

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE.

The meeting was called to order by Chairman Dan Johnson at 3:30 p.m. on February 5, 2001, in Room 423-S of the Capitol.

All members were present.

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

Conferees appearing before the committee:

Dr. Dan Bernardo, Professor and Head, Department of Agricultural Economics, Kansas State University  
Derl Treff, Director of Investments, Pooled Money Investment Board  
Tim Shallenburger, Treasurer, State of Kansas  
Representative Sharon Schwartz  
Bruce Thornton, Vice President-Lending, Frontier Farm Credit, Parsons  
Roger Vanlandingham, Loan Officer, High Plains Farm Credit, Larned  
Bill Fuller, Associate Director, Public Policy Division, Kansas Farm Bureau  
Greg Krissek, Director of Operations, Kansas Corn Growers Association  
Chuck Stones, Senior Vice President, Kansas Bankers Association

Others attending:      See attached list

Dr. Dan Bernardo, Professor and Head, Department of Agricultural Economics, Kansas State University, provided an overview of the agriculture economic situation and outlook in Kansas. (Attachment 1)

Derl Treff, Director of Investments, Pooled Money Investment Board, expressed concern about the state's cash reserves. He explained that as Agricultural Production Loan Deposit Program loans must be offered at 2 percent below the rate that PMIB could earn if the money were invested, the total impact of the program as expanded by **HB 2103** would equate to lost interest income to the state of \$2 million per year. (Attachment2)

Tim Shallenburger, Treasurer, State of Kansas, reported on the success of the Agricultural Production Loan Deposit Program passed by the 2000 Legislature. He reported that the new law took effect on July 1, 2000, and by mid-morning July 5, all of the \$50 million in the program was exhausted. He explained that as the lending institutions forward repaid principal back to the state, these funds are made available for additional loans. The Treasurer is asking for \$55,000 in General Fund money for FY 2002 for 1.0 FTE accountant position and \$10,000 for other operating expenditures to administer this program. (Attachment 3)

**Hearing on HB 2103 - Increasing total aggregate loans under agricultural production loan deposit program.**

Chairman Johnson opened the hearing on **HB 2103**. Raney Gilliland, Legislative Research Department, explained that this bill would increase the amount of money available for loans under the Agricultural Production Loan Deposit Program passed by the 2000 Legislature from \$50 million to \$100 million. The bill would also increase the amount the Pooled Money Investment Board can invest in legislatively mandated loans to 13 percent of state moneys or \$120 million, whichever is less. Currently, the loans are limited to the lesser of 10 percent of state moneys or \$80 million.

Mr. Gilliland reviewed the procedures and qualifying criteria for the Agricultural Production Loan Deposit Program administered by the State Treasurer using Pooled Money Investment Board funds. He explained that state loan deposits are made to eligible lending institutions at 2 percent below the market rate; in turn, eligible

CONTINUATION SHEET

lending institutions charge no more than 2 percent above the market rate. He explained that no one loan can exceed \$250,000; that an eligible agricultural borrower must have a debt-to-asset ratio of 40 percent or greater; that only one loan can be made and be outstanding at any one time to any one borrower; that the loan must be used for agricultural production purposes, no capital investments; and that no loan can be amortized for a period of more than 8 years. He noted that the state is not liable for any of these loans.

Representative Sharon Schwartz offered testimony in support of **HB 2103** to expand the funds available for the Agricultural Production Loan Deposit Program which she had introduced. She reported that as farmers have experienced a combination of low commodity prices, drought, and increased debt load this past year, it is imperative that the amount of funds available to address these needs be expanded. (Attachment 4)

Bruce Thornton, Vice President-Lending, Frontier Farm Credit, Parsons, appeared in support of **HB 2103**. He reported that Farm Credit Associations used approximately 28 percent of the total \$50 million of funds available last year, totaling \$14 million to 92 farmers and ranchers across Kansas. He noted that this program not only assists farm families, but stimulates growth and economic prosperity in rural Kansas communities. (Attachment 5)

Roger Vanlandingham, Loan Officer, High Plains Farm Credit, Larned, testified in support of **HB 2103**. He believes the financial eligibility requirements for the program are appropriate, but urged consideration of a shorter repricing period than annually for the program's funds. Farm Credit would support removing the current annual repricing requirement and giving the State Treasurer's office the flexibility of determining repricing frequency. The State Treasurer would support this change. (Attachment 6)

Bill Fuller, Associate Director, Public Policy Division, Kansas Farm Bureau, expressed support for **HB 2103** and discussed Kansas Farm Bureau policy adopted at their 82<sup>nd</sup> annual meeting supporting the low-interest agriculture production loan program and requesting adequate allocations to assist financially stressed agricultural producers during times of low commodity prices, weather related losses, and sanctions on export markets. Mr. Fuller included a copy of a memorandum from Don Garlow, Vice President, Peoples Exchange Bank, praising the simplicity of the program. (Attachment 7)

Greg Krissek, Director of Operations, Kansas Corn Growers Association, and also representing the Kansas Grain Sorghum Producers Association, testified in support of **HB 2103** and the need for an expanded loan program. He noted that lower operating loan costs is one way that farmers can offset fuel, fertilizer, irrigation, and other increased costs of operations. (Attachment 8)

Chuck Stones, Senior Vice President, Kansas Bankers Association, appeared in support of **HB 2103**. He reported that this program has assisted about 450 Kansas farmers with an average loan size of about \$115,747. He discussed changes some banks have suggested, including lines of credit, repricing frequency, and timing of principal repayments to the state. He noted that some of these concerns could be addressed through Rules and Regs, however, others would require statutory change. (Attachment 9)

There being no other conferees, the Chairman closed the hearing on **HB 2103**.

Minutes of the January 20 and 31 meetings were distributed. Chairman Johnson asked members to notify the committee secretary of any corrections or additions prior to February 12, or they will be considered approved as presented.

Chairman Johnson reported that the Kansas Agricultural Remediation Board Annual Report submitted to the Governor and the Senate Natural Resources and House Environment Committees is available if anyone would like a copy.

The meeting adjourned at 4:57 p.m. The next meeting is scheduled for February 7, 2001.

# HOUSE AGRICULTURE COMMITTEE GUEST LIST

DATE: FEBRUARY 5, 2001

NAME	REPRESENTING
Chuck Stones	KBA
<del>Roger VanLandingham</del>	Farm Credit
Bruce Thornton	Farm Credit
<del>Mark Ford</del>	PMIB
<del>Bill Hoff</del>	PmIB
Greg Krissch	KCGA
Bill Miller	Kansas Farm Bureau
Paul Johnson	PACK
Justin Holstin	Ks Coop Council
Rebecca Reed	KDA
Kerri Ebert	Kansas Dairy Association
Dag Wareham	Ks Grain & Feed Assn / Ks. Fert & Chem Assn
Dixie Russell	KDOC #11 - Ag
Kathy Olsen	Ks Bankers Assn
<del>Tom Bruno</del>	Farm Credit System
Tom Bruno	Farm Credit System
David Miller	DOB
Tim Challenberg	Ks State Treasurer

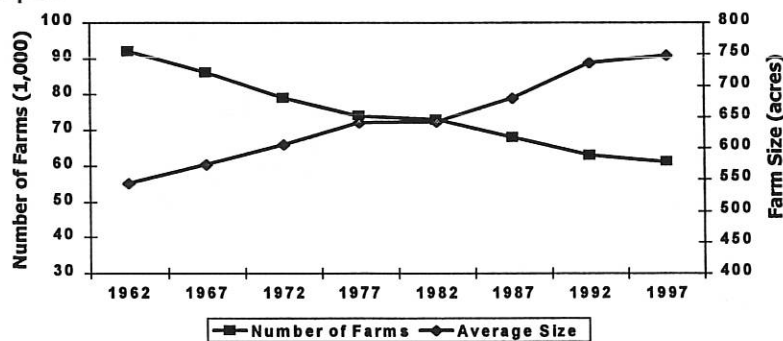
# Kansas Agriculture: Economic Situation and Outlook

Presented to:  
House Agriculture Committee  
February 5, 2001



Dan Bernardo, Professor and Head  
Department of Agricultural Economics  
Kansas State University

## Number of Farms and Average Farm Size in Kansas (1962 – 1997)



The number of farms in Kansas has decreased continuously since 1935; the rate of decline has decreased over this period.

