agricultural linked deposit agreement with the state treasurer. The state treasurer then sends the amount of the loan in the form of a direct linked certificate of deposit at a zero interest rate.
5. The bill requires the Pooled Municipal Investment Board to make up to 8 year deposits in banks who then make loans to the farmer.
6. The provisions of the act shall expire on July 1, 2002.

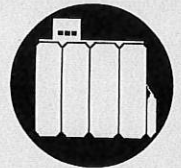
*Rep Vaughn  
Flora  
House Financial Institutions  
3-15-99  
Attachment 1*

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*Association*

**Statement of the  
Kansas Grain and Feed Association  
Regarding  
H.B. 2554  
to the  
House Financial Institutions and  
Insurance Committee  
Representative Ray Cox, Chairman  
March 15, 1999**

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



*House Financial Institutions  
3-15-99  
Attachment 2*

Chairman Cox and Members of the House Financial Institutions & Insurance Committee, my name is Doug Wareham and I am Vice President, Government Affairs for the Kansas Grain and Feed Association (KGFA). The KGFA is a voluntary state association with a membership encompassing the entire spectrum of the grain receiving, storage, processing and shipping industry in the state of Kansas. Our membership includes over 1,250 Kansas business locations and represents 99% of the commercially licensed grain storage in the state.

The Kansas grain storage industry has changed dramatically over the past decade as the size and needs of farming operations continues to grow and expand and the transportation infrastructure that serves our industry has evolved into a unit-train dominated system capable of shipping large volumes of grain primarily for export. In light of the continued evolution of the Kansas producer and the need for additional short-term storage space to adequately store grain before it can be shipped, significant changes have also taken place in the commercial grain storage industry in recent years. During the past two years alone, considerable financial investments have been made by the commercial grain storage industry in Kansas. Over 140,000,000 bushels of additional storage space has been re-opened or constructed by the commercial grain storage industry since the grain storage crisis began in the fall of 1997. While our organization concedes that additional short-term storage space may be necessary, if we again experience above average harvests this coming year, we do not concede that H.B. 2554 is the appropriate method for addressing this industry-wide dilemma. Therefore the Kansas Grain and Feed Association opposes H.B. 2554 in its current form.

Again, while our industry has witnessed and experienced firsthand the need for additional short-term grain storage space for Kansas commodities, we do not believe House Bill 2554 will address the long-term grain storage needs of Kansas producers, nor is it good for the Kansas taxpayer. Instead of uniformly addressing the needs of the entire grain storage industry, House Bill 2554 will likely provide only the most financially sound producers in Kansas with an unfair advantage over commercial grain storage operators and even farmers who fail to qualify for these low-interest loans. H.B. 2554 clearly unbalances the playing field for grain handlers in Kansas and if adopted would benefit a few at the expense of an entire industry.

In addition to providing unfair economic incentives to certain farming operations, H.B. 2554 fails to take into account the increased quality concerns associated with commodities that will need to be identity preserved. As we enter the age of identity preserved grains as indicated by proponents of this bill, the need to maintain product quality will become paramount if we hope to capture the financial windfall associated



with these specialty products. For example, our industry is very aware of the anticipated need for identified storage to handle white wheat and other specialty crops in the state of Kansas. The commercial grain storage industry is best prepared to maintain the quality of these new commodities that often are processed into foodstuffs rather than livestock feed or other less quality conscious uses. I raise this issue because as we testify before you today, the Environmental Protection Agency (EPA) is currently considering banning the use of the only remaining pesticide (aluminum/magnesium phosphide) used to protect grain from damage causing insects. We have been told that at the very least, the use of these products will be limited thereby further compounding the problems producers face when trying to maintain grain quality on the farm.

Finally, I do want to remind the members of this committee of a measure you considered earlier today on the House Floor. House Bill 2037, which was introduced by Governor Graves following recommendations from a Special Grain Storage and Transportation Working Group, would provide a sales tax exemption for both commercial and on-farm grain storage operations that expand or construct grain storage facilities. We support House Bill 2037 because it provides a uniform incentive for the **entire grain storage industry**.

I would like to share some of the comments I received from our Board of Directors and members when we distributed this bill to them for their comments:

- “If H.B. 2554 is adopted it should also apply to commercial grain storage operations. The commercial industry should be afforded the same low-interest loan opportunities. “
- “If there is economic merit for identity preserved grain storage to be built then let the market dictate that happening. The government should not interfere with a competitive industry.”
- “There are numerous examples the past two years where on-farm storage was only utilized because it was leased by commercial grain operations. Are legislators aware of this?”
- “The taxpayers of the state of Kansas should not be in the business of providing loans that would otherwise be uneconomical.”

Thank you for the opportunity to testify on H.B. 2554. I would be happy to answer any questions at this time.




manage the situation where the basis at the local elevator is too wide. In addition the market is starting to pay a premium for the quality of grain and in order to get this premium it may necessitate having segregated storage. This is why I have found an increased interest among my customers in owning storage facilities.

They can drive the decision as to how long they hold their grain. They don't have to take the risk of substantial loss due to storage facilities not being available and grain being stored on the ground or not accepted at all. Finally if they produce a quality product it maybe eligible for premium pricing if it is stored separately.

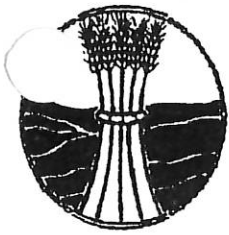
In conclusion it is my opinion that if this legislation was to pass and the Kansas Agriculture Linked Deposit program instituted it would be utilized and would be an effective way for the state to help subsidize agriculture in Kansas. Thank you for the opportunity to present this. If you have any questions please do not hesitate to contact me.

Sincerely,



Jerry D. Renk,  
CEO, BANKWEST

President, Kansas Ag Bankers



# Kansas Organic Producers Association

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**Marketing:** Earl B. Wright  
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**Accounting:** Jennifer J. Drey  
349 Arrowhead Rd.  
Bremen, KS 66412  
Ph./Fax (785) 767-4411

Testimony before the House Financial Institutions Committee  
House Bill No. 2554  
March 15, 1999

Mr. Chairman, members of the Committee, thank you for the opportunity to testify.

