

Approved: 2-2-00
Date

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE.

The meeting was called to order by Chairperson Steve Morris at 10:00 a.m. on February 1, 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:

George Teagarden, Livestock Commissioner, Animal Health Department
Tom Tunnell, Kansas Grain and Feed Association, Kansas Fertilizer and Chemical Association
Clay David Woolfolk, Jr., President and CEO, Farm Credit Services of Northeast Kansas
Joe Lieber, Executive Vice President, Kansas Cooperative Council
Representative Sharon Schwartz

Others attending: (See Attached)

Senator Umbarger made a motion to approve the minutes of the January 27, 2000 meeting. Senator Stephens seconded. The motion carried.

Senator Biggs made a motion to introduce a bill that would create the Center for Excellence at Kansas-State to research alternative crops. Senator Stephens seconded. The motion carried.

Senator Clark made a motion to introduce a bill restricting packer ownership of livestock. Senator Biggs seconded. The motion carried.

Senator Clark made a motion to introduce a bill allowing the Attorney General greater flexibility to pursue anti-trust violations. Senator Stephens seconded. The motion carried.

Senator Clark made a motion to introduce a bill to enact legislation providing rights for agricultural contracts. Senator Biggs seconded. The motion carried.

Senator Clark made a motion to introduce a bill that would amend the home rule authority for counties, which was modified in 1998 HB 2950. Senator Biggs seconded. The motion carried.

George Teagarden, Livestock Commissioner, Animal Health Department, requested a bill be introduced to use electronic auctions as livestock markets and one that would allow the department to charge a minimal inspection fee. Senator Umbarger made a motion to introduce both bills. Senator Stephens seconded. The motion carried.

Tom Tunnell, Kansas Grain and Feed Association, Kansas Fertilizer and Chemical Association, requested introduction of a bill concerning the Warehouse Act that would make it consistent with the federal law. Senator Umbarger made a motion to introduce the bill and Senator Huelskamp seconded. The motion carried.

Continued hearing on:

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

Clay David Woolfolk, Jr., President and CEO, Farm Credit Services of Northeast Kansas, testified in support of **HB 2527** with the inclusion of the Farm Credit Services (Attachment 1). He addressed the

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE, Room 423-S of the Capitol, 10:00 a.m., on February 1, 2000.

reasons why Farm Credit institutions should be included in the Kansas Agricultural Production Loan Deposit Program, as well as answered questions asked at the hearing on **HB 2527** on January 27, 2000.

Joe Lieber, Executive Vice President, Kansas Cooperative Council, testified in support of **HB 2527**, reminding that the banks are cooperatives and are owned by the people who use their services, and the directors are farmers and ranchers (Attachment 2). Mr. Lieber advised that currently, if a vendor has to file a lien on inputs that lien is secondary behind the lenders.

Chuck Stones, Kansas Bankers Association, expressed some concerns, noting that **HB 2527** is not a banking bill.

Derl Treff, Director of Investments of Pooled Money Investment Board, provided answers to some previously asked questions at the January 27, 2000 meeting.

Representative Schwartz responded to questions pertaining to **HB 2527** by defining "person" and "operating loan" and deleting the sunset provision as requested of her at the hearing on January 27, 2000 (Attachment 3).

The hearing and possible action on **HB 2527** was continued.

The next meeting is February 2, 2000.

SENATE AGRICULTURE COMMITTEE GUEST LIST

DATE: 2-1-00

NAME	REPRESENTING
Marvin E. Smith	Shawnee Farm Bureau
Ken Flagler	Wabunsee " "
Peggy "	" " "
Warrent Drene Schooley	Bourbon County Farm Bureau
Harry Clubine	
Tony Horinek	Thomasco FARM BUREAU
Ron Goules	FARM CREDIT SYSTEM
DAVE Wofford	Farm Credit Assn - Kansas
Jeff Arpin	Division of the Budget
Craig Johnson	Phillips Co. Farm Bureau
Dennis J. Morin	Kansas Soybean Association
Joe Lieber	KS Co-op Council
Jerry McReynolds	Ks Farm Bureau.
Richard Feyh	Wabunsee Wabunsee County Farm Bureau
DERL TREFF	PMIB
Marla Goodrich	PMIB
Dag Wareham	Ks. Grain Feed Assn / Ks. Fert & Chem Assn.
Duck Schmitt	Governor's Office

**Testimony of
Clay David Woolfolk, Jr., President and CEO
Farm Credit Services of Northeast Kansas, Manhattan, Kansas
to the
Kansas Senate Agriculture Committee
February 1, 2000**

Thank you, Members of the Kansas Senate Agriculture Committee, for the opportunity to provide testimony before you today.

