Approved: February 7, 2001 as corrected
Date

MINUTES OF THE SENATE AGRICULTURE COMMITTEE.

The meeting was called to order by Chairperson Derek Schmidt at 8:30 a.m. on January 31, 2001 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
Betty Bomar, Secretary

Conferees appearing before the committee:
Tim Shallenburger, Treasurer, State of Kansas
Dan Bernardo, Professor, Department of Agricultural Economics, Kansas State University
Bruce Thornton, Vice President, Frontier Farm Credit, Parsons
Roger Vanlandingham, Loan Officer, High Plains Farm Credit, Larned
Don Garlow, Vice President, Peoples Exchange Bank

Others attending: See attached list

Hal Hudson, Kansas Pest Control, requested introduction of a bill which would adjust licensed technician fees.

Senator Umbarger moved, seconded by Senator Huelskamp, that a bill be introduced as requested. The voice vote was in favor of the motion.

Tim Shallenburger, State Treasurer, testified that Agricultural Production Loan Deposit Program (APLDP), created by the 2000 Legislature, was a good program. 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 the day, more than $40 million had been claimed by banks and other lending institutions for loans that had been arranged. On Wednesday, July 5, all the funds in the program were exhausted.

The statute provided the State Treasurer administer the program and budgeted $50 million in deposit loans to be given to eligible lending institutions at two percentage points below the market rate. The institutions, in turn, loaned the money out for agricultural production loans at no more than two percentage points above the market rate, providing the lenders with up to a four-point margin. The lending institutions 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 can exceed $250,000. Loans were made to only eligible agricultural borrowers with a debt-to-asset ratios of 40 percent or greater, amortized for a period of not more than 8 years. The borrower is required to certify that the reduced rate loan is used exclusively for operating expenses involved in farming, and to borrowers whose property is primarily in the State of Kansas. (Attachment 1)

In response to questions from the Committee, Mr. Shallenburger testified that if the program is expanded, there would be a need for a few technical amendments and one additional staff member. There have been 450 loans made.

Dan Bernardo, Professor and Head of the Department of Agricultural Economics, Kansas State University, testified that the number of farms in Kansas has decreased continuously since 1935; however, they have been decreasing at a decreasing rate, and there has been an increase in the size of farms. 9% of the farms contribute 75% of the total agricultural sales. The net farm income for 1999 averaged $42,000 annually and $30,000 is projected as the average annual income for 2000.

Professor Bernardo testified that Barry Flinchbaugh, a member of the 21st Century Commission, was in Washington, D. C., testifying before Congress. Professor Bernardo stated that government will continue to play a significant part in agriculture for the foreseeable future. The 21st Century Commission recommends the maintenance of cropping flexibility, the establishment of farm savings accounts, the continuation of AMTA payments at current levels, counter-cyclical income payments, the expansion of crop and revenue insurance, and an increase in environmental stewardship programs. (Attachment 2)

Bruce Thornton, Frontier Farm Credit, Parsons, testified that the Farm Credit Association used approximately 28% of the total $50 million of production loan funds available. $14 million dollars of loans were processed to 92 farmers and ranchers throughout Kansas. More farmers would be helped if additional funds were available.

Mr. Thornton stated **HB 2103**, introduced in the House this session, proposes to increase the State funding from $50 million to $100 million. The Farm Credit Association of Kansas encourages the Kansas Senate to adopt the proposed changes in order to enhance the program.

The 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, thereby making a significant difference to the farmer's chances to succeed long term and helping them stay in business. (Attachment 3)

Roger Vanlandingham, High Plains Farm Credit, Larned, stated the Larned office has $6,407 million of program loans outstanding representing 36 farmers. The program works and assists farmers who have viable farming operations stay in businesses when they encounter temporary, but difficult, financial situations. Other states offer similar programs, but all have higher ceilings. The Oklahoma program has a ceiling of $140 million and provides the State Treasurer's office the authority to adjust the amount over time.

Mr. Vanlandingham testified in support of **HB 2103**, stating that by increasing the funds available in Kansas to $100 million, puts Kansas more in line with other states. The financial eligibility requirements are appropriate, and the debt-to-asset ratio is based on sound information and should not be changed. Mr. Vanlandingham did advocate more frequent repricing of the funds in order to eliminate any incentive for borrowers to attempt to refinance the indebtedness as rates fall, and then reapply when rates rise. The program has been most successful. (Attachment 4)

Don Garlow, Vice President, Peoples Exchange Bank, submitted written testimony that was submitted to the Committee. (Attachment 5)

Senator Downey asked that the Committee introduce a bill on behalf of Regional Economic Area Partnership (REAP) relating to Groundwater Management District #2, which provide flexible assessment rates within the district and would allow 3 persons on the GMD board be held by municipalities.

Senator Downey moved, seconded by Senator Morris, that a bill relating to GMD#2 be introduced and referred back to the Committee for consideration. The motion was approved unanimously by a voice vote.