My name is Ed Reznicek. I operate an organic grain and beef cattle farm in Nemaha County, and I work as a part-time General Manager for the Kansas Organic Producers grain marketing cooperative. I am testifying in support of House Bill 2554 on behalf of Kansas Organic Producers.

Kansas Organic Producers has just under 60 members, about 40 of which actively market some or all of their organic grains through our cooperative. Our members have diversified farms producing corn, wheat, milo, soybeans, oats, alfalfa, clover, as well as some specialty crops such as sunflowers, edible beans and others. In addition to our cooperative, there are at least four other organic grain marketing groups in Kansas. There are also a number of organic farmers who market grain independently of any marketing groups. We all generally face the same grain storage issues.

Organic grain markets are typical identity preserved niche markets. Organic certification gives us a value-added product and an identity preserved audit trail. We get significant price premiums for good quality organic grains, and this improves our members' viability as family farmers. There are some sideline, value-added enterprises developing along with the organic grain marketing, such as grain cleaning and conditioning, food grain and cover crop seed production, organic feed processing, grain milling, tofu and soymilk processing, and so on. We also generate some additional business for local trucking firms. Organic grain production is a value-added business, providing some modest economic development benefits for local farm communities.

A good portion of our production, particularly soybeans, are contracted by planting time, and we raise certain specific varieties with specific characteristics for certain markets and buyers. Typically we need to segregate our grain production by grain type, variety, and sometimes by grain quality. Also, in some cases we are delivering grain to our buyers over extended periods of time. So we have grain in our bins for several months of the year. As a co-op we do not yet own an elevator or other grain storage facilities. Our members' grain is stored on the farm. This arrangement holds down the capital and operating costs of our co-op, and it reduces our risk of losing grain condition from insects, heat or mold on large quantities of grain.

*House Financial Institutions*  
*3-15-99*  
*Attachment 4*



As organic farmers, our grain storage needs call for smaller, more numerous grain bins than what most farmers need. For example, a member farm may have two or three soybean varieties planted for different markets, buyers and soil conditions. He or she would need separate storage for each variety. Also, organic certification standards and the agronomics of organic soil fertility and weed control require that we use diversified crop rotations, typically including three or more annual grain crops each year, such as wheat, corn, soybeans, oats and so on. We also need storage for these diverse grain crops.

Other grain storage and handling issues our members face are all weather semi-truck loading (which usually means gravel and opening up an area for semi access), grain aeration systems, and grain cleaning or screening when grain is put into the bin for improve storage ability.

We get several serious inquiries from potentially new members each year. Insufficient, or the complete lack of, on-farm grain storage is frequently a problem and presents a significant barrier for new people getting into organic grain production and marketing. And many of our existing members could use additional grain storage capacity, aeration and screening equipment, and improvements for all weather grain loading.

The lower interest rates and intermediate loan repayment terms outlined in HB 2554 are quite attractive and would be very helpful to many of our members. It would significantly contribute to the success of our members and of our co-op by helping us improve and maintain our grain quality, and by improving the efficiency of our grain handling and shipping.

My only concern about the bill is that the \$50,000 loan limit may be too high, if the limit on loanable funds is the \$7 million outlined in the bill. It only takes 140 loans at the \$50,000 limit to use up the loanable funds.

We urge your support for passing this bill. It will help our members and many other farmers develop the on-farm infrastructure necessary for success in the changing farm economy.

Thank you for the opportunity to speak here. I'll try to answer any questions you may have.

Edward Reznicek  
Kansas Organic Producers General Manager

# **National Farmers Organization**

800-247-2110 or E-Mail: NFO@netins.net

March 15, 1999

Testimony for House Financial Institutions Committee  
**HB 2554--A Linked Deposit Program to Establish Low Interest Loans  
for Farm Storage Facilities.**

Prepared By Pete Lorenz, Regional Grain Manager, National Farmers

Chairman Cox and Committee Members:

I appreciate the opportunity to express support for establishing a linked deposit program to create low interest loans to build farm stored grain facilities in KS.

My name is Pete Lorenz. I live in Beloit and I am a regional grain manager for National Farmers. My area covers seven states from Montana to Oklahoma. I have worked with farmers on grain marketing and storage for 25 years. This afternoon my testimony will provide a state and regional perspective.

Everyone knows more grain has been placed on the ground in the past two years. And if we have good crops this year we'll even have more bushels on the ground.

HB 2554 will be an incentive for producers to build badly needed storage, something they haven't done since the mid 80's. HB 2554 is needed to ease harvest grain gluts. Today's combines and larger equipment have given the grain industry the ability to harvest more quickly, thus creating long lines at elevators. In addition, this causes elevators to fill up more quickly at harvest. Last year, some elevators charged dumping fees as high as 15 cents a bushel for grain stored on the ground. Also, some elevators only took cash grain, which lowers marketing opportunities later on for producers.

On farm grain storage gives producers more marketing options. With the current government marketing loan concept, if markets go below the loan rate, on farm grain storage allows producers to hold for better prices because it eliminates out of pocket storage costs. With today's low grain prices HB 2554 is the type of economic incentive that's needed in this important Kansas industry.

In closing, I do not see our type of grain storage problem in the Northern states. One reason is because they have more on-farm storage. Further, I see farmers in the Northern states having more options because they can isolate their specialty grains and take advantage of premiums in these markets.

Finally, let me say we have an opportunity to plan for the future if we pass this bill. There is broad, strong support from the rural community. I encourage your support and ask that you pass this bill out of committee today.

-----Thank You. I can respond to any questions you may have.

*House Financial Institutions*  
3-15-99  
*Attachment 5*

KANSAS  
NATIONAL FARMERS ORGANIZATION

KANSAS STATE LEGISLATOR  
FINANCE COMMITTEE  
Regarding House Bill 2554

Testifying: Ray Kohman  
President "Kansas" National Farmers Organization

Thank you for the opportunity to share with you a few reasons why the members of Kansas NFO support House Bill 2554.

Our members are all working Professional farmers. H.B. 2554 will provide professional farmers, who plan on farming long term, the ability to help solve the problems facing the Kansas Grain Industry.