My name is Clay David Woolfolk, Jr., and I am President and Chief Executive Officer of the Farm Credit Services in Northeast Kansas. Our headquarters is in Manhattan, and we also have offices in Marysville, Hiawatha and Lawrence. Today, I am representing all thirteen of the Farm Credit Associations and their 25 branch offices located in the State of Kansas.

I have been asked to address the reasons why Farm Credit institutions should be included in the Kansas Agricultural Production Loan Deposit Program, designated as "Substitute for House Bill 2527."

First, Farm Credit is the largest single ag lender in Kansas, with over \$1.5 billion loaned to Kansas farmers and ranchers. Our distribution network covers the entire state and will help make the state's program successful.

Each Farm Credit Association is an agricultural cooperative that is locally owned by the farmers and ranchers who borrow from it. Including Farm Credit

*Senate Agriculture
2-1-00
Attachment 1*

Associations as eligible lending institutions in this bill makes sense because the very farmers and ranchers the bill seeks to help are the owners of these Associations. Finally, we believe competition between lending institutions for the farmer's business is healthy and we support inclusion of any lender that is actively helping finance Kansas agriculture. Therefore, we would urge the legislature (and specifically the Kansas Senate Agriculture Committee) to include within the definition of eligible lending institutions the banks and associations of the Farm Credit System. We have provided you with the specific language that would accomplish this.

I understand that we have been asked to respond to certain questions. These have been provided to me, and I would like to address them now.

First, we were asked to provide the average debt/asset ratio for Farm Credit loans. Our farmers today have an average debt to asset ratio of 35%. This is true for both existing borrowers and new loans made in 1999. This ratio has been very stable for several years.

Second, we were asked to provide this Committee with Farm Credit's cost of money. Farm Credit Associations borrow funds from a Farm Credit Bank. The Farm Credit Bank obtains these funds through the sale of Farm Credit bonds in the open market. The Farm Credit associations then loan the money to farmers and ranchers. This cost varies significantly, depending on which loan product is

being funded. Farm Credit offers over 20 production loan products with varying repricing characteristics and funded at various points on the yield curve. With that said, the cost of funds for production loans in today's rate environment ranges from a low of 5.75% to a high of 7.5%, with the heaviest volumes of lending being at an approximate cost of funds of 6%.

Third, I have been asked to comment on Farm Credit's average spread on production loans. Again, this varies widely for the various types of production loans, but on average it would be in the range of 2.75% to 3%.

With the information I have provided, you can see that the average Farm Credit borrower interest rate also varies significantly. However, on average, a typical production loan would cost the farmer about 9%. This reflects the 6% average cost of funds and a 3% average spread.

Finally, I have been asked to share any information we have on similar programs in other states and whether or not Farm Credit is eligible to participate in those programs. The Wichita District covers Kansas, Colorado, Oklahoma and New Mexico. Of those four states, only Oklahoma currently has an active program. Not only is Farm Credit eligible to participate, but we were instrumental in getting that program established. It has been in place since the early 1990's and is very successful. Farm Credit Associations in Oklahoma currently have \$34 million invested in Oklahoma ag link loans.

However, in Oklahoma, the program encourages participation in both production and real estate loans. Of that \$34 million, \$22 million is invested in real estate loans and the remaining \$12 million is in production loans. These numbers used to be significantly larger, but as the Oklahoma program has matured, the volumes have begun to decrease. This is due to the Oklahoma legislature limiting the number of borrower renewals.

It is our understanding that several other states have "ag link" type programs and that, generally speaking, Farm Credit Associations in those Districts actively participate. This includes programs in Missouri, Illinois, Ohio and Pennsylvania. Unfortunately, we do not have ready access to a complete listing of all state programs.