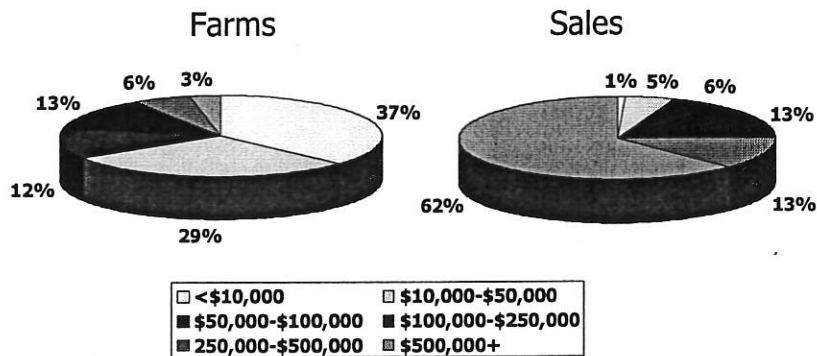


Source: U.S. Census of Agriculture, 1997.

House Agriculture Committee  
February 5, 2001  
Attachment 1



## Kansas Farms and Value of Sales, By Gross Income Category (1997)

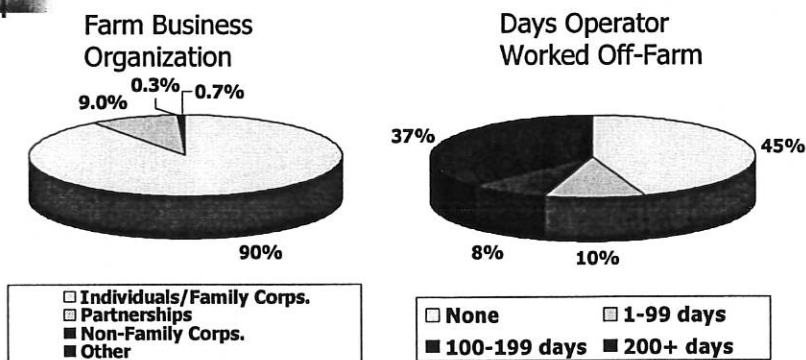


9% of farms contribute 75 percent of sales



Source: U.S. Census of Agriculture, 1997.

## Kansas Farms, By Type of Organization and Days Operator Worked Off-Farm (1997)

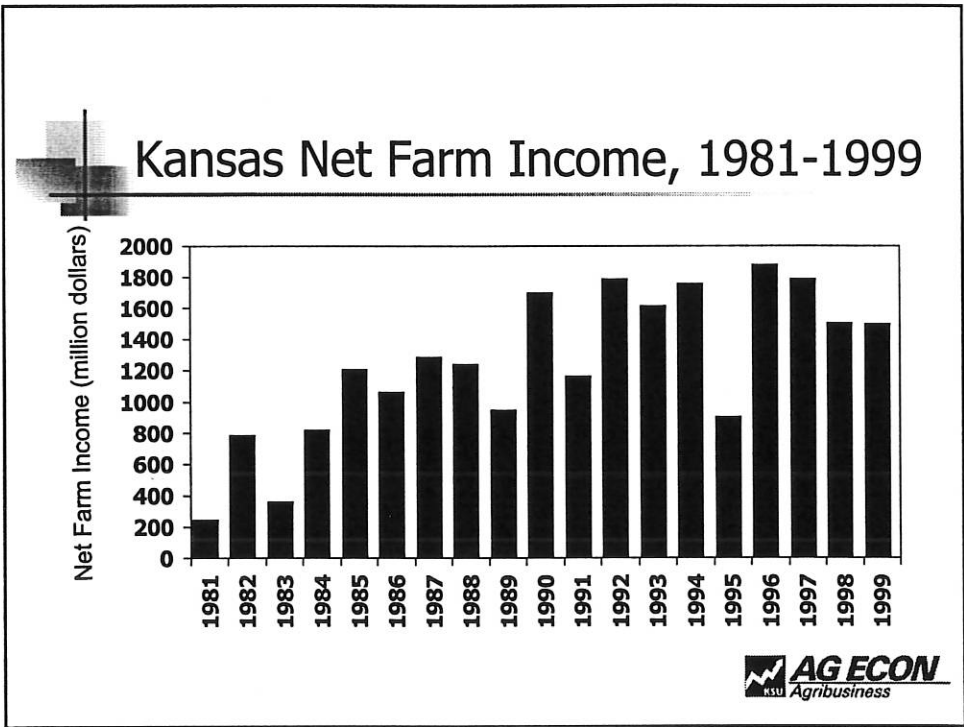


90% of farms are individuals or family corporations;  
45 percent of farm operators work more than 100 days off-farm

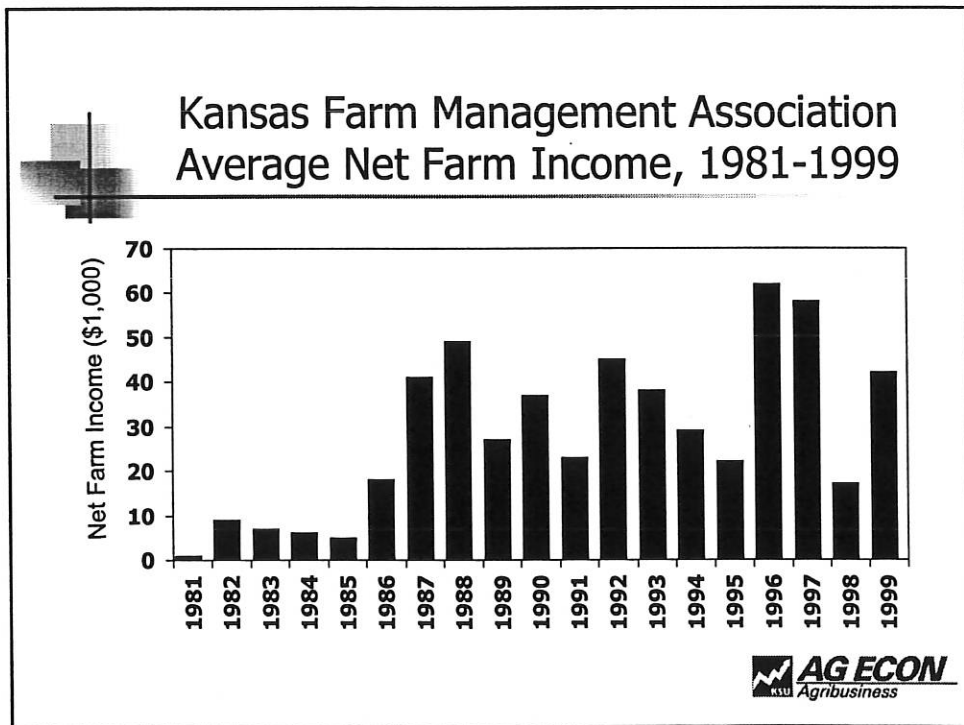


Source: U.S. Census of Agriculture, 1997.

1.2

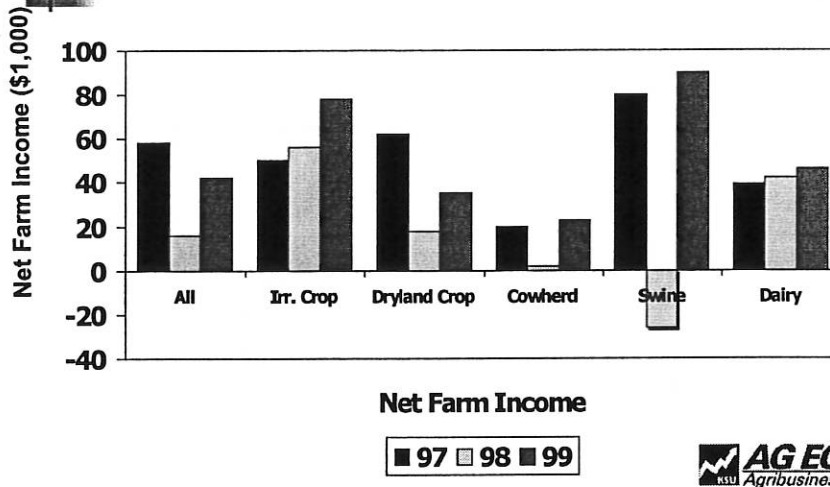


Source: USDA, National Agr. Stat. Service, 1981-1999.