We have all heard of piles of wheat and milo on the ground and the spoilage that follows, transportation system problems, farm trucks waiting in long lines at grain elevators, while combines wait in the field for trucks to return.

We as farmers can solve all these problems by investing our money in on farm grain storage. H.B. 2554 will not provide grants to farmers, but it would stimulate building of on farm grain storage during this time of low grain prices and extremely tight cash flow. Cost to the State of Kansas, interest on these loans, not the principle.

Farm storage in Kansas is low compared to other states. When farmers store on the farm and haul to town during non harvest months it makes the whole grain handling and transportation system more efficient. It even helps older farmers who choose not to build farm storage because they are close to retiring, by reducing the wait at local elevators.

These are just a few of the reasons why Kansas NFO supports H.B.. 2554.

Speaking strictly from an individual farmers perspective. I am a full time farmer from Dickinson county. I need to invest in more storage. Cash flow is very tight. H.B.. 2554 would give my farm the opportunity to help solve grain storage and transportation problems that start at my farm gate and extend throughout Kansas and the entire nation.

Thank You,

Ray Kohman

*House Financial Institutions*  
*3-15-99*  
*Attachment 6*

Financial Institutions Committee  
Kansas State Legislature

SUBJECT: House Bill 2554  
Kansas Agricultural Linked Deposit Program

As a full-time agricultural producer (farmer), I support passage of this legislation for the following reasons:

1. In these times of depressed commodity prices and farm income, the banking industry requires that each farming operation have a marketing plan for the commodities produced. A necessary and invaluable tool for a comprehensive marketing program is the ability to store a portion of production until better pricing can be obtained.
2. Many producers do not possess the resources nor the equity to purchase on-farm storage and pay the interest rates plus principal for longer term financing. Passage of this legislation would help to alleviate this circumstance.
3. The additional on-farm storage would help to alleviate the shipping and "on-ground storage" problems so often incurred by elevators and terminals at harvest. The savings in wasted commodities and losses to the producer and the terminals would be significant.

In summary, this legislation provides significant benefit and increased flexibility in marketing for the producer; reduced waste and storage problems for country elevators and terminals; less peak harvest time problems for the transportation industry, and at a relatively low cost to the taxpayer when compared to many of the existing and proposed "solutions" to the plight of agriculture.

Respectfully submitted,  
Harold E. Walker  
16963 Q. Road  
Mayetta, Ks 66509

*House Financial Institutions*  
*3-15-99*  
*Attachment 7*



House Bill No. 2554  
Financial Institutions  
Committee  
March 15, 1999

Daryl Strouts  
Kansas Seed Industry Association, Executive Secretary  
Kansas Crop Improvement Association, Executive Director  
2000 Kimball Avenue, Manhattan, Kansas 66502  
785/532-6118 (-6551fax) dstrouts@aol.com

I am speaking in favor of House Bill No. 2554 as a representative of the Kansas Seed Industry Association and the Kansas Crop Improvement Association. The members of these associations are Kansas seed producers and retailers. Their customers are Kansas farmers.

We believe that on-farm storage in Kansas is in need of significant improvement for Kansas farmers so that they may be in a position to take full advantage of the advances in biotechnology and remain competitive with their peers in other states.

In the last few years, biotechnology has begun to revolutionize crop production. We have already seen the introduction of resistance to broad spectrum herbicides in corn, soybeans, wheat and cotton resulting in improved yields and reduced costs. We now have crops like high-oil corn and white wheat with specialty traits for improved value and alternative uses. These are just the beginning of what biotechnology will bring to agriculture.

Soon we will see crops with enhanced nutritional and even pharmaceutical benefits. To safely get these to consumers, one thing is required. These value-added crops must be produced in a system that preserves their identity, and thus their value. Though many of these crops will move through traditional commodity channels, some will need an alternate system. To put some through the commodity system may actually be detrimental to that system.

Farmers are struggling to remain in business. We have done about all we can do to improve the management of crop production on the farm to maximize profits. There is still some hope of improving yield, but this may not improve profitability. We believe that the best chance for farmers is an improvement in value of their production through an identity preservation (IP) system.

*House Financial Institutions*  
*3-15-99*  
*Attachment 8*

In an IP system, farmers pass along a package of information with the grain that indicates its value. This is already being accomplished on a limited basis with good success. Some farmers are seeing a value increase of ten percent over the typical commodity price. Only farmers can determine the full value of their crops because they possess the production information. Storing this grain on the farm during this short period of time has several positive benefits.

- it allows time for testing grain samples and determining optimum target markets
- it delays delivery of grain to commercial (off-farm) facilities during harvest, thus reducing the overload at that time on handling, storage and transportation facilities
- it reduces the risk of contamination with other grains which could significantly reduce value
- it allows for the development of alternative crops which do not have an established market in the state

It has been nearly 20 years since there has been any incentives for farmers to increase on-farm storage. Many of the on-farm facilities around the state, though still serviceable, are over 30 years old and in need of repair or replacement. According to USDA, National Agricultural Statistical Service, January 12, 1999:

- The top five states account for 52% of the total 11.125 billion bushels of **on-farm** storage in the U.S. Kansas is tied for tenth with Wisconsin at 400 million bushels.
- The top five states account for 51% of the total 8.005 billion bushels of capacity. Kansas ranks third in the nation for **off-farm** storage behind Illinois and Iowa.
- **Off-farm** commercial storage increased in Kansas by 41.4 million bushels during 1998. This was second only to Iowa at 42.5 million bushels. No increase was reported in Kansas **on-farm** storage.

In conclusion, we believe HB2554 will be a positive factor in enabling Kansas farmers to invest in on-farm storage facilities. This type of storage will play an important role in the access that each farmer has to biotechnology and IP programs. Commercial off-farm storage will continue to be utilized for traditional commodity crops and will benefit by becoming collection points for value-added grain in a more organized and efficient manner. The result will be improved profitability and stability for crop production agriculture in Kansas.

Thank you for the opportunity to speak and your support of HB2554.