Again, I thank you for this opportunity and for your time, and I would be happy to try to address any questions you might have.

Testimony on HB 2527
Senate Agriculture Committee
February 1, 2000
Prepared by Joe Lieber, Kansas Cooperative Council

Mr. Chairman and members of the committee. I'm Joe Lieber, Executive Vice President of the Kansas Cooperative Council. The Council has a membership of nearly 200 cooperative businesses, including farm supply, farm credit banks, rural electric, rural telephone and credit unions. These organizations are owned by over 200,000 Kansans.

The Kansas Cooperative Council is in support of HB 2527 with the amendment that would include the Farm Credit System.

You heard testimony last week that said the Farm Credit Banks provide approximately 28 percent of the agricultural land and production loans. It seems reasonable that the bill would include the Farm Credit Banks.

Remember, the banks are cooperatives and are owned by the people that use their service, and the directors are farmers and ranchers.

Another reason the Kansas Cooperative Council supports HB 2527 is that if the banks have more money to lend them, our farm supply cooperatives would not have to provide inputs on credit. Currently, if a vendor has to file a lien on inputs that lien is secondary behind the lenders.

SB 366, that is being heard in the Senate Judiciary Committee, deals with Uniform Commercial Code and the Kansas Cooperative Council is proposing an amendment that would allow inputters the right to have priority liens if the bank doesn't want to extend more credit.

Our members do not want to be in the lending business, and the passage of HB 2527 may help.

Again, the Kansas Cooperative Council supports H 2527 with the inclusion of the Farm Credit Bank.

Senate Agriculture

2-1-00

Attachment 2

Substitute for HOUSE BILL No. 2527

By Committee on Agriculture

3-24

Senate Agriculture
2-1-00
Attachment 3

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-

[individual, limited liability agricultural company, limited agriculture

1 tution for consideration.

2 (c) (1) An eligible lending institution that agrees to receive an agri-
3 cultural production loan deposit shall accept and review applications for
4 loans from eligible agricultural borrowers. The lending institution shall
5 apply all usual lending standards to determine the credit worthiness of
6 eligible agricultural borrowers. No single agricultural production loan de-
7 posit loan shall exceed \$250,000. The total aggregate amount of agricul-
8 tural production loan deposit loans under this program shall not exceed
9 \$50,000,000.

10 (2) To be eligible to obtain an agricultural production loan, an eligible
11 agricultural borrower must have a debt-to-asset ratio of 40% or greater.

12 (3) Only one agricultural production loan deposit loan shall be made
13 and be outstanding at any one time to any agricultural borrower.

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

15 (d) An eligible agricultural borrower shall certify on its loan applica-
16 tion that the reduced rate loan will be used exclusively for the purposes
17 of this act

operating expenses involved in farming

18 (e) The eligible lending institution may approve or reject an agricul-
19 tural production loan deposit loan package based on the lending institu-
20 tion's evaluation of the eligible agricultural borrowers included in the
21 package, the amount of the individual loan in the package and other
22 appropriate considerations.

23 (f) The eligible lending institution shall forward to the state treasurer,
24 an approved agricultural production loan deposit loan package, in the
25 form and manner prescribed and approved by the state treasurer. The
26 package shall include information regarding the amount of the loan re-
27 quested by each eligible agricultural borrower and such other information
28 regarding each eligible agricultural borrower the state treasurer requires,
29 including a certification by the applicant that such applicant is an eligible
30 agricultural borrower.

31 New Sec. 5. (a) The state treasurer may accept or reject an agricul-
32 tural production loan deposit loan package based on the state treasurer's
33 evaluation of whether the loan to the eligible agricultural borrower meets
34 the purposes of this act. If sufficient funds are not available for an agri-
35 cultural production loan deposit, then the applications may be considered
36 in the order received when funds are once again available subject to a
37 review by the lending institution.