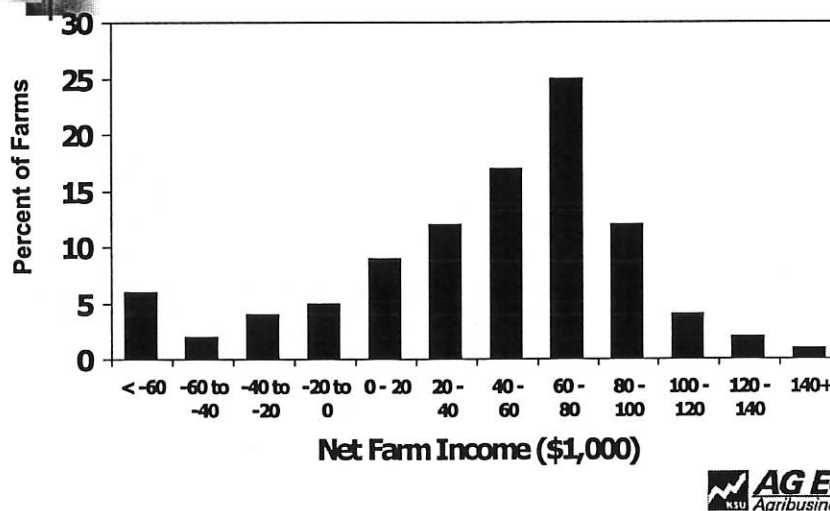
Source: Kansas Farm Management Association Annual ProfitLink Summary, 1981-1999.

## Net Farm Income by Farm Type, KFMA Farms, 1997-1999



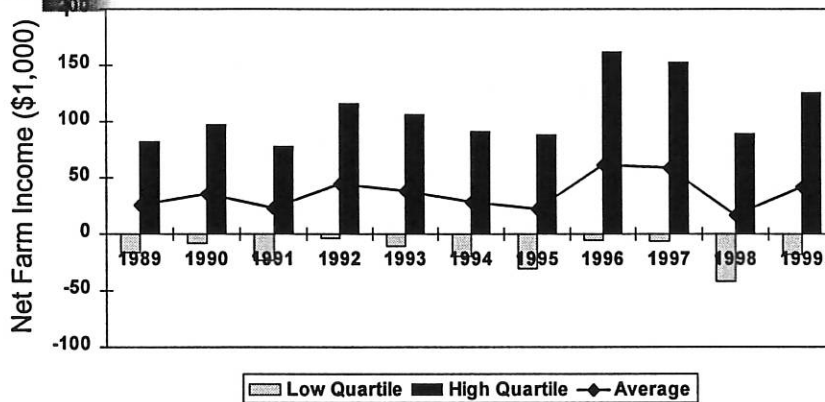
Source: Kansas Farm Management Association Annual ProfitLink Summary, 1997-1999.

## Distribution of Net Farm Income Across KFMA Farms, 1999



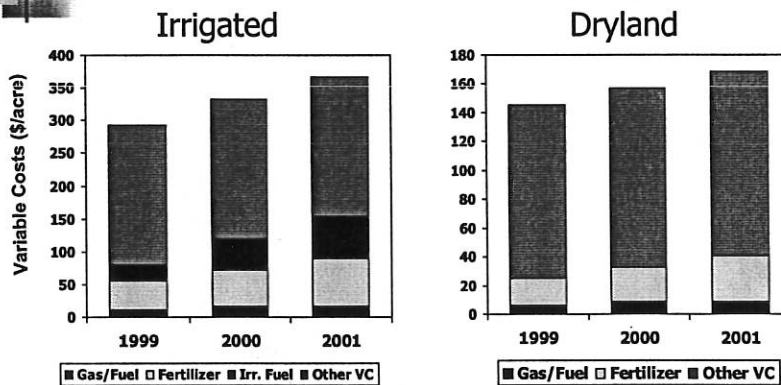
Source: Kansas Farm Management Association Annual ProfitLink Summary, 1981-1999.

## Net Farm Income, Average and Low/High Quartiles, KFMA Farms (1989-1999)



Source: Kansas Farm Management Association Annual ProfitLink Summary, 1989-1999.

## Projected Impact of Increased Fuel Costs on Variable Costs, KFMA



Estimated 91% increase (irrigated) and 61% increase (dryland) in fuel, fertilizer and irrigation pumping costs.



Adapted from: Dhuyvetter, K.C., "Impact of Rising Energy Prices on Crop Inputs," K-State Research and Extension, 2001.



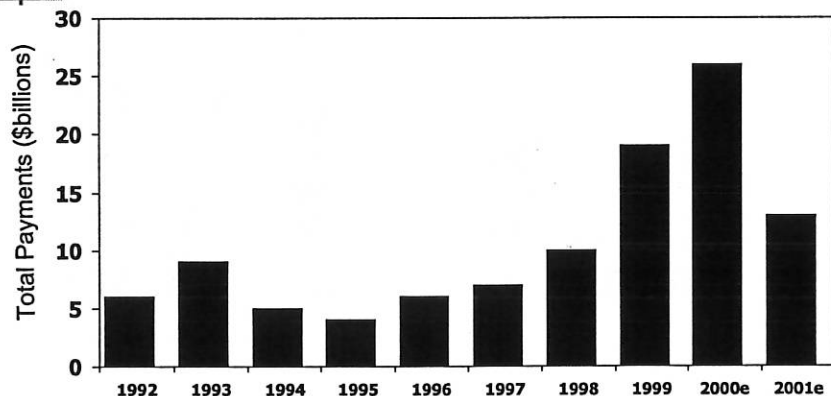
### Average Gross Income, Net Income and Government Program Payments, KFMA Farms (1997-99)

(\$1,000)	Northwest	North-Central	Northeast	All
Gross Income	249.7	195.3	199.6	211.0
Govt. Pymts.	45.6	27.1	19.0	29.7
Net Income	49.3	36.6	29.6	39.3
Govt. Pmts:				
% of Gross	18%	14%	10%	14%
% of Net	93%	74%	64%	75%



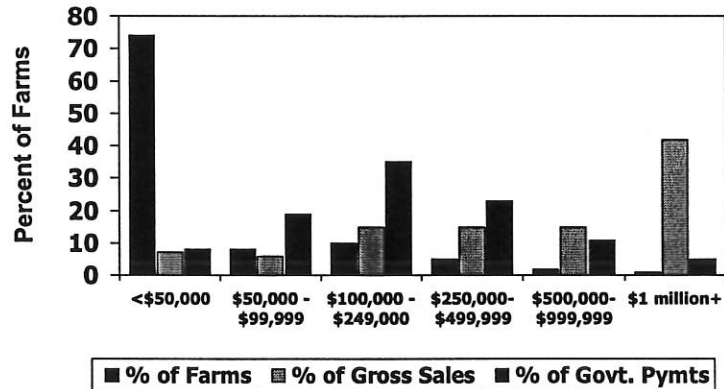
Source: Kansas Farm Management Association Annual ProfitLink Summary, 1997-1999.

### USDA Commodity Program Outlays, Fiscal Years 1992-2001



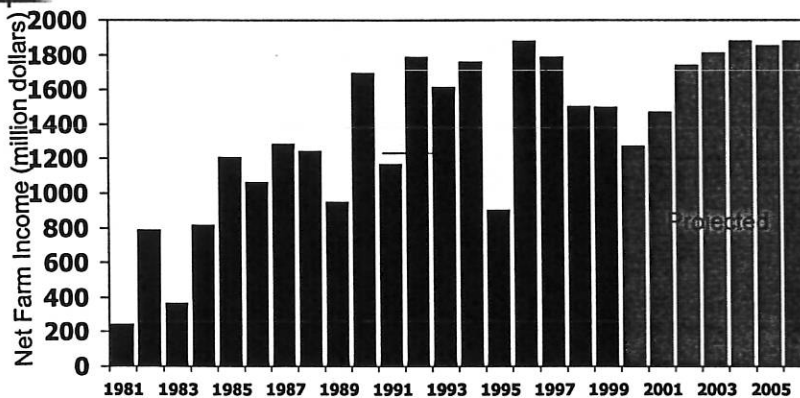
Source: "Agricultural Outlook," ERS/USDA, January 2000.

