

Approved: 2-1-00
Date

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE.

The meeting was called to order by Chairperson Steve Morris at 10:00 a.m. on January 27, 2000, in Room 423-S of the Capitol.

All members were present except:

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

Conferees appearing before the committee:

Representative Sharon Schwartz
Chuck Stones, Kansas Bankers Association
Bill Fuller, Associate Director, Public Policy Division, Kansas Farm Bureau
Ron Gaches, Farm Credit Council of Wichita
Mike Jensen, Executive Vice-President, Kansas Pork Producers Council

Others attending: (See Attached)

Senator Clark made a motion to approve the minutes for the January 26, 2000 meeting as amended. Senator Umbarger seconded. Motion carried.

Senator Stephens made a motion to introduce a senate concurrent resolution encouraging Congress to pass a moratorium on agribusiness and agricultural mergers and acquisitions. Senator Clark Seconded. The motion carried.

Senator Stephens made a motion to introduce a bill that would enact the beginning farmer tax credit act, as well as a bill that would enact the competitive livestock markets act. Senator Biggs seconded. The motion carried.

Hearing on:

HB 2527 - concerning state moneys; providing for agricultural production loans

Representative Sharon Schwartz testified in support of **HB 2527**, stating this bill would establish a linked deposit program to provide agricultural loans. The program would be administered by the State Treasurer (Attachment 1). Representative Schwartz referred to Kansas State Treasurer Tim Shallenburger's written testimony (Attachment 2) that the State Treasurer's Office would be able to absorb any additional cost associated with passage of **HB 2527**.

Chuck Stones, Kansas Bankers Association, testified in support of **HB 2527**. Mr. Stones stated that the Task Force on 21st Century Ag Banking believes that linked deposit programs are an important way for some agricultural and rural borrowers to be assisted in securing the capital they need at an affordable cost (Attachment 3).

Bill Fuller, Associate Director, Public Policy Division, Kansas Farm Bureau, appeared before the committee to support **HB 2527**, a program that would provide low interest agricultural production loans for agricultural borrowers during this time of economic stress in farm country (Attachment 4).

Mike Jensen, Kansas Pork Producers Council, provided written testimony and spoke in support of **HB 2527** (Attachment 5). Mr. Jensen stated this bill would make available more capital to the entire agricultural sector, while also sending a clear message from the state government of Kansas that it

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE, Room 423-S of the Capitol, 10:00 a.m., on January 27, 2000.

recognizes the plight of agriculture and is willing to invest in the future of that industry for the good of the state.

Ron Gaches, Farm Credit Council of Wichita, requested that Farm Credit Council Associations be added to the bill so that they could participate in the agricultural production loan program created by **HB 2527**. Mr. Gaches urged favorable consideration of **HB 2527** with this change (Attachment 6).

Several requests were made for more documentation concerning aspects of **HB 2527**. The hearing on **HB 2527** will be continued February 1, 2000.

The next meeting will be February 1, 2000.

STATE OF KANSAS

SHARON SCHWARTZ
REPRESENTATIVE, 106TH DISTRICT
GEARY, MARSHALL, REPUBLIC,
RILEY, AND WASHINGTON COUNTIES
2051 20TH ROAD
WASHINGTON, KANSAS 66698
(785) 325-2568



TOPEKA

HOUSE OF
REPRESENTATIVES

STATE CAPITOL
ROOM 110-S
TOPEKA, KANSAS 66612-1504
(785) 296-7632
1-800-432-3924

COMMITTEE ASSIGNMENTS
VICE-CHAIR: HOUSE AGRICULTURE
MEMBER: HOUSE APPROPRIATIONS
HOUSE AGRICULTURE &
NATURAL RESOURCES BUDGET
HOUSE ENVIRONMENT

1-27-2000

TO: SENATE AGRICULTURE COMMITTEE

RE: HB 2527

I appear before you in support of H.B. 2527. Last legislative session, I asked for legislation to be introduced to assist agriculture producers access affordable capitol to pay for seed, feed, and necessary repairs. Interest rates for these type of loans, known as operating loans, range from 9 to 11 ½ %. These high costs of funds are adding to the existing burden being experienced by agriculture producers today This legislation is an attempt to assist distressed farmers and young farmers trying to get a start in the business.

HB 2527 establishes a linked deposit program between the state of Kansas and Kansas banks to enhance agricultural loans. The program:

- Makes state idle funds available to banks and lending institutions at an interest rate 2% below the market rate.
- These funds are capped at \$50 million
- Allows lenders to offer money to farmers and ranchers at 2% above the market rate. The spread of 4 percentage points would be the lender's compensation for servicing the loan.
- Encourages banks to make loans to farmers with a debt-to-asset ratio of at least 40 percent debt.
- Establishes a \$250,000 cap per loan
- Allows only one loan per operation
- Establishes a 8 year maximum on term of loan

The State Treasurer will administer the program. The state will recognize less for their investment as far as direct returns. I would hope that if we care about agriculture, we would think of this as an investment in the future. This measure would provide a bolster to farmers and the agricultural economy

Thank you for allowing me this opportunity to express my support for H.B. 2527.