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**AMERICAN WHITE WHEAT  
PRODUCERS ASSOCIATION**

(913) 367-4422  
P.O. Box 326, - ATCHISON, KANSAS 66002

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TESTIMONY and RELATED MATERIALS

*In support of*

HOUSE BILL No. 2554

Good Afternoon Ladies and Gentlemen. I am Kent Symns, General Manager of American White Wheat Producers Association (AWWPA), based in Atchison Kansas. AWWPA has for ten years been producing, processing and target delivering value-added identity preserved white wheat ingredients to food industry manufacturers and bakers.

The agriculture/food production complex in United States, and the world today is has begun and is further poised for quantum change. New technologies from genetics to field and processing equipment abound. Driving the change is an ever-increasing segmentation of consumers, who demand and are willing to pay for exactly what they perceive it is that they want.

In further support of the notion of a rapidly changing environment, I have passed to you, included with my testimony copies of three documents. The first, on yellow paper is an agenda from a recent "Identity Preserved Conference". The next is a copy of a recent article from Seed and Crops Digest illustrating the business power that is being directed toward the opportunities (and yes, pitfalls) that this change affords. The last, also a recent article from Seed and Crops Digest, outlines the thoughts of two of the presenters at the IP Conference on the obstacles to success with IP crops. I urge you each to take a few minutes now or this evening to contemplate the scope of change that is upon us. Notice the subjects being addressed, the stature of the persons attending meetings and making presentations, and the size of the commitments being made or anticipated. I will not take any more time now telling you that we will see change.

What I do want to tell you today is what we have learned in ten years "in the business". The sooner, or closer to the farm that we can stop production long enough to ascertain what we have actually produced with the inputs provided and the environment experienced, the better chance we have to establish higher value and collect the same.

Local elevators, in the case of grain will never be able to handle all of the different classes and qualities of grain produced in the frenzy of harvest and separate and deliver each for maximum value. At AWWPA we like to brag that while most of the grain industry blends for uniformity (and mediocrity), that we sort for uniformity and consistency. Every successful true identity preservation program will have to start with individual farmers and follow through all the way to end-users. If it does not, it will only be segregation at best, not identity preservation.

To produce and market identity preserved grains, good quality farm storage with easy access to large trucks is a must. This storage will often flow into existing elevators at appropriate times and can be used for more than one crop each year in some cases.

House Bill # 2554 is a nice beginning to development of more high quality on farm grain storage in Kansas. Assistance with financing in any way possible has never been needed any worse than right now. I applaud your committee for considering House Bill # 2554, and urge your favorable recommendation.

Thank you for the opportunity to address your committee



# Industry gurus predict a bold new value-added agriculture driven by pull-through demand from end-users

*And you better get on the train, or be left at the station*



Dean Cavey



Rod Stacey



Bill Teweles



Eric Rey



Ken Moonie

By Bill Freiberg

You haven't seen anything yet... another seed industry technology revolution is just now starting to get off the ground. It's going to make major, permanent changes in the structure of this industry... and you better get prepared.

That's the view of some of agribusiness's most well-known industry-watchers who now make up the recently-launched Verdant Partners investment banking and consulting group: Bill Teweles, Dean Cavey, Rod Stacey and Ken Moonie.

In a wide-ranging interview, these four professionals gave their opinions to S&C about the newly-developing ag industry revolution, plus some advice on how to survive and prosper in the radically different agribusiness environment that lies ahead.

## Input vs Output

Verdant Partners believes that the next ag industry revolution, which is just getting cranked up, will be much different from anything we've seen up til now. Here's why:

The current "revolution" is driven by input traits.

The next one... the Big One... will be driven by output traits. And that, they believe, will be a whole different ballgame.

**"It's going to be an entirely different industry, with value-added output traits at its center," says Stacey, "and driven by consumers and commercial end-users. And it'll change most everything about our entire ag production system, all the way up and down the food chain."**

"It'll be much more of a 'pull-through' type of marketing and production system," he added, "with end-product users creating value-added product demand."

Moonie agreed, "It'll be a new technology-driven, value-added agriculture, which will involve every aspect of agbiotechnology and crop production. We're talking about proprietary genes in value-added crops for the feed, food, chemical and pharmaceutical industries at the center of this new industry. And this will have a powerful impact on all of agriculture."

And Moonie predicts very fast growth ahead for the value-added products industry.

"There has been more than \$19 billion committed to mergers, acquisitions and technology alliances in the crop genetics industry since 1995. There has also been incredible growth of big-company R&D budgets in this area," he said. "In the early 1990's there was only about \$150 million per year spent in biotech R&D, with a small percentage of it coming from a few crop protection companies.

"Today, R&D spending has increased to \$750 million, and all of the crop protection companies are involved. And they're increasing their R&D budgets by 20-30 percent per year."

### **Just Like Other Industries**

What's actually happening, Cavey believes, is that "agriculture is finally becoming like every other American industry, with much of it consumer-driven, and dominated by a handful of big technology developers.

"The seed industry has always been unique," he pointed out. "First off, it previously had very few barriers to entry, so it ended up with hundreds of competing companies... except for one or two big ones that accounted for nearly half of all marketshare.

"Now, technology is changing that situation, and we're starting to become structured in a more normal fashion, with a handful of very large companies develop-

ing the technology and controlling much of the industry and fewer smaller players."

Teweles added that some of the biggest changes will be seen at the farmer level as more and more consumer-driven proprietary technology comes through the nation's farmgates.

**"Since most of this new technology will be high-value proprietary products, many farmers will likely become contract growers," he said, adding that "I don't think that's all bad."**

"Their risk will be limited, and profits, although perhaps smaller, will be guaranteed by the contractors. It holds the potential to make farming more secure and profitable. And I don't see anything wrong with that. Contract poultry production is a model."

### **Technology Access May Get Tougher**

And, of course, the change to a value-added agriculture, said Cavey, will have major impact on the seed business, as well, and he strongly advised seed companies not to get complacent just because they've found relatively easy-access to today's technology.

**"One of the biggest impacts will be that it may become more difficult for seed companies to access new technology," he said.**

"So far, most new technology has involved input traits connected with chemical sales. And since the crop protection companies want to sell as much chemicals as possible, they want their new genetic technology used on as many acres as possible. So it has been relatively easy for seed companies of all sizes to license new technology."

But that will likely not be true with all output traits, he said. With output traits, the big technology developers often will make a large portion of their profits from the products produced by the technology... so they may want

to retain them, themselves, within their own output production chains, in order to maximize returns.