### Distribution of Gross Sales and Government Program Payments by Size Class, U.S. (1997)



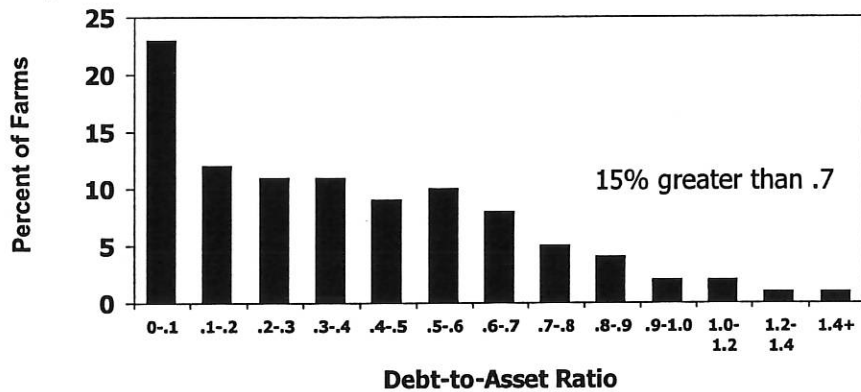
Source: 1997 ARMS Data, ERS/USDA

### Kansas Net Farm Income, 1985-2006 (2000-2006 Projected)



Adapted from: "A Real-Time Risk Assessing Approach to Projecting Kansas Net Farm Income," J. Wilson and T. Kastens, KSU Dept. of Agr.Econ., 2000

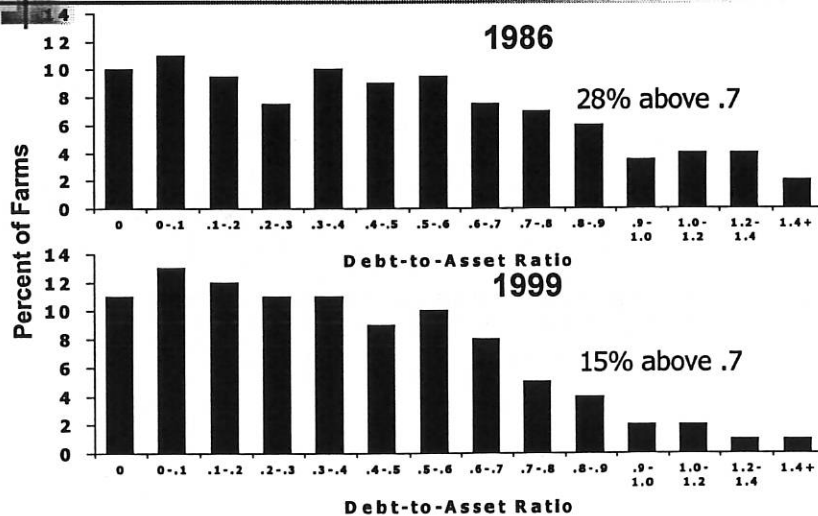
## Distribution of Debt-to-Asset Ratios Across KFMA Farms, 1999



**AG ECON**  
Agribusiness

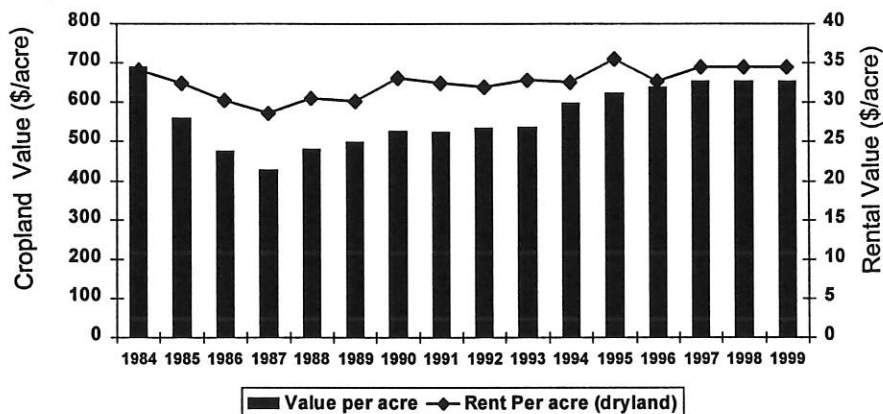
Source: Kansas Farm Management Association Annual ProfitLink Summary, 1999.

## Distribution of Debt-to-Asset Ratios Across KFMA Farms, 1986 & 1999



Source: Kansas Farm Management Association Annual ProfitLink Summary, 1986-1999.

## Kansas Cropland Value and Rental Rates, 1984-1999



**AG ECON**  
KSU Agribusiness

## The 2002 Farm Bill

- Government has not removed itself from agriculture, and probably won't in the foreseeable future.
- Is the \$26 billion price tag too steep?
- Farm policy vs. rural policy.
- Recommendations of 21<sup>st</sup> Century Commission:
  - Maintenance of cropping flexibility.
  - Farm savings accounts.
  - Continuation of AMTA payments at current levels.
  - Counter-cyclical income payments.
  - Expanded crop and revenue insurance.

**AG ECON**  
KSU Agribusiness



**KSU Department of Agricultural Economics**  
**Research and Extension Programs Oriented Toward Agricultural Producers**

1. **Kansas Farm Management Association Program**
  - Largest publicly funded farm management association program in the U.S.
  - 24 Association Economists work cooperatively with farm families in providing production and financial information for use in decision making.
  - Membership includes over 2,700 farm units and 3,400 families.
  
2. **KSU Farm Analyst Program**
  - One-on-one farm financial consultation and analysis to assist producers evaluate their efficiency, profitability, and competitiveness. Primarily oriented toward farms in financial distress.
  - Conducted by five trained paraprofessionals who have extensive farming experience.
  - KSU Farm Analysts provided comprehensive analysis to over 150 farm families last year and have assisted over 1,000 Kansas farm families over the past decade.
  
3. **Ag Update Newsletter**
  - Monthly newsletter (40-50 pages) that provides producers comprehensive crop and livestock price outlook and enterprise profitability information.
  - Distributed via mail and the Internet.
  
4. **Risk Management Clubs**
  - Organized groups of agricultural producers within a county or multi-county area that meet regularly to participate in risk management educational programs.
  - Currently, the department sponsors 28 clubs across the state, with memberships ranging between 20 and 50 individuals.
  
5. **Risk and Profit Conference**
  - Annual conference held each year oriented toward upper-level farm managers who desire more sophisticated tools and information to assist them in farm management decision making.
  - Attendance typically ranges between 250 and 300 producers and educators.
  
6. **Coordinated Risk Management Workshops**
  - Experiential half-day to one-day workshops developed to provide farm managers real-world experience in making risk management decisions.
  - Typically, 40-50 workshops/seminars conducted in Kansas each year.
  
7. **Livestock Marketing Workshops**
  - Half-day workshops developed to assist producers improve livestock marketing skills and decision making. Topics include market outlook, market fundamentals, forward contracting, and futures and options.
  - Typically, 40-50 workshops/seminars conducted in Kansas each year.
  -
  
8. **Agricultural Law and Income Tax Seminars**
  - Two-hour to one-day seminars developed to provide farm managers information on current legal and tax management issues.
  - Typically, 30-40 workshops/seminars conducted in Kansas each year.
  
9. **Risk Management and Livestock Marketing Web Pages**
  - Comprehensive web pages designed to provide producers up to date information on crop and livestock price outlook, risk management tools, etc.