38 (b) Upon acceptance, the state treasurer shall certify to the director
39 of investments the amount required for such agricultural production loan
40 deposit loan package and the director of investments shall place an agri-
41 cultural production loan deposit in the amount certified by the state
42 treasurer with the eligible lending institution at an interest rate, which is
43 2% below the market rate provided in K.S.A. 75-4237, and amendments

1 thereto. When necessary, the state treasurer may request the director of
2 investments to place such agricultural production loan deposit prior to
3 acceptance of an agricultural production loan deposit loan package.

4 (c) The eligible lending institution shall enter into an agricultural pro-
5 duction loan deposit agreement with the state treasurer, which shall in-
6 clude requirements necessary to implement the purposes of the Kansas
7 agricultural production loan deposit program. Such requirements shall
8 include an agreement by the eligible lending institution to lend an amount
9 equal to the agricultural production loan deposit to eligible agricultural
10 borrowers at an interest rate which is not more than 2% above the market
11 rate as determined under K.S.A. 75-4237, and amendments thereto. The
12 agreement shall include provisions for the agricultural production loan
13 deposit to be placed for a maturity considered appropriate in coordination
14 with the underlying agricultural production loan. The agreement shall
15 include provisions for the reduction of the agricultural production loan
16 deposit in an amount equal to any payment of loan principal by the eligible
17 agricultural borrower.

18 New Sec. 6. (a) Upon the placement of an agricultural production
19 loan deposit with an eligible lending institution, the institution shall fund
20 the loan to each approved eligible agricultural borrower listed in the ag-
21 ricultural production loan deposit loan package in accordance with the
22 agricultural production loan deposit agreement between the institution
23 and the state treasurer. The loan shall be at a rate as provided in section
24 5 and amendments thereto. A certification of compliance with this section
25 in the form and manner as prescribed by the state treasurer shall be
26 required of the eligible lending institution.

27 (b) The state treasurer shall take any and all steps necessary to im-
28 plement the Kansas agricultural production loan deposit program.

29 New Sec. 7. The state and the state treasurer shall not be liable to
30 any eligible lending institution in any manner for payment of the principal
31 or interest on the loan to an eligible agricultural borrower. Any delay in
32 payments or default on the part of an eligible agricultural borrower does
33 not in any manner affect the agricultural production loan deposit agree-
34 ment between the eligible lending institution and the state treasurer.

35 ~~New Sec. 8. The provisions of this act shall expire on July 1, 2002.~~

36 Sec. 9. K.S.A. 75-4209 is hereby amended to read as follows: 75-
37 4209. (a) The director of investments may invest and reinvest state mon-
38 eys eligible for investment which are not invested in accordance with
39 K.S.A. 75-4237, in the following investments:

40 (1) Direct obligations of, or obligations that are insured as to principal
41 and interest by, the United States of America or any agency thereof and
42 obligations and securities of the United States sponsored enterprises
43 which under federal law may be accepted as security for public funds, on

renumber remaining sections accordingly

1 and after the effective date of this act moneys available for investment
2 under this subsection shall not be invested in mortgage-backed securities
3 of such enterprises and of the government national mortgage association,
4 except that any such mortgage-backed securities held prior to the effec-
5 tive date of this act may be held to maturity;

6 (2) repurchase agreements with a bank or a primary government se-
7 curities dealer which reports to the market reports division of the federal
8 reserve bank of New York for direct obligations of, or obligations that are
9 insured as to principal and interest by, the United States government or
10 any agency thereof and obligations and securities of United States gov-
11 ernment sponsored enterprises which under federal law may be accepted
12 as security for public funds;

13 (3) commercial paper that does not exceed 270 days to maturity and
14 which has received one of the two highest commercial paper credit ratings
15 by a nationally recognized investment rating firm.

16 (b) When moneys are available for deposit or investments, the direc-
17 tor of investments may invest in SKILL act projects and bonds pursuant
18 to K.S.A. 1997 Supp. 74-8920, and amendments thereto, and in state
19 agency bonds and bond projects.

20 (c) When moneys are available for deposits or investments, the di-
21 rector of investments may invest in preferred stock of Kansas venture
22 capital, inc., under terms and conditions prescribed by K.S.A. 74-8203,
23 and amendments thereto, but such investments shall not in the aggregate
24 exceed a total amount of \$10,000,000.