Senator Agriculture
1-27-00
Attachment 1



STATE OF KANSAS

Tim Shallenburger
TREASURER

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

TELEPHONE
(785) 296-3171

January 26, 2000

To: House Agriculture Committee

From: Tim Shallenburger, State Treasurer

Re: Written Testimony for HB 2527

Chairman Johnson and members of the committee:

I would like to thank you for the opportunity to submit written testimony for HB 2527.

In administering the Agriculture Production Loan Deposit Program the State Treasurer's office would be required to perform the following functions;

- First, it would require us to submit an annual report outlining the status of the program to the Governor and the Legislature.
- Second, it would require us to provide deposit loan packages to eligible lending institutions.
- Third, it would grant us the authority to accept or reject a loan package based on the evaluation of whether the loan to the borrower meets the purposes of the act.
- Fourth, it would require us to certify to the Director of Investments the amount required for loan packages.

It is my determination that the State Treasurer's office would be able to absorb any additional cost associated with passage of HB 2527.

Again, thank you for your time.

Tim Shallenburger
State Treasurer

Senate Agriculture
1-27-00
Attachment 2

Kansas Bankers Association

800 SW Jackson, Suite 1500

Topeka, KS 66612

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

1-27-00

TO: Senate Agriculture Committee

FROM: Chuck Stones

RE: HB 2527

Mr. Chairman and Members of the Committee:

The Kansas Bankers Association appreciates the opportunity to appear before you in support of HB 2527.

The banks of Kansas are fully aware of the potential hard times ahead in the agriculture sector of our state. In fact, Jim Maag, the Executive Vice President of the KBA, served last year on the Task Force on 21st Century Ag Banking. A task force established by the American Bankers Association to come up with some concrete, practical solutions to help ag borrowers. One of the recommendations of that task force is for states to expand the use of linked deposit programs. The Task Force believes that linked deposit programs are an important way that some agricultural and rural borrowers can be assisted in securing the capital they need at an affordable cost.

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 it is rules and regs are established to make the program usable, I assume banks will use it again. While this will not solve the problems in the ag sector, we view it as a win, win, win, win situation. The Legislature wins for seeking and finding helpful ways of dealing with problems in the state, the State Treasurer wins by administrating the program, the banks win by using the program, but most importantly the farmer wins by getting a break when he or she most needs it.

In discussing the potential program with bankers, it appears that the provisions of the bill for a 40% debt to asset ratio is just about the right level and the 4% spread between the deposit and the loan rates is also just about the right level. Since the bank assumes all the credit risk, some banks may not feel that the 4% is enough. However, I think it will be enough for a sufficient number of banks to make the program successful.

We believe that HB 2527 is a practical way for the state to help marginal farm borrowers without getting into the lending business.

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

Senate Agriculture
1-27-00
Attachment 3



PUBLIC POLICY STATEMENT

SENATE COMMITTEE ON AGRICULTURE

**RE: Sub. for HB 2527 – Establishing a Low-Interest
Agricultural Production Loan Program.**

**January 27, 2000
Topeka, Kansas**

**Prepared by:
Bill R. Fuller, Associate Director
Public Policy Division
Kansas Farm Bureau**

Chairman Morris and members of the Senate Committee on Agriculture, Kansas Farm Bureau certainly appreciates this opportunity to express strong support for establishing a program to provide low interest production loans for agricultural borrowers during this time of economic stress in farm country.

My name is Bill Fuller. I serve as the Associate Director of the Public Affairs Division for Kansas Farm Bureau.

1999 was another challenging year for many farmers and ranchers. Even though crop yields were good in many areas of the state, prices were at record lows. Unfortunately, some areas of the state suffered both low yields and low prices. Those conditions coupled together spelled economic disaster.

What are the prospects for a healthy agricultural economy in 2000? The good news is that livestock prices have shown some strength and are allowing some profitability. The bad news seems to be present in several forms. It is unlikely grain prices will show any significant improvement. The carryover stocks of grain are growing. The U.S. Congress has not yet come together to end the trade sanctions

*Senate Agriculture
1-27-00
Attachment 4*

that are severely limiting the exporting of grain. Farmers want to produce for the market place. It is essential that farmers have access to worldwide markets. As if all of this is not enough to worry about, the dry weather last fall and this winter has caused thousands of acres of winter wheat to be in poor condition at this time.