10. Crop Marketing Workshops
  - Half-day workshops developed to assist producers improve crop marketing skills and decision making. Topics include market outlook, market fundamentals, forward contracting, and futures and options.
  - Typically, 60-70 workshops/seminars conducted in Kansas each year.
11. Livestock Management Workshops
  - Half-day workshops developed to assist producers improve the efficiency and profitability of their livestock operations. Topics include enterprise analysis, grazing systems, Integrated Resource Management, and water quality management and are often addressed in an interdisciplinary setting.
  - Typically, 60-70 workshops/seminars conducted in Kansas each year.
12. Crop Management Workshops
  - Half-day workshops developed to assist producers improve the efficiency and profitability of their crop enterprises. Topics include enterprise analysis, machinery economics, precision agriculture, and cropping practices.
  - Typically, 80-90 workshops/seminars conducted in Kansas each year.
13. Value-Added Workshops and Technical Assistance
  - Half-day workshops directed toward producer groups considering value-added ventures that address topics such as alternative business organizations, feasibility analysis, and business plans.
  - One-on-one consulting with producer groups to develop business plans for evaluating value-added ventures.
14. Agricultural Labor/Personnel Workshops
  - Half-day to two-day workshops to assist producers on labor issues such as recruitment, salary and benefits, etc.
  - Typically, 10-15 workshops/seminars conducted in Kansas each year.
15. Crop/Livestock Leasing Workshops
  - Half-day workshops developed to assist producers evaluate leasing opportunities.
  - Typically, 30-40 workshops conducted in Kansas each year.
16. Extension Publications:
  - Farm Management Guides - collection of over 200 farm management fact sheets updated annually. Includes over 100 crop and livestock enterprise budgets.
  - Risk Management Guides - comprehensive handbook of over 90 fact sheets on various risk management topics.
  - KFMA County ProfitLink Analyses - annual summary of KFMA whole farm analyses, by county.
  - KFMA Enterprise ProfitLink Summary - annual summary of KFMA enterprise analyses.
  - KFMA Whole-Farm Analysis ProfitLink Summary - annual summary of KFMA whole farm analyses.
17. One-on-One Technical Assistance
  - Individual consultation and analysis conducted by Area and State Specialists addressing issues such as leasing, machinery or land purchase, enterprise selection, whole-farm analysis, and financial management.



**POOLED MONEY INVESTMENT BOARD**

Landon State Office Building  
900 S. W. Jackson Street  
Suite 209  
Topeka, KS 66612-1220

DIRECTOR OF INVESTMENTS  
Derl S. Treff

Ph.(785)296-3372  
Fax (785) 296-1085  
<http://www.ink.org/public/pmib/>

**TESTIMONY ON HB 2103**

by  
Derl S. Treff  
Director of Investments  
Pooled Money Investment Board  
February 5, 2001

The Honorable Dan Johnson, Chairman  
House Committee on Agriculture  
Statehouse, Room 426-S  
Topeka, Kansas 66612

Representative Johnson and Members of the Committee:

HB 2103 as proposed doubles the amount of loans available through the agricultural production loan deposit program from \$50 million to \$100 million. It also increases the loan limit on state moneys for legislative mandates from the lesser of 10% up to 13% or \$80 million up to \$120 million.

As these loans must be offered at 200 basis points (2%) below the rate that the Pooled Money Investment Board could earn if they invested them, the immediate impact is a \$1 million/year reduction in state investment income. The total impact of the agricultural production loan deposit program would then equate to lost interest income of \$2 million/year. These loans can be made for up to 8 years and currently there is no sunset provision.

Adoption of this bill would not require any additional personnel nor would it increase our operating expenses.

House Agriculture Committee  
February 5, 2001  
Attachment 2



STATE OF KANSAS

**Tim Shallenburger**  
TREASURER

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

TELEPHONE  
(785) 296-3171

February 5, 2001

To: House Agriculture Committee

From: Tim Shallenburger, State Treasurer

Re: HB 2103 Agricultural Production Loan Deposit Program

Chairman Johnson and members of the committee:

I would like to thank you for the opportunity to submit written testimony for the Agricultural Production Loan Deposit Program.

The program was created by the 2000 Legislature to make production loans available to Kansas individuals, families and farming corporations whose current debt might otherwise make it difficult to find financing. The State Treasurer was given responsibility under the statute for administering this new program.

These are neither state loans, nor loans guaranteed by the state. Rather, the state has offered \$50 million in deposit loans to eligible lending institutions at two percentage points below the market rate. The institution, in turn, may lend the money out for agricultural production loans at no more than two percentage points above the market rate, providing the lender with up to a four-point margin. The law provides for the resetting of the interest rate annually on the first business day of the year.

The program requires that the lending institution apply all usual lending standards to determine the credit worthiness of borrowers. Under the provisions of the statute, no single agricultural production loan to any one borrower may exceed \$250,000. Loans are made only to eligible agricultural borrowers who have debt-to-asset ratios of 40 percent or greater, and cannot be amortized for a period of more than eight years. The borrower is required to certify that the reduced rate loan will be used exclusively for operating expenses involved in farming.

The new law took effect on July 1 and \$50 million in state funds became available the following Monday, July 3. By the end of that day, more than \$40 million had been claimed by banks and other lending institutions for loans they had arranged. By mid-morning on Wednesday, July 5, all funds in the program were exhausted. Some of these loans were short-term and have already

House Agriculture Committee  
February 5, 2001  
Attachment 3



been repaid. As the lending institutions forward repaid principal back to the state, these funds are made available for additional loans.

Again, thank you for your time.

Tim Shallenburger  
State Treasurer

Agricultural Production Loans  
 Number and Amounts, by financial institution

page

<u>Financial Institution</u>	<u>Number</u>	<u>Total Amount</u>
Baileyville State Bank, Seneca	1	\$160,000
Bank of Holyrood, Holyrood	11	\$463,000
Bank of Tescott, Salina	3	\$400,000
Bankwest, Goodland	3	\$450,000
Bankwest of Kansas, Goodland	1	\$100,000
Bennington State Bank, Bennington	21	\$1,483,000
Centera Bank, Greensburg	1	\$125,000
Centera Bank, Satanta	1	\$150,000
Central National Bank, Junction City	40	\$3,447,000
Citizens Bank of Kansas, Kingman	58	\$6,040,000
Citizens State Bank, Miltonvale	5	\$601,000
Community National Bank, Seneca	6	\$738,000
Exchange National Bank, Cottonwood Falls	15	\$1,752,000
Farm Credit of Garden City, Scott City	6	\$1,340,000
Farm Credit of Western Kansas, Colby	21	\$2,225,000
Farm Credit Services of Northeast Kansas, PCA, Manhattan	3	\$430,000
Farm Credit Services of Southeast Kansas, PCA, Emporia	4	\$365,000
Farm State Bank, Macksville	6	\$735,000
FCS of Central Kansas, PCA, Wichita	21	\$3,887,000
FCS of Central Kansas, Wichita	1	\$230,000
First Bank Kansas, Ellsworth	11	\$1,034,000

Annual Production Plans  
 Number and Amounts, by financial institution

page

<u>Financial Institution</u>	<u>Number</u>	<u>Total Amount</u>
First Community Bank, Emporia	5	\$650,000
First National Bank, Goodland	10	\$1,027,000
First National Bank, Howard	3	\$99,000
First National Bank of Clifton, Clifton	1	\$50,000
First National Bank of Conway Springs, Conway Springs	3	\$208,000
First National Bank of Hope, Hope	12	\$1,590,000
First National Bank, Syracuse	2	\$311,000
First National Bank & Trust, St. John	14	\$1,086,000
First State Bank, Edna	19	\$2,653,000
Gold Bank, Leawood	7	\$985,000
Guaranty State Bank & Trust Co., Beloit	3	\$700,000
Hanston State Bank, Hanson	1	\$65,000
Hanston State Bank, Hanston	15	\$1,287,000
Home National Bank, Arkansas City	17	\$3,172,000
Lyndon State Bank, Lyndon	3	\$502,000
Olpe State Bank, Olpe	3	\$406,000
PCA of South Central Kansas, Larned	33	\$6,056,000
PCA of South Central Kansas, Pratt	1	\$51,000
People's Exchange Bank, Clyde	9	\$364,000
People's State Bank, Cherryvale	1	\$179,000
Security State Bank, Scott City	1	\$240,000

Agricultural Production Loans  
Number and Amounts, by financial institution

<u>Financial Institution</u>	<u>Number</u>	<u>Total Amount</u>
Security State Bank, Wellington	6	\$582,000
St. Marys State Bank, St. Marys	1	\$250,000
State Exchange Bank, Mankato	1	\$133,800
Stockgrowers State Bank, Ashland	12	\$1,311,000
The Bank of Tescott, Lincoln	1	\$220,000
The Halstead Bank, Halstead	2	\$323,000
The People's Bank, Pratt	25	\$3,215,000
The Peoples Bank, Pratt	1	\$27,000
Western State Bank, Garden City	22	\$1,010,000