25 (d) When moneys are available for deposits or investments, the di-
26 rector of investments may invest in loans pursuant to legislative mandates,
27 except that not more than the lesser of 10% or \$80,000,000 of the state
28 moneys shall be invested.

29 (e) Interest on investment accounts in banks is to be paid at maturity,
30 but not less than annually.

31 (f) Investments made by the director of investments under the pro-
32 visions of this section shall be made with judgment and care, under cir-
33 cumstances then prevailing, which persons of prudence, discretion and
34 intelligence exercise in the management of their own affairs, not for spec-
35 ulation, but for investment, considering the probable safety of their capital
36 as well as the probable income to be derived.

37 (g) Investments under subsection (a) or (b) of this section or under
38 K.S.A. 75-4237 shall be for a period not to exceed four years, *except that*
39 *agricultural production loan deposits authorized under the provisions of*
40 *sections 1 through 7, shall not exceed a period of eight years.*

41 (h) Investments in securities under paragraph (1) of subsection (a)
42 shall be limited to securities which do not have any more interest rate
43 risk than do direct United States government obligations of similar ma-

1 turities. For purposes of this subsection, "interest rate risk" means market
2 value changes due to changes in current interest rates.

3 (i) The director of investments shall not invest state moneys eligible
4 for investment under subsection (a), in the municipal investment pool
5 fund, created under K.S.A. 1997 Supp. 12-1677a, and amendments
6 thereto.

7 (j) The director of investments shall not invest moneys in the pooled
8 money investment portfolio in derivatives. As used in this subsection,
9 "derivatives" means a financial contract whose value depends on the value
10 of an underlying asset or index of asset values.

11 (k) Moneys and investments in the pooled money investment port-
12 folio shall be invested and reinvested by the director of investments in
13 accordance with investment policies developed, approved, published and
14 updated on an annual basis by the board. Such investment policies shall
15 include at a minimum guidelines which identify credit standards, eligible
16 instruments, allowable maturity ranges, methods for valuing the portfolio,
17 calculating earnings and yields and limits on portfolio concentration for
18 each type of investment. Any changes in such investment policies shall
19 be approved by the pooled money investment board. Such investment
20 policies may specify the contents of reports, methods of crediting funds
21 and accounts and other operating procedures.

22 (l) The board shall adopt rules and regulations to establish an overall
23 percentage limitation on the investment of moneys in investments au-
24 thorized under paragraph (3) of subsection (a), and within such author-
25 ized investment, the board shall establish a percentage limitation on the
26 investment in any single business entity.

27 Sec. 10. K.S.A. 75-4237 is hereby amended to read as follows: 75-
28 4237. (a) The director of investments shall accept requests from banks
29 interested in obtaining investment accounts of state moneys. Such re-
30 quests may be submitted any business day and shall specify the dollar
31 amount, maturity or maturity range and interest rate. *Except as provided*
32 *in subsection (c)*, if the interest rate bid by the bank is at or greater than
33 the market rate determined by the director of investments in accordance
34 with subsection (b), the director of investments is authorized to award
35 the investment account to the bidding bank at the market rate. Awards
36 of investment accounts pursuant to this section shall be subject to in-
37 vestment policies of the pooled money investment board. When multiple
38 bids are received and are in excess of the amount available for investment
39 that day for any maturity, awards shall be made available in ascending
40 order from smallest to largest dollar amount bid, subject to investment
41 policies of the board.

42 (b) The market rate shall be determined each business day by the
43 director of investments, in accordance with any procedures established

1 by the pooled money investment board. Subject to any policies of the
2 board, the market rate shall reflect the highest rate at which state moneys
3 can be invested on the open market in investments authorized by sub-
4 section (a) of K.S.A. 75-4209 and amendments thereto for equivalent
5 maturities.

6 *(c) Notwithstanding the provisions of this section, agricultural pro-*
7 *duction loan deposits made pursuant to the provisions of sections 1*
8 *through 7 and amendments thereto, shall be at 2% less than the market*
9 *rate provided by this section.*

10 Sec. 11. K.S.A. 75-4209 and 75-4237 are hereby repealed.

11 Sec. 12. This act shall take effect and be in force from and after its
12 publication in the Kansas register.