"We're going to see a very complex agribusiness system created here," Cavey added. "It's going to incorporate nearly every aspect of agriculture: the technology providers, the seed companies, the grain handling/delivery system, end users, plus growers."

Moonie described it as "an integrated, captive, value-chain, which often will stay within specific company-owned production chains."

And, he says, "If the small companies can find a way to become a part of that chain, they'll do very well."

**Also, Stacey expects competitive factors may eventually make technology access involving agronomic traits also increasingly difficult, particularly if "super genes" are discovered.**

"If a company discovers something like the key to increasing photosynthesis, which dramatically increases yields, they may not want to share that with competitors," he said. "And I expect we'll start seeing some of those breakthroughs in the near future, since so much R&D dollars are being spent in agbiotech research."

### Advice to Small Companies

So what's their advice for small companies as these big-company induced changes roll over this industry?

"First off, take a careful look at what you're good at," advises Cavey. "That may be small scale plant breeding and product testing, maintaining a strong, localized seed distribution network, and strong customer relationships. Those are all important strengths of successful small companies, that will be very valuable in the future.

**"Then, using these strengths, get involved in alliances and agreements that will ensure you access to the technology of the future. You must develop methods of technology acquisition... that's the key."**

Stacey agreed that the future for smaller seed companies still looks "very bright" as long as they're able to make the right technology alliances.

"The seed industry will be central to the whole thing," he said. "All of these new traits need to be distributed in the seed, so seed companies will continue to play a basic and important role in this industry."

"And plant breeding will always remain all-important to this industry. The most fabulous genes may get invented, but if placed in bad germplasm they equal bad products. And that will never change."

**"But our advice to them is crystal clear: you cannot just sit there any longer, and assume that the best new technology will become available to you. You're going to have to develop the alliances to ensure that you get access."**

And the consultants also pointed out that the addi-

tional cashflow coming into this industry as it becomes output-trait-driven will be enormous. Food processors will be involved in developing traits to improve many items on the grocery store shelves; livestock feeders will demand protein-enhanced grains; and pharmaceutical companies will be producing much of their chemical inputs directly in crops; and so on... **all of which will add up to billions of additional dollars going into the production chain each year.**

And this, says Moonie, means that there should be plenty of profits for everyone up and down the production chain, if they can contribute real value to the system.

"Positioning yourself to contribute value to the chain is the key," he said.

**Teweles also advises companies to "make sure they have technology access" in the future, possibly by linking together with other similarly-sized companies to give themselves more clout with the big players.**

Another thing he advises, is to get ready for major changes in the role of small companies in this industry.

"Like farmers who may become contract growers for the big technology providers, I expect that smaller seed companies of all sizes will increasingly become contract producers and developers for the big companies.

"And, while that's different from the way they're used to operating, there are certain advantages, such as more secure profit potentials and less risk."

### Fast Rollout Ahead

Verdant Partners all strongly believe that agriculture is now at the point where this new value-added industry is finally starting to roll after years of discussion. Value-added crops are starting to get into the fields and... most importantly of all... the end users and processors are finally getting interested.

## Farmers will be contract growers

"We're about where the computer industry was in the 1960's," said Cavey. "At the very tip of the iceberg. And, like the computer industry, the growth potential for agribusiness is huge."

**Cavey believes that all it'll take for this industry to start skyrocketing is to develop the infrastructure to ramp-up production of value-added crops.**

"These big end-users often need hundreds of railcars of these crops to satisfy their needs. So far, what we can produce is only a drop in the bucket. But I think that will soon change."

And Teweles notes that the big multinationals have become strongly committed to developing a technology-driven, value-added agriculture.

"The big multinationals obviously think their future lies in value-added agriculture," Teweles pointed out. "They're all divesting themselves of their commodity product areas and creating what they call 'life science companies' which

will have a strong emphasis on value-added technology.

**“The venture capital firms are also very interested in the agbiotech industry, especially as it becomes more value-added and user-driven,” Teweles told S&C. “We currently know of more than \$500 million in venture capital that’s looking for agbiotech investments.”**

The consultants all said that they strongly feel that the best times, yet, are ahead for the seed industry... and the entire food chain for that matter... as the hot new value-added technology, and accompanying cash-flow rolls in.

“This is an exciting time to be alive,” said Teweles.

“I’ve never been more optimistic about this industry in my life... which is why I happily came out of retirement when the Verdant Partners opportunity developed.”

“I agree,” says Cavey. “There’s been an amazing transformation in the seed business, unlike anything I’ve ever seen in any other industry: five years ago it was an industry that was very mature, almost declining, and everyone was worried.

“Now, suddenly, we’re in an immature industry that’s undergoing radical change, with a whole new future of rapid growth ahead of it.

“And it’s all because of technology.”

S&C

**Verdant Partners includes four of this industry’s most well-known consultants and entrepreneurs:**

**Bill Teweles**, the original industry guru who’s back from retirement after being one of the first consultants who helped organize the agbiotech revolution in the first place.

**Dean Cavey**, who not only helped entrepreneur a start-up seed company (United Agri-Seeds) but who also has been a long-time consultant and investment banker in this industry.

**Rod Stacey**, another United Agri-Seeds entrepreneur, plus former president of Calgene, among other prominent industry posts.

**Ken Moonie**, former vice president of Calgene Fresh, plus manager for Sandoz, and more.

Senior consultant of the group is Eric Rey, former vice president of operations for Calgene.

The group says they formed Verdant Partners “to serve the specialized consulting and investment banking needs of the global crops genetics industry,” which they describe as “a newly developing industry encompassing all aspects of the crop value chain.”

They expect to offer a wide-ranging base of services, including mergers and acquisitions, venture capital funding, technology transfer consultation, market consultation, and so on, “encompassing all aspects of the food chain and genetic technology.”



# Participants Should Expect

# OBSERVATIONS in IP Business

by Lynn Grooms

The road to success with identity preserved (IP) crops is far from smooth. There are enough barriers to make one turn around or not even venture out. These thoughts were expressed not by IP cynics, but rather by two industry representatives (who work closely with IP grain) at the recent Identity Preserved Crops Conference held in Rosemont, Ill. The annual conference is sponsored by the Association of Official Seed Certifying Agencies (AOSCA).