Ag Cultural Production Plans  
Number and Amounts, by county

<u>County</u>	<u>Number</u>	<u>Total Amount</u>
Barber	11	\$1,050,000
Barton	9	\$863,000
Brown	1	\$200,000
Butler	2	\$288,000
Chase	12	\$1,482,000
Cherokee	1	\$75,000
Cheyenne	2	\$300,000
Clark	4	\$590,000
Clay	3	\$385,000
Cloud	8	\$560,000
Coffey	1	\$150,000
Cowley	2	\$77,000
Decatur	2	\$340,000
Dickinson	22	\$2,392,000
Douglas	1	\$130,000
Edwards	12	\$2,155,000
Elk	3	\$99,000
Ellsworth	8	\$439,000
Finney	7	\$935,000
Ford	3	\$479,000
Geary	5	\$645,000

Agricultural Production Plans  
Number and Amounts, by county

<u>County</u>	<u>Number</u>	<u>Total Amount</u>
Gove	1	\$250,000
Gray	7	\$1,233,000
Greeley	1	\$30,000
Greenwood	3	\$450,000
Harper	8	\$1,260,000
Harvey	10	\$1,532,000
Haskell	1	\$100,000
Hodgeman	12	\$1,691,000
Jefferson	2	\$300,000
Jewell	4	\$458,800
Kearny	3	\$350,000
Kingman	30	\$3,650,000
Kiowa	1	\$160,000
Labette	8	\$1,190,000
Lane	1	\$50,000
Lincoln	4	\$380,000
Logan	2	\$300,000
Lyon	6	\$691,000
Marion	15	\$1,467,000
McPherson	5	\$398,000
Meade	12	\$1,578,000

Agricultural Production Plans  
Number and Amounts, by county

<u>County</u>	<u>Number</u>	<u>Total Amount</u>
Mitchell	12	\$1,565,000
Montgomery	8	\$1,127,000
Morris	2	\$157,000
Nemaha	11	\$1,373,000
Neosho	4	\$155,000
Ness	4	\$418,000
Osage	2	\$308,000
Osborne	1	\$140,000
Ottawa	9	\$554,000
Pawnee	5	\$633,000
Pratt	17	\$2,635,000
Reno	27	\$2,477,000
Republic	2	\$115,000
Rice	4	\$379,000
Rush	2	\$190,000
Russell	1	\$17,000
Saline	7	\$771,000
Scott	4	\$590,000
Sedgwick	6	\$695,000
Shawnee	2	\$364,000
Sherman	18	\$1,827,000

Agricultural Production Plans  
Number and Amounts, by county

<u>County</u>	<u>Number</u>	<u>Total Amount</u>
Stafford	23	\$2,529,000
Stanton	1	\$61,000
Stevens	1	\$150,000
Sumner	11	\$1,145,000
Thomas	16	\$1,255,000
Wabaunsee	2	\$350,000
Wallace	2	\$275,000
Washington	3	\$125,000
Wichita	10	\$1,125,000
Wilson	1	\$250,000

SHARON SCHWARTZ  
REPRESENTATIVE, 106TH DISTRICT  
GEARY, MARSHALL, REPUBLIC,  
RILEY, AND WASHINGTON COUNTIES  
2051 20TH ROAD  
WASHINGTON, KANSAS 66968  
(785) 325-2568

STATE OF KANSAS



TOPEKA

HOUSE OF  
REPRESENTATIVES

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

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

TESTIMONY – HB 2103  
HOUSE AGRICULTURE COMMITTEE

February 5, 2001

I am offering this testimony in support of HB-2103 that as drafted will expand the funds available for the Agricultural Production Loan Program.

During the 2000 Legislature session, I introduced and supported the enacting legislation that has made this program available to farmers today. As enacted, this legislation made \$50 million in state funds available for agriculture operating loans at a reduced interest rate. The demand for these funds was documented in the fact that the initial \$50 million was exhausted immediately. State Treasurer Tim Shallenburger has indicated that even by doubling that amount to \$100 million, the demand may still exceed the available funds.

Kansas farmers have experienced the combination of low commodity prices, drought, and increasing debt load this past year. They continue to find it difficult to obtain the financing they need because of existing debt and in many instances are paying interest rates that reflect their relatively high debt to asset ratio. The ripple effect of the stress in the agricultural community is also being reflected by reduced business in the rural areas. Eventually the state will experience reduced receipts.

The Agricultural Production Loan Program that provides funds at a reduced cost to producer, is an excellent opportunity for the State of Kansas to show their support for the number one industry, Agriculture. It is imperative that we expand the amount of funds available to address these needs today.

Thank you for the opportunity to appear before you in support of HB-2103.

Representative Sharon Schwartz

House Agriculture Committee  
February 5, 2001  
Attachment 4



STATE OF KANSAS

**Tim Shallenburger**  
TREASURER

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

TELEPHONE  
(785) 296-3171

July 3, 2000

The Honorable Sharon Schwartz  
2051 20th Road  
Washington KS 66968

Dear Sharon:

This letter is to inform you of the overwhelming response concerning the Kansas Agricultural Production Loan Deposit Program. Without question, this program has warmly been received by many interested Kansans.

The Treasurer's office began accepting applications at 7AM on Monday, July 3. Approximately, eighty percent of the funds for the program had been allocated by 12PM. It is safe to assume, that the remaining funds will be accounted for shortly.

Unfortunately, because of the high demand, many applications will be turned away. The \$50,000,000 that was set aside for the program will not be enough to satisfy all of the applicants. Any additional funding would require new legislation during the 2001 legislative session.

If you should have any further questions, please feel free to contact the State Treasurer's office at 785/296-3171.

Sincerely,

A handwritten signature in black ink, appearing to be "Tim Shallenburger".

Tim Shallenburger  
State Treasurer



# Midwest News

Web posted Thursday, May 18, 2000

## Interest Rate Hike To Burden Farmers Already In A Pinch

LINCOLN, Neb. (AP) -- Increasing interest rates by one-half a percentage point will burden farmers and ranchers who have borrowed money to buy machinery, land, feeder cattle and other items.

"You add in the drought factor and the lower yields and higher interest rates, it really creates some problems for us," said Wilber banker Harley Burgmeyer.

Spread over a year, the Federal Reserve's action Tuesday will burden the state's agricultural borrowers with an estimated \$44.5 million in higher costs. That's half a percent of \$8.9 billion in total farm debt.

"You look at the economy of the nation and it just goes blazing ahead," said Ron Vavrina, seller of tractors and combines 80 miles north of Lincoln at Clarkson. "And it's just unfortunate that agriculture is in the doldrums that it's in."

Federal Reserve Chairman Alan Greenspan is trying to restrain a racing economy and credit-card spending and other consumer behaviors that threaten to push inflation out of control. Lisco banker Tom Olson, president of the Nebraska Bankers Association, understands that objection.

Tuesday's hike, one of six in the last 11 months, makes no distinctions between strong and weak aspects of the economy.

That means a farmer who is paying a 9 percent variable rate on operating money probably will be paying 9.5 percent by the end of the week, Olson said.

Vavrina said the market for farm machinery is already off 40 percent and the latest interest rate increase holds no redeeming value for state farmers.

"Absolutely not, not as far as our customers are concerned, because agricultural customers look at low prices and high expenses," Vavrina said. "As interest rates go up, it curtails any purchases they're going to

ma..."

Alan Makovicka, a farm implement dealer at Wahoo, said higher interest rates add up in a hurry on \$100,000 tractors and \$125,000 combines.

"You take \$100,000 and add a half point to that on interest rates," Makovicka said, "and that's a lot of dollars."

Roy Frederick, an agricultural economist at the University of Nebraska-Lincoln, sees more strains on agriculture and the industries that serve it.

"Not every producer, of course, has got a lot of money borrowed," Frederick said. "But, in general, farmers tend to have more money borrowed than they've got invested in CDs. And just that recognition alone suggests that this will pinch, rather than help."

He said pained producers should consider that agriculture production accounts for 1 percent to 2 percent of personal income generated in the United States, which is why government policy makers don't consider it when making adjustments to control the economy.