Agriculture continues to be the backbone of the Kansas economy. While federal farm policy has a huge impact on the economic condition of agricultural producers, the State of Kansas has the responsibility and ability to provide some assistance to farmers and ranchers, especially during times of hardship.

We certainly appreciate the attention that is being focused on Kansas agriculture at this time. Governor Bill Graves recently in his sixth State of the State address to the Legislature recognized the economic plight of our farmers and ranchers compared to other citizens who are now enjoying the benefits of a strong economy when he said: "*With the exception of our troubled agricultural economy, Kansas is very strong.*" The Report of the Special Committee on Agriculture to the 2000 Kansas Legislature outlines a number of bills and resolutions. A nonpartisan coalition of legislators is preparing a number of measures. Frankly, I have never seen more legislative proposals focused on agriculture in one session than we have today. The opportunity to provide agricultural assistance is great. The big question, however, is whether all entities can work together to improve the agricultural economy. We believe the various interests will come together. We must join together if we are to adequately protect the farmers, ranchers and consumers of the state and strengthen the Kansas economy.

Sub. for HB 2527 would establish the Kansas Agricultural Production Loan Deposit Program to be administered by the State Treasurer. The purpose of the program would be to provide incentives for the making of agricultural production loans by banks that are eligible to be a depository of state funds. The bill would require that the lending institution apply all usual lending standards to determine the credit worthiness of borrowers. Loans would only be made to eligible agricultural borrowers who have debt to asset ratios of 40 percent or greater and could not be amortized for a period of more than eight years. No single agricultural production

loan to any one borrower could exceed \$250,000. The bill would limit the agricultural production loan program to \$50,000,000.

Sub. for HB 2527 is a recommendation of the Special Committee on Agriculture. The measure was approved 116-8 by the House of Representatives on April 1, 1999. The bill was advanced to Senate too late for adequate hearings and action last session. We applaud the Senate Agriculture Committee for conducting the hearing today and considering this proposed legislation.

KFB worked to develop and supported an "interest buy-down" program that was enacted by the 1986 Kansas Legislature. The program provided a tax incentive to banks and Production Credit Associations for reducing rates of interest on agricultural production loans. This interest buy-down program was enacted to assist farmers in surviving an economic crisis that, as you recall, drove many families from the farm. We recognized then, as we do now, that in difficult times neither farmers nor lenders will succeed by themselves if the other fails. We need credit programs that are mutually beneficial for farmers and lenders, programs that assist farmers and ranchers to maintain viable operations, and programs that will give lenders sufficient latitude to work with producers who have credit or debt difficulties.

Support for Sub. for SB 2527 by Kansas Farm Bureau's is based upon policy developed and adopted by the 442 farm and ranch delegates representing the 105 county Farm Bureaus at the 81st Annual Meeting of Kansas Farm Bureau:

"We encourage the legislature and the Governor to create a low-interest agriculture production loan program to assist financially stressed agricultural producers during this time of low commodity prices and sanctions on export markets."

Kansas Farm Bureau strongly recommends Sub. for HB 2527 be a cornerstone of the farm relief package adopted by the 2000 Kansas Legislature. We respectfully encourage the Senate Agriculture Committee to approve this important bill and advance the measure to the full Senate with a favorable recommendation.

Thank You!



Testimony in support of Substitute for House Bill No. 2527

Presented by Mike Jensen

On behalf of the Kansas Pork Producers Council

Mr. Chairman, members of the committee, My name is Mike Jensen. I serve as Executive Vice-President of the Kansas Pork Producers Council. As most of you are aware, the last 18 months have been a long and arduous road for not only pork producers, but nearly all of agriculture in Kansas and the nation. The pork industry across the nation is estimated to have lost nearly 4 billion dollars in equity during this period. Kansas producers income dropped from over \$350 million two year previous to less than \$200 million in 1999.

This drop in income resulted in a loss of 27% of pork operations in Kansas in 1999 alone! While we hope that the pork industry recovery is in the near future many farmers are struggling to look for what ever assistance possible. We cannot estimate how many operations this bill might have saved had it become law in the last session, but we certainly urge your committee to pass this bill favorably so that more capitol might be available to the entire agriculture sector, while also sending a clear message from the State government of Kansas that we recognize the plight of agriculture and are willing to invest in the future of that industry for the good of our state.

Senate Agriculture
1-27-00
Attachment 5

Kansas Pork Industry Facts

Kansas pork producers help feed the world

There are 1,900 hog farms in Kansas. Of these operations, 400 produce 91% of the state's pork.

Kansas is the number 10 state in hog and pig inventory producing about 2.2 percent of the nation's total.

In 1999, Kansas producers marketed 2,495,092 hogs with a gross market value of \$198,858,129. These hogs produced over 450,000,000 pounds of **Pork. The Other White Meat®** which helped feed over 10 million people both in the U.S. and abroad.