Tim Jensen, value-added products manager, Cargill Hybrid Seeds, Minneapolis, Minn.; and Jim Stitzlein, man-

One of the main barriers, Jensen suggests, is that the IP concept disrupts tradition or the comfort level participants already have with the commodity business. Participants include growers and grain merchandisers, as well as food and feed processors.

Growers, for example, might be uncomfortable with the prospect of storing IP grain separately from No. 2 yellow corn on their farms. They may not feel they can afford to purchase additional bins. Trying to ease those concerns, Cargill Hybrid Seeds is offering a value-added grain incentive program where growers can get 20,000-bu bins made by GSI, Assumption, Ill., at greatly reduced prices or virtually for free. These bins feature grain temperature monitors and are designed for low temperature drying, says Jensen.

Growers can choose to participate in Cargill Hybrid Seeds' three-year incentive program in one of four ways. This ranges from agreeing to purchase three pallets (each pallet containing 48 bags of seed) to as many as 10 pallets of qualified seed each year for three years. Qualified seed includes a combination of Cargill's value-added hybrids/blends (featuring white and yellow food grade hybrids, high oil corn blends and Northern Lites™ sunflower hybrids), and the company's elite hybrids.

The greater commitment a grower makes to the program, the more that grower saves on the cost of the bin. If the grower purchases 10 pallets of qualified seed per year for the three years (Level 4), that grower will pay only for site preparation, utility hookups, applicable taxes and, if chosen, an optional stirring device. Cargill will make all lease payments.

ager, market development, Consolidated Grain & Barge Co., New Berlin, Ill., spoke candidly about potential barriers impeding greater adoption of the identity preserved concept.

Jensen listed several potential impediments, including

- Misunderstanding of concepts—What is IP? What does value-added mean?
- Reliability of Supply
- Perceived & Actual Risk
- Testing Costs
- System Limitations
- Information Management & Transfer
- Tradition

On-farm storage can help eliminate variability between lots, providing higher quality supplies to grain customers, says Jensen.

Jensen also told the IP conference audience that end users will continue to pull IP products through supply systems, and that value must be realized at all levels. "However, participants must have realistic expectations."

Some of the obstacles in the IP business will fall as the genetic pool, handling systems and information systems continue to advance, says Jensen. "But, large-scale transition [to IP] will not occur until other options are limited."

## Transportation Challenges

Stitzlein, manager, market development, discussed how the current transportation system also creates challenges for IP products. CGB originates approximately 330 million bushels of grain and soybeans through its 59 country elevators and river terminals each year. The company is an originator and exporter of several different IP shipments designed to meet specific end-users' needs. Largest among these shipments are high oil corn (HOC) and post-harvest free (PHF) grain and oilseeds. (PHF means that no chemicals were used in the storage of the product.)

Arranging for the supply of IP grain, particularly for export markets, takes advance planning. When special attributes are derived from unique genetics, it may require planning up to three years in advance (allowing for seed production, crop production, shipping and use), says Stitzlein.



Stitzlein highlighted the differences between transporting by truck, rail and barge. Truck is the most flexible, but most expensive means of transportation for large quantities or distances. Rail transportation is quicker than barge, but also more expensive, he noted. Barge transportation is the cheapest for large quantities, but it is slower. Slower movement requires more planning and the risk of deterioration en route is greater.

Grain needs to be on-site with a rail system because trains will charge stiff demurrage fees if they must wait for train cars to be loaded. Barges charge lower demurrage fees.

“IP shipments do not have the flexibility to substitute other shipments like commodity shipments can,” notes Stitzlein. “Therefore, IP barge shipments usually have to be loaded before we get the normal 10 to 12 days notice before a vessel arrives. The penalty for delaying a vessel can cost between \$7,500 and \$10,000 per day, so we need to make sure the grain is at the dock in time.”

Stitzlein stressed that IP grains require segregation and coordination, as well as special storage and transportation management, adding to their production costs.

Because of limitations in transportation and high transportation costs, more value-added seed will likely be grown closer to the end user. There may be more “localized pockets of production” in the future, Stitzlein notes. It is not impossible to conceive of pharmaceutical companies growing value-added crops (such as crops that could produce particular enzymes) in their own business parks.

New technologies and improved communications/relationships between genetics suppliers and end users will likely create wider value differences between IP and commodity products in the future, says Stitzlein. “The commodity system will always enjoy more flexibility and lower unit cost. We will need these wider value differences to justify segregating the production, storage and transportation of IP crops,” he concludes.

*Contact Tim Jensen, Cargill Hybrid Seeds, P.O. Box 5645, MS 16, Minneapolis, MN 55440-5645. Tel. 612-742-6725. Fax: 612-742-7233. E-mail: tim\_jensen@cargill.com; or Jim Stitzlein, Consolidated Grain & Barge Co., 5848 Old Route 54, New Berlin, IL 62670. Tel. 217-483-3980. E-mail: stitzlej@cgb.com.*

S&C

# Kansas Bankers Association

800 SW Jackson, Suite 1500

Topeka, KS 66612

785-232-3444 Fax - 785-232-3484 kbacs@ink.org

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3-12-99

TO: House Financial Institutions Committee  
FROM: Chuck Stones, Director of Research

RE: HB 2554

Mr. Chair and Members of the Committee,

The Kansas Bankers Association appreciates the opportunity to appear before you concerning HB 2554.

The KBA has been asked to address the potential usage by banks for programs such as represented by HB 2554. I am not addressing the policy issue involved or the fiscal note involved. This type of "linked deposit" arrangement is not new in Kansas. A similar program was established when Governor Finney was the State Treasurer. Banks used the program then and, if procedures are established to make the program usable, I assume banks will use it again.

We do have a few questions regarding the current language of the bill and have a suggested amendment.

We thank you for allowing us to provide input, and we urge your favorable action.

*House Financial Institutions*  
3-15-99  
Attachment 10

**HOUSE BILL No. 2554**  
By Committee on Appropriations  
3-8

9 AN ACT concerning agriculture; creating the Kansas agricultural linked  
10 deposit program; providing certain requirements; prescribing certain  
11 duties for the state treasurer.