Senator Huelskamp moved, seconded by Senator Taddiken, that a bill be introduced regarding the competitive livestock marketing act. The voice vote was in favor of the motion.

The meeting adjourned at 9:30 a.m.

The next meeting is scheduled for February 6, 2001.

SENATE AGRICULTURE COMMITTEE GUEST LIST

DATE: January 31, 2001

NAME	REPRESENTING
Tom Bruno	Farm Credit Council
Roger Vanlandingham	Farm Credit
Bruce Thornton	Farm Credit
Steven Graham	K-State Research + Extension
Ray Hammarlund	KDOCH
Leslie Kaufman	Ks Farm Bureau
Todd Johnson	KLA
Greg A. Foley	KDA
Chuck Stones	KBA
Bill Fuller	Kansas Farm Bureau
Don Garlow	Peoples Exchange Bank
Hal Hudson	KPCA
Dan Bernardo	KSU - Ag. Econ.
Rep. [illegible]	116th District
LaVerne Cole	Gov. [illegible] Office Staff

STATE OF KANSAS

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

Tim Shallenburger
TREASURER

TELEPHONE
(785) 296-3171

January 31, 2001

To: Senate Agriculture Committee

From: Tim Shallenburger, State Treasurer

Re: Agricultural Production Loan Deposit Program

Chairman Schmidt 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

Senate Agriculture Committee
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Attachment # 1-1 thru 1-2

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

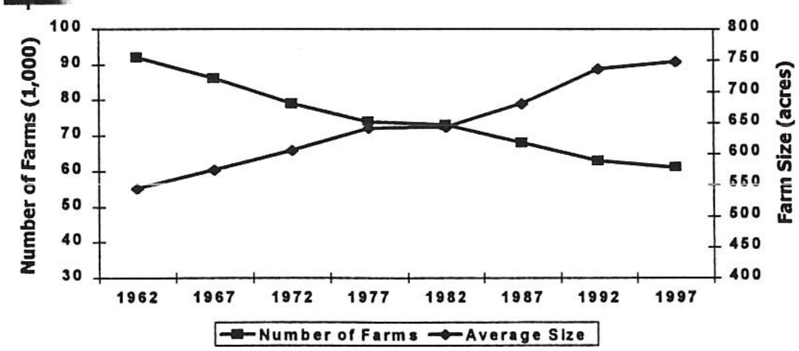
Kansas Agriculture: Economic Situation and Outlook

Presented to:
Senate Agriculture Committee
January 31, 2001

AG ECON
KSU Agribusiness

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

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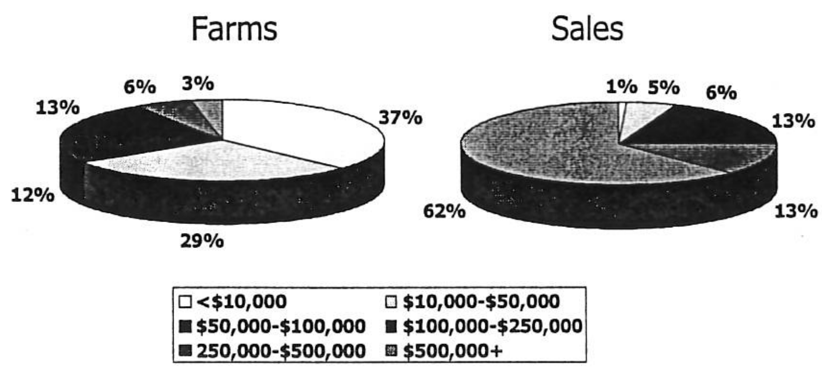
Senate Agriculture Committee
Date 1-31-01

Attachment # 2-1 thru 2-9

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



9% of farms contribute 75 percent of sales

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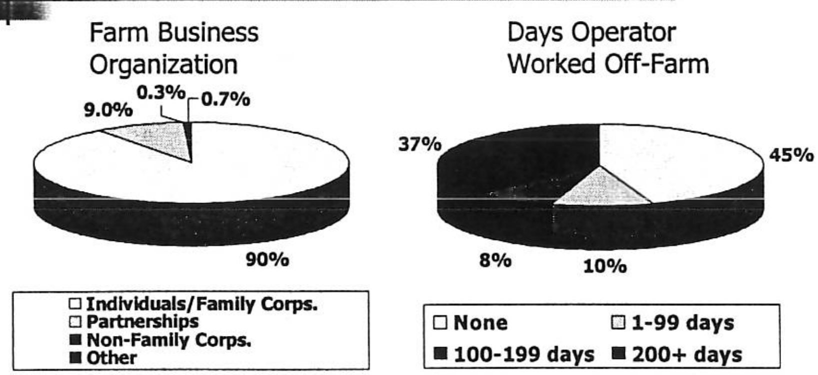
Kansas Farms, By Type of Organization and Days Operator Worked Off-Farm (1997)