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**Testimony  
of**

**Bruce Thornton  
Vice President-Lending**

**Frontier Farm Credit, ACA  
Parsons Lending Office  
Parsons, Kansas**

**Before the Kansas Legislature  
House Agriculture Committee  
At the State Capitol in Topeka, Kansas**

**February 5, 2001**

Mr. Chairman and members of the Committee, my name is Bruce Thornton. I serve as a vice-president for the Frontier Farm Credit, ACA, which is located in Manhattan, Kansas. Our Farm Credit Association serves forty-one counties in the eastern part of the state.

I am here today speaking on behalf of all of the Farm Credit System Associations in Kansas and the more than 14,000 farmers and ranchers who borrow over \$1.5 Billion in funds from Farm Credit Associations all across the state.

Last year, the Kansas Legislature approved the Kansas Agricultural Production Loan Deposit Program, which utilized an investment of State monies to provide production loan funds to deserving farmers and ranchers. These agricultural producers are people who have viable agricultural farming businesses. Even so, they are experiencing the pressures

House Agriculture Committee  
February 5, 2001  
Attachment 5

of low prices, high production costs, and in many cases, drought or other production problems. The legislature recognized that agriculture was the foundation of the state's economy and the need to help these contributing agricultural businesses continue creating a livelihood for themselves and an economic opportunity for all Kansans. As a result, you provided this valuable program to leverage state monies in a positive way. I applaud your foresight, vision and courage in developing and approving such a program.

The Farm Credit System Associations in Kansas immediately saw the benefit this program could provide to eligible producers and submitted numerous loan requests to the State Treasurer's office to participate. I should add that the State Treasurer's office, in my view, has done an excellent job of implementing and carrying out this important program. The people who administer this program have provided sound guidance and procedures to both lenders and agricultural producers. They have also been helpful in answering questions and are flexible, knowledgeable, and courteous.

In the State of Kansas, Farm Credit Associations use approximately 28% of the total \$50 million of funds available. In other words, we have processed loans of just over \$14 million dollars to 92 farmers and ranchers all across Kansas.

We could help even more deserving farmers if more funds were available. When the program was first introduced in July of 2000, all of the funds were depleted in the first four days of the program's operation. While there have been opportunities to get additional funds periodically due to repayments on many of the loans, many more eligible

farmers could be helped if more funds were available. A bill has been introduced in the House titled HB 2103, which proposes to increase the State funding from \$50 million dollars to \$100 million dollars. While this would probably still not be enough to help all farmers who are eligible to participate, it is certainly a major step in the right direction.

On behalf of the Farm Credit Associations of Kansas and our 14,000 farmer customers, I would ask that you adopt the same changes in the Kansas Senate so that this enhanced program can become a reality.

As many of you know on a first hand basis, agricultural production has been a challenging proposition over the past few years in many parts of the state. A program like the Kansas Agricultural Production Loan Deposit Program provides needed assistance to deserving farm families to help them bridge their financial situation to years of greater production and better prices. I can see examples in my loan portfolio where this program makes a significant difference to the farmer's chances to succeed long term and other instances where it is helping a young or beginning farmer stay in business until the farming operation is in a stronger financial position.

Your support of programs like this helps me meet my mission of providing loan funds to all deserving farmers. It also accomplishes your mission of helping Kansas farm families and providing support to rural Kansas communities. It leverages state monies in an appropriate and useful way to stimulate further growth and economic prosperity in rural Kansas towns and communities, which is good for all Kansans.

Mr. Chairman, I have kept my remarks very brief, as a colleague of mine also has some comments for the committee. Thank you for letting me share my thoughts on this important program, and I would be happy to answer any questions you or the committee might have.



**Testimony  
of  
Roger Vanlandingham  
Loan Officer**

**High Plains Farm Credit, PCA/FLCA  
Larned, Kansas**

**Pratt Lending Office**

**Before the Kansas Legislature  
House Agriculture Committee  
At the State Capitol in Topeka, Kansas**

**February 5, 2001**

Mr. Chairman and members of the Committee, my name is Roger Vanlandingham. I serve as a loan officer for the High Plains Farm Credit, PCA/FLCA, which is located in Larned, Kansas. Our Farm Credit Association serves twenty-two counties in the west central part of the state.

Along with Mr. Thornton, who presented testimony moments ago, I am here today speaking on behalf of all of the Farm Credit System Associations in Kansas. However, the association I represent is one of the largest participants of all the lenders using the Kansas Agricultural Production Loan Deposit Program. Our office has \$6,407 million of program loans outstanding representing thirty-six farmers. I personally work with many of these farmers. From that personal experience I can tell you the program works, and works very well, in assisting farmers who have viable farming operations stay in business when they encounter temporary, but difficult, financial situations.

House Agriculture Committee  
February 5, 2001  
Attachment 6

In case the committee members are not aware of it, several other states offer similar programs. For example, Missouri, Illinois, Ohio, Pennsylvania and Oklahoma all have a program that utilizes state funds to assist agriculture. The one I am the most familiar with is the program in Oklahoma. That program is available for both operating loans and real estate loans. It is also a bit larger than the Kansas program, with a ceiling of \$140 million dollars, although the State Treasurer's office there can adjust this amount over time. My point is that what the Kansas State Legislature has chosen to do is admirable, other states have made an even bigger investment in their farmers. Certainly the proposed House Bill 2103, which if enacted would increase the funds available in Kansas to \$100 million, would seem not only to be needed by our farmers, but more in line with what our neighboring state to the south is providing.

I would also like this committee to know that I believe the financial eligibility requirements for the existing program are appropriate. The House proposal does not recommend any changes and Farm Credit would support that position. Our wholesale lender, the Farm Credit Bank of Wichita has studied trends in owner equity of farming operations over the years and has found that in the four states covered in the Wichita Farm Credit District the average debt to asset ratio of farmer borrowers is 35%. This is also true in Kansas. This ratio has been very stable over the past decade. This means that farmers with debt asset ratios too much greater than the 40% eligibility standard in the program might be having viability issues. But it also means that farmers with debt to asset ratios at this level or lower may not need the special assistance that this program is designed to provide. Again, believe the existing requirement is where it should be based on this information and my own experience as a loan officer. While I can see benefits to allowing

the program to include real estate loans, something the committee might want to consider, I believe the other eligibility requirements are appropriate, and that House Bill 2103 correctly makes no adjustment to those parameters.

There is one change I believe needs to be made to the program. Currently, the funds are repriced annually. That approach works for the borrower in a very stable interest rate environment or if rates are rising, because the farmer gets the advantage over normal market rates that was intended by the legislature when the program was designed. However, in an environment where rates are declining, like the one we are experiencing now, a annual repricing period means that the farmers in the program may end up paying a rate that is higher than other non-program borrowers. In addition, when rates are rising, it would appear that the state is losing the opportunity to receive a reasonable return on its investment, or at the very least, the State would have to pay higher option costs to hedge its position.

I would urge consideration of a shorter repricing period for the program's funds. More frequent repricing while creating a bit more administration for the states investment managers would better align rates with current market conditions. It would also eliminate any incentive for borrowers to attempt to refinance the indebtedness as rates fall, and then reapply when rates rise. This situation could create a lot of unnecessary paperwork for lenders and the State Treasurer's office in reprocessing the same loans multiple times. More frequent repricing would provide the benefit intended by the legislature, reduce paperwork for lenders, and provide market returns to the state.

The current annual repricing frequency is statutory and would require a revision to the existing language. I believe that going to at least semi-annual repricing would be a good improvement. Farm Credit would support removing this requirement from statute and giving the State Treasurer's office the flexibility of determining repricing frequency.

Mr. Chairman, I would have liked to bring along a customer using the program to share his or her thoughts with you. This would allow you to see first hand who the program is helping and put a face on the program's success this past year. However, to do so would require me to ask one of my valued customers to step forth and publicly reveal a part of his or her financial situation, and I did not feel that was appropriate under the circumstances. I hope the committee agrees that the program has been successful up to now, and I can assure you that if additional funds are made available, the need is there.

Thank you, Mr. Chairman, for letting me make some comments to the House Agriculture Committee and for letting Farm Credit be represented at this hearing. I would be happy to respond to any questions you or the committee might have.