12

13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. This act shall be known and may be cited as the Kansas  
15 agricultural linked deposit program.

16 Sec. 2. As used in this act: (a) "Agricultural linked deposit" means a  
17 certificate of deposit placed by the state treasurer with an eligible lending  
18 institution for the purpose of carrying out the intent of this act;

19 (b) "agricultural linked deposit loan package" means the forms pro-  
20 vided by the state treasurer for the purpose of applying for an agricultural  
21 linked deposit;

22 (c) "eligible lending institution" means a financial institution that  
23 agrees to participate in the Kansas agricultural linked deposit program  
24 and is eligible to be a depository of state funds; and

25 (d) "farm operations" means an individual or organization involved  
26 in farming except that "farm operations" shall not include a corporation  
27 other than a family farm corporation as defined in K.S.A. 17-5903 and  
28 amendments thereto.

29 Sec. 3. (a) The state treasurer is hereby authorized to administer the  
30 Kansas agricultural linked deposit program. Such program shall be for  
31 the exclusive purpose of providing funding for the construction of new  
32 or used grain storage facilities. The state treasurer shall promulgate rules  
33 and regulations to carry out the provisions of this act.

34 (b) The state treasurer shall submit an annual report outlining the  
35 status of the program to the governor and the legislature.

36 Sec. 4. (a) The state treasurer is hereby authorized to disseminate  
37 information and to provide agricultural linked deposit loan packages to  
38 the lending institutions eligible for participation in this act.

39 (b) The agricultural linked deposit loan package shall be completed  
40 by the borrower before being forwarded to the lending institution for  
41 consideration.

42 (c) (1) An eligible lending institution that agrees to receive an ag-  
43 ricultural linked deposit shall accept and review applications for loans  
44 from eligible farm operations. The lending institution shall apply all usual  
45 lending standards to determine the credit worthiness of eligible farm  
46 operations. No single linked deposit loan for the construction of new or  
47 used grain storage facilities shall exceed \$50,000. The total amount of  
48 agricultural linked deposit loans shall not exceed \$7,000,000 in any one  
49 year.

50 (2) Only one linked deposit loan shall be made and be outstanding  
51 at any one time to any farm operation.

52 (3) No loan shall be amortized for a period of more than eight years.

53 (d) An eligible farm operation shall certify on its loan application that  
54 the reduced rate loan will be used exclusively for the purposes of this act.

55 (e) The eligible lending institution may approve or reject an agricul-  
56 tural linked deposit loan package based on the lending institution's eval-  
57 uation of the eligible farm operation included in the package, the amount  
58 of the individual loan in the package, and other appropriate  
59 considerations.

60 (f) The eligible lending institution shall forward to the state treasurer,  
61 an approved agricultural linked deposit loan package, in the form and  
62 manner prescribed and approved by the state treasurer. The package shall  
63 include information regarding the amount of the loan requested by each  
64 farm operation and such other information regarding each farm operation  
65 the state treasurer requires. ~~The lending institution shall certify that each~~  
66 ~~applicant is an eligible farm operation.~~

67 Sec. 5. (a) The state treasurer may accept or reject an agricultural  
68 linked deposit loan package based on the state treasurer's evaluation of

including a certification by the  
applicant that it is an eligible  
farm operation.

69 whether the loan to the eligible farm operation meets the purposes of  
70 this act. If sufficient funds are not available for a linked deposit, then the  
71 applications may be considered in the order received when funds are once  
72 again available subject to a review by the lending institution.

73 (b) Upon acceptance, the state treasurer may place certificates of  
74 deposit with the eligible lending institution at a zero interest rate. When  
75 necessary, the state treasurer may place certificates of deposit prior to  
76 acceptance of an agricultural linked deposit loan package.

77 (c) The eligible lending institution shall enter into an agricultural  
78 linked deposit agreement with the state treasurer, which shall include  
79 requirements necessary to implement the purposes of the Kansas agri-  
80 cultural linked deposit program. Such requirements shall include an  
81 agreement by the eligible lending institution to lend an amount equal to  
82 the agricultural linked deposit to eligible farm operations at an interest  
83 rate that does not exceed 4%. The agreement shall include provisions for  
84 the certificates of deposit to be placed for any maturity considered ap-  
85 propriate by the state treasurer in coordination with the underlying linked  
86 deposit loan. Interest shall be paid at the times determined by the state  
87 treasurer.

88 Sec. 6. (a) Upon the placement of an agricultural linked deposit with  
89 an eligible lending institution, the institution shall fund the loan to each  
90 approved eligible farm operation listed in the agricultural linked deposit  
91 loan package in accordance with the agricultural linked deposit agreement  
92 between the institution and the state treasurer. The loan shall be at a rate  
93 as provided in section 5 and amendments thereto. A certification of com-  
94 pliance with this section in the form and manner as prescribed by the  
95 state treasurer shall be required of the eligible lending institution.

96 (b) The state treasurer shall take any and all steps necessary to im-  
97 plement the Kansas agricultural linked deposit program.

98 Sec. 7. The state and the state treasurer shall not be liable to any  
99 eligible lending institution in any manner for payment of the principal or  
100 interest on the loan to an eligible farm operation. Any delay in payments  
101 or default on the part of an eligible farm operation does not in any manner

State Treasurer or PMIB?

???



102 affect the agricultural linked deposit agreement between the eligible  
103 lending institution and the state treasurer.  
104 Sec. 8. The provisions of this act shall expire on July 1, 2002.  
105 Sec. 9. This act shall take effect and be in force from and after its  
106 publication in the Kansas register.



# PUBLIC POLICY STATEMENT

## HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**RE: HB 2554 – establishing a low-interest loan program  
for construction of grain storage facilities.**

**March 15, 1999  
Topeka, Kansas**

**Presented by:  
Leslie J. Kaufman, Assistant Director  
Public Affairs Division  
Kansas Farm Bureau**

Chairman Cox and members of the House Committee on Financial Institutions & Insurance, thank you for the opportunity to share Farm Bureau's support for creating incentives for constructing and refurbishing on-farm grain storage facilities. I am Leslie Kaufman. I serve as the Assistant Director of Public Affairs for Kansas Farm Bureau.