Did you know?

Before the turn of the last century, Kansas producers had well over twice the number of hogs in their inventory as they do today.

Pork industry important to Kansas economy

Kansas pork operations consume nearly 30 million bushels of grain. Primarily, these operations utilize Kansas-grown dryland milo, but they also feed significant amounts of corn and soybean products.

The Kansas swine industry annually spends about:

- \$200 million for feed grains
- \$35 million in construction
- \$20 million in supplies
- \$10 million for utilities (gas, propane & electric)
- \$10 million for trucking costs
(hog marketing only, no grain)
- \$8 million in interest
- \$8 million for veterinary care

Numbers as of January 1, 2000

Environmental Stewardship

Nearly 1,000 pork producers have complied with KDHE's state-mandated requirements for the size of their operation. This includes: 102 producers with NPDES permits, 765 producers with state permits and 92 producers with state certifications.

For decades, KDHE has required pork producers to control enough land to sustainably utilize the nutrients generated by the operation. About 80 acres of cropland is needed for a 500 Animal Unit pork operation.

Pork producers with over 1,000 Animal Units are now required to submit a Nutrient Utilization Plan showing the fields where plant food will be applied.

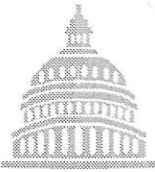
For more information, contact:

Mike Jensen

Executive Vice President
Kansas Pork Producers Council
2601 Farm Bureau Road
Manhattan, KS 66502
(785) 224-0374 Cellular
(785) 776-0442 Office
(785) 776-9897 Fax
E-mail - kppc@flinthills.com



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GOVERNMENT AFFAIRS & PUBLIC RELATIONS

300 WEST EIGHTH • THIRD FLOOR • TOPEKA, KANSAS 66603-3912 • 785-233-4512 • FAX 785-233-2206

Testimony regarding Substitute for House Bill 2527
Presented by Ron Gaches of McGill, Gaches & Associates
On behalf of Farm Credit Council of Wichita
Before Senate Agriculture Committee
Thursday, January 27, 2000

The associations that comprise the Farm Credit Council of Wichita are the largest providers of credit to Kansas agriculture producers with approximately 28 percent of all Kansas agriculture land and production loans. Their current FCC Kansas agriculture loan portfolio is in excess of \$1.2 billion.

As currently drafted, Substitute for House Bill 2527 would not allow FCC associations to participate in the agricultural production loan program created by this act. We believe that adding FCC associations to participate would improve the efficiency and effectiveness of the proposed program. Accordingly, we recommend adoption of the attached amendment to the bill.

With this change, we urge your favorable consideration of the bill.

*Senate Agriculture
1-27-00
Attachment 6*

Substitute for HOUSE BILL No. 2527

By Committee on Agriculture

3-24

9 AN ACT concerning state moneys; providing for agricultural production
10 loans; amending K.S.A. 75-4209 and 75-4237 and repealing the existing
11 sections.

12
13 Be it enacted by the Legislature of the State of Kansas:

14 New Section 1. The provisions of sections 1 through 7, and amend-
15 ments thereto, shall be known and may be cited as the Kansas agricultural
16 production loan deposit program.

17 New Sec. 2. As used in this act: (a) ``Agricultural production loan
18 deposit" means an investment account placed by the director of invest-
19 ments under the provisions of article 42 of chapter 75 of the Kansas
20 Statutes Annotated with an eligible lending institution for the purpose of
21 carrying out the intent of this act;

22 (b) ``agricultural production loan deposit loan package" means the
23 forms provided by the state treasurer for the purpose of applying for an
24 agricultural production loan deposit;

25 (c) ``eligible lending institution" means a bank, as defined under
26 K.S.A. 75-4201, and amendments thereto, that agrees to participate in
27 the Kansas agricultural production loan deposit program and is eligible
28 to be a depository of state funds; and

29 (d) ``eligible agricultural borrower" means any person, partnership or
30 family farm corporation as defined in K.S.A. 17-5903 and amendments
31 thereto involved in farming.

32 New Sec. 3. (a) The state treasurer is hereby authorized to admin-
33 ister the Kansas agricultural production loan deposit program. Such pro-
34 gram shall be for the purpose of providing incentives for the making of
35 agricultural production loans. The state treasurer shall promulgate rules
36 and regulations to carry out the provisions of this act.

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

39 New Sec. 4. (a) The state treasurer is hereby authorized to dissem-
40 inate information and to provide agricultural production loan deposit loan
41 packages to the lending institutions eligible for participation in this act.

42 (b) The agricultural production loan deposit loan package shall be
43 completed by the borrower before being forwarded to the lending insti-

Or is an institution of the farm credit
system organized under the federal
"Farm Credit Act of 1971", 12 U.S.C 2001
as amended; and