# PUBLIC POLICY STATEMENT

## HOUSE COMMITTEE ON AGRICULTURE

**RE: HB 2103 – Adding \$50 Million to the Kansas  
Agricultural Production Loan Deposit Program.**

**February 5, 2001  
Topeka, Kansas**

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

Chairman Johnson and members of the House Committee on Agriculture, Kansas Farm Bureau certainly appreciates this opportunity to express strong support for extending the low interest production loan program for agricultural producers.

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

The 2000 Session of the Kansas Legislature approved and Governor Bill Graves signed Sub. for HB 2527 creating the Kansas Agricultural Production Loan Deposit Program. The reduced interest agricultural production loan program was a high priority for Farm Bureau in 2000 and continues to be a high priority in 2001. The 435 farmers and ranchers representing the 105 county Farm Bureaus adopted policy at the 82<sup>nd</sup> Annual Meeting of Kansas Farm Bureau stating:

***“We support the low-interest agriculture production loan program and request adequate allocations to assist financially stressed agricultural producers during times of low commodity prices, weather related losses and sanctions on export markets.”***

HB 2103 proposes to add another \$50,000,000 to the production loan program by increasing the total aggregate amount to \$100,000,000. In fact, we ask you to consider an even larger authorization.

We believe adequate allocations for the loan program is fully justified when several factors are considered. First, the \$50 million that was authorized last July was gone the first few hours the program became available. Second, a number of conditions that are not under the control of agricultural producers, including grain prices, weather conditions and export opportunities, are continuing to depress net farm incomes. Third, since agriculture continues to be the backbone of the Kansas economy, the incomes of farmers and ranchers have an important impact on state revenues. Some of the shortfall of \$58.3 million in December and January revenue projections is a result of the struggling farm economy in some areas of the state. Fourth, a number of bankers participating in the Agricultural Bankers Survey conducted by Kansas Farm Bureau listed interest rates as a concern and suggested "lower interest rates" would be a positive for agriculture.

Don Garlow, a fourth generation farmer, bank loan officer and member of the KFB Resolutions Committee provided testimony to the Senate Agriculture Committee last week recommending the production loan program should be expanded (see attachment). In utilizing the program for several farm customers, Garlow pointed out, ***"Farm cash flows are tight and quite 'interest rate sensitive', so any ability to reduce interest expense is extremely helpful."***

Kansas Farm Bureau strongly recommends HB 2103 be approved and advanced to the full House. Placing this important legislation on a fast track will provide the opportunity for this needed assistance for planting spring crops.

Thank you!



To: Ag Committee Members  
From: Don Garlow, Vice President, Peoples Exchange Bank  
Re: Kansas Ag-Link Deposit Loan Program  
Date: January 31, 2001

I am Don Garlow from Cloud County. I am a fourth generation farmer. My farm consists of irrigated and dryland crops. My son-in-law and one non family member provide most of the labor for our farm. In addition to my farming, I am a loan officer for Peoples Exchange Bank. We are a small, rural bank situated in North Central Kansas. Our three facilities are in Clyde, Belleville, and Concordia. These locations are convenient to serve our customer base who reside primarily in Cloud, Republic, and Washington Counties. Agricultural loans make up the majority of our loan portfolio.

Peoples Exchange Bank utilized the Ag-Link Deposit Loan Program with several of our farm customers. Each loan officer reviewed his respective customer base to see which loans would meet the criteria for the program. Early on the morning that the applications were to be accepted we faxed the requests in and then anxiously waited. Knowing that only \$50,000,000. were available, we wondered if all of our requests would be funded. They were. Later however, we learned of farmers who could have qualified but did not get these loans because their banks either chose not to participate or were too slow in getting the requests in.

The simplicity of the program has been a plus. The fact that the program was not accompanied with an overabundance of paperwork was refreshing. While the 40% D/A requirement excluded many of our operators from using the program, we have few other complaints. The credit decision and administration (and risk for that matter) remained where it should: the bank writing the loan. The risk to the State of Kansas is nil. The only cost is the reduced earnings of the funds which were made available to the banks at a discount to in turn be loaned to the farmer at a savings. Farm cash flows are tight and quite 'interest rate sensitive', so any ability to reduce interest expense is extremely helpful.

In our case, the interest reduction was from our base rate last summer of 11.1% down to 8.74%, or a savings of 2.36%. The individual loan customers received loans ranging from \$18,000 to \$60,000. Where the loans were a one time draw as opposed to a revolving line of credit, we reviewed each loan to obtain a static need level and that was the amount requested. Most of our customers showed their operating credit needs would pay off during the year prompting us to request a six month funding for their loans. A few showed a need for the entire year. Obviously the savings was greater for the more dollars used over a longer time frame. For example: a \$50,000 loan with interest reduction of 2.36% = a savings of \$1,180. We did not write any multi-year loans because we felt that in most cases there were equipment purchases that were being carried on short term loans as opposed to true carry-over debt situations from operating losses. In fact, it would be rare that an operating loan should (or could) be repaid over a multi-year period, because operating expenses are repetitive at least annually, and if unable to be cash-flowed annually would spell disaster for the viability of the farm.

It is my understanding that there are unfunded loan requests today. Several million dollars of the original \$50,000,000. have been repaid and in turn loaned out to new applicants. As long as the banks involved in the loans are strong and secure the state funds will never be jeopardized. The only cost to the state is giving up some potential earnings on those dollars. For example: on \$200,000,000. a 2% reduction on earnings would represent a total of \$4,000,000. On the other hand, given our bank's numbers, the savings to farmers would represent a total of \$4,720,000. or a net gain to the Kansas economy of \$720,000. Any money that can be injected into the farm economy is urgently needed. The combination of low commodity prices, high energy prices, and the resulting increased fertilizer costs are putting undo pressure on an already strained economy. It is my opinion that some of the criteria could be modified within the program to allow the borrowers to utilize the loan more like a true operating line (i.e.- a revolving line of credit), or modify the language to allow funding of longer term assets such as machinery and breeding livestock with the five to seven year loans.

Has the program been worthwhile? In my estimation, yes. Is there sufficient need and demand to expand the program? In my opinion, yes. This appears to be a low cost method of putting dollars in the farm sector of our State's economy.





## **Testimony Regarding House Bill No. 2103 Before the House Agriculture Committee February 5, 2001**

Good afternoon Chairman Johnson and members of the House Agriculture Committee, my name is Greg Krissek. I am Director of Operations for the Kansas Corn Growers Association. I appreciate the opportunity to make brief comments in support of HB 2103. My comments also reflect the position of the Kansas Grain Sorghum Producers Association.

HB 2103 proposes expanding the total aggregate limits for the Kansas agricultural production loan deposit program from \$50 million to \$100 million. We support this legislation for several reasons.

First, as we understand it, after you helped create and fund this program last legislative session, when it was implemented the initial funding amount was obligated in very short order. We believe this indicates a very strong need for the program and an expanding the state funds available to it.

Second, increased energy costs continue to face agricultural producers as we approach this planting season. Fuel, fertilizer, and irrigation costs, where applicable, have increased substantially. Lower operating loan costs, as encouraged by this program, may be one way that farmers can offset some of these other increased costs to their operations.

Thank you for the opportunity to comment and I will try to answer any questions concerning this testimony.

# 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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2-5-01

To: House Agriculture Committee  
From: Chuck Stones, Senior Vice President

RE: HB 2103

Mr. Chair and Members of the Committee:

The Kansas Bankers Association appreciates the opportunity to appear before you regarding HB 2103. We are fully supportive of adding money to this program.

This program has been very successful. As you are aware this program has assisted about 450 Kansas farmers with an average loan size of about \$115,747. We worked closely with the Treasurers office to make the program workable. As we stated in our testimony over the last two years, this program is a win, win, win, win solution. Everybody in the process should feel good about themselves. The Kansas Legislature, the State Treasurer, the banks, and the farmers.

There are a few tweaks that a some of the banks have suggested to make the program even better. Some can be solved by changing the Rule and Reg and some will require statutory change. We will be happy to discuss these with you at the appropriate time.

The question of this bill is truly a policy decision on your part. Does the State want to reduce the amount of its interest earnings in order to assist Kansas farmers.

We hope the answer is "yes"

House Agriculture Committee  
February 5, 2001  
Attachment 9