The past 2 years have been especially challenging for most farmers and ranchers. Crop yields have been good in many areas, but commodity prices have been extremely low. A shortage of grain storage facilities and inadequate transportation has resulted in large quantities of grain being piled on the ground. The result is damaged, lower quality grain that brings an even lower price. Last year alone, more than 78 million bushels of grain were dumped on the ground. It is anticipated millions more bushels will be stored on the ground with the 1999 harvest.

Policy adopted at the 80<sup>th</sup> Annual Meeting of Kansas Farm Bureau reflects our members concerns regarding grain storage and agriculture credit issues.

*House Financial Institutions*  
*3-15-99*  
*Attachment 11*

435 farmers and ranchers, representing 105 county Farm Bureaus, reaffirmed their support for agriculture producers being afforded a variety of credit facilities to finance operating and ownership expenses. We encourage the legislature and the Governor to examine the feasibility of creating tax incentives and/or a low-interest loan program to assist in the construction of on-farm grain storage facilities.

The concepts contained within HB 2554 are one manner in which these goals could be achieved. We appreciate the opportunity to appear before your Committee today. We encourage the Committee, the full legislature and the Governor to take action this session to provide tax incentives or a low-interest loan program to encourage the construction or refurbishment of on-farm grain storage facilities. Thank you.

Written Testimony on HB 2554



March 12, 1999

Senator Ray Cox, Chair  
Financial Institutions Committee  
State House, Topeka, KS

Fax: 785 291 3888

**Department of Grain Science**

201 Sheilenger Hall  
Manhattan, KS 66506-2201  
785-532-6161  
Fax: 785-532-7010  
[http://www.oznet.ksu.edu/dp\\_grsi/](http://www.oznet.ksu.edu/dp_grsi/)

Dear Senator Cox:

I have been asked, on short notice, to describe information and programs available from KSU Research and Extension that support Kansas farmer's efforts to maintain quality of farm-stored grain. The Department of Grain Science has well-developed extension programs in many aspects of grain handling and processing, and regularly delivers those programs to producers and the grain handling and processing industry, including grain elevators, feed millers, and flour millers. Various Grain Science outreach programs are well-known nationally and internationally.

The farm-level grain storage information consists of bulletins, pamphlets, and videos. The wheat information in particular was based on several years of farm-level research, and leads the U. S. in providing storage recommendations that are consistent with EPA and USDA initiatives to increase the sustainability of U. S. agriculture through adoption of IPM techniques. The written and video information is already available at county Research and Extension offices, and the video is used routinely at FSA offices as well.

All Grain Science extension efforts are under the direction of Dr. Tim Herrman, the Extension State Leader in the Department of Grain Science and Industry. He can be reached at 785 532 4082, at fax 785 532 4017, and at [TJH@wheat.ksu.edu](mailto:TJH@wheat.ksu.edu).

Sincerely,

  
Carl Reed  
Research Associate

cc: Dr. Tim Herrman, KSU

*House Financial Institutions*  
*3-15-99*  
*Attachment 12*



STATE OF KANSAS

**Tim Shallenburger**  
TREASURER

900 SW JACKSON ST, SUITE 201  
TOPEKA, KANSAS 66612-1235

TELEPHONE  
(785) 296-3171

**House Financial Institutions Committee  
Written Testimony for House Bill 2554  
March 15, 1999**

Mr. Chairman and members of the House Committee, thank you for allowing me to submit written testimony to you today on House Bill 2554.

As you may know, there are two bills under consideration that address link deposits, HB 2554 and HB 2527 (which is currently being heard in the Agriculture committee.) The link program as designed in HB 2554 is dedicated to improving agriculture services. Several states use this type of program for a variety of services. For example, Illinois uses a similar program for day care, etc. However, it is my opinion that this policy is a decision best left to the wisdom of the legislature, so I am testifying as neither a proponent nor opponent.

My office has provided a fiscal note which is attached to this testimony. Clearly there is a loss of revenue from interest income, however, this is simply a policy question you must answer.

In regards to administration of the fund, my office would be happy to manage the fund should that be your desire.

Again, thank you for allowing me to participate in this discussion.

*House Financial Institutions*  
*3-15-99*  
*Attachment 13*





STATE OF KANSAS

**Tim Shallenburger**  
TREASURER

900 SW JACKSON ST, SUITE 201  
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DATE: March 11, 1999  
TO: Duane A.Goossen, Director of the Budget  
FROM: Peggy L.Hanna, Assistant State Treasurer  
SUBJECT: Fiscal Note on HB 2554

1) BRIEF ANALYSIS OF PROPOSED LEGISLATION

The bill creates the Kansas agricultural linked deposit program to be administered by the State Treasurer.

2) HOW TREASURER'S OPERATION WOULD BE AFFECTED

The agency would be required to promulgate rules and regulations needed to administer this program. We would also need to design and disseminate the loan packages to eligible lending institutions. Finally, since ultimate approval of each linked deposit loan package is vested to the office of the State Treasurer, the agency would either have to develop internal expertise or contract with an outside resource to accomplish these approvals.

3) DOLLAR EFFECT ON TREASURER'S BUDGET

An initial \$28,000 would be needed to pay the outside contractor.

4) ASSUMPTIONS

It is assumed that the office would contract with an outside source to approve these contracts. Assumes the program was fully subscribed (\$7,000,000), each borrower requested the full amount (\$50,000), the contractor charged \$100 per hour and each package required two hours for review and approval.

5) EFFECT ON STAFFING AND OPERATIONAL EXPENDITURES

No additional staff would be required. The \$28,000 would be paid out of Other Contractual Services.

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6) LONG RANGE FISCAL EFFECT

Depending on the initial maturities of the loans and the on-going needs of agriculture, an annual amount for new loans would be needed to continue the contractor relationship.

There would be an impact on the State General Fund. Since the state idle pool is currently earning an average 5.5% and the bill calls for placement of the certificates of deposit at a zero interest rate, it is assumed that if the entire amount was subscribed (\$7,000,000), the SGF would experience an interest income loss of \$385,000 annually.

7) QUESTION

Is the language broad enough to allow the Treasurer to sign any contract necessary to administer the program?