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

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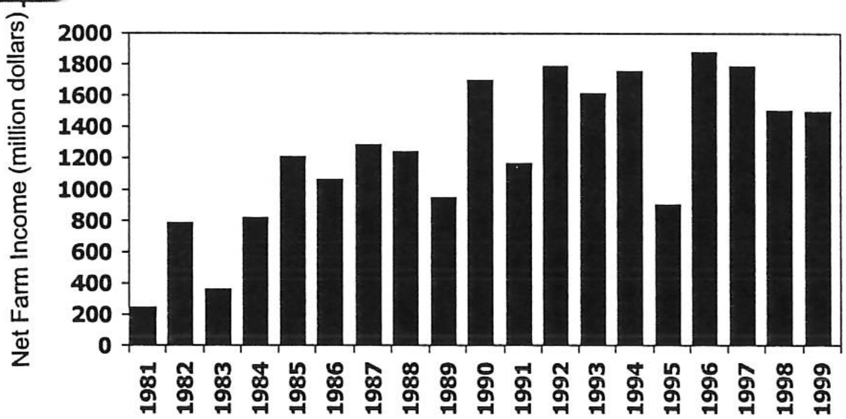
Kansas Net Farm Income, 1981-1999



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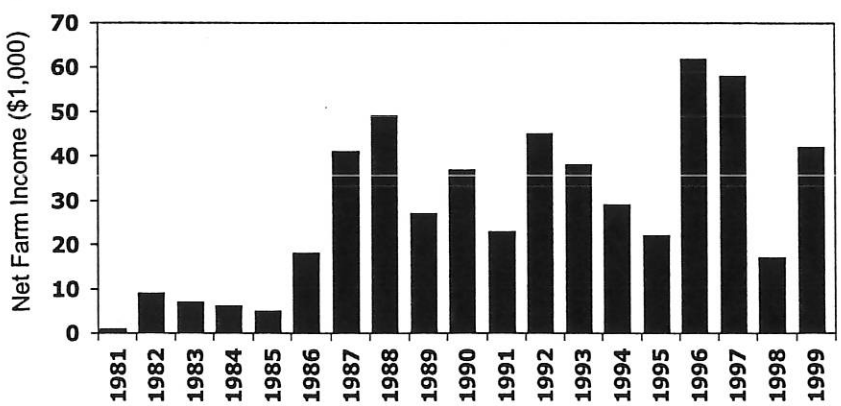
Kansas Farm Management Association Average Net Farm Income, 1981-1999



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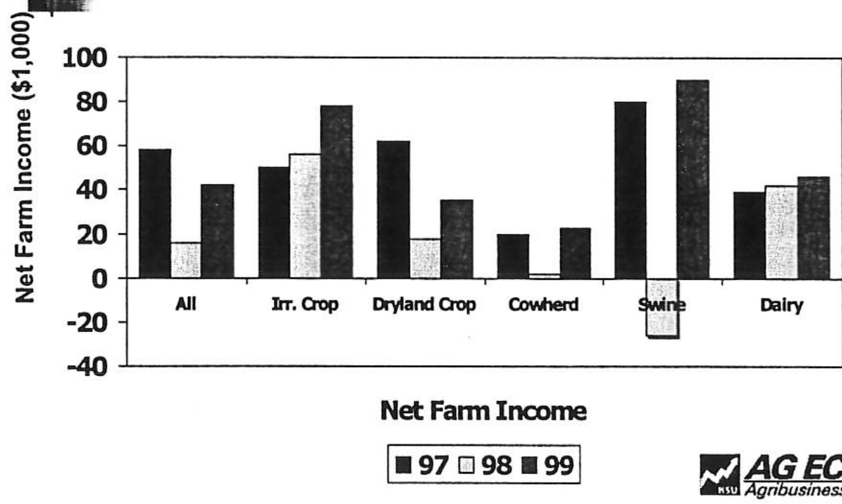
Net Farm Income by Farm Type, KFMA Farms, 1997-1999



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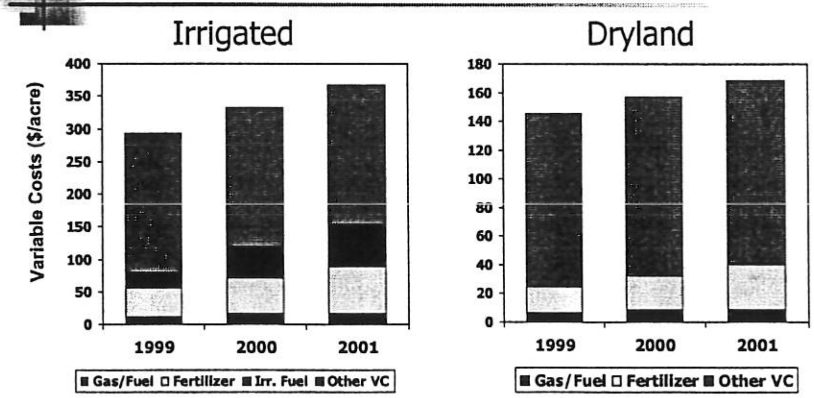
Projected Impact of Increased Fuel Costs on Variable Costs, KFMA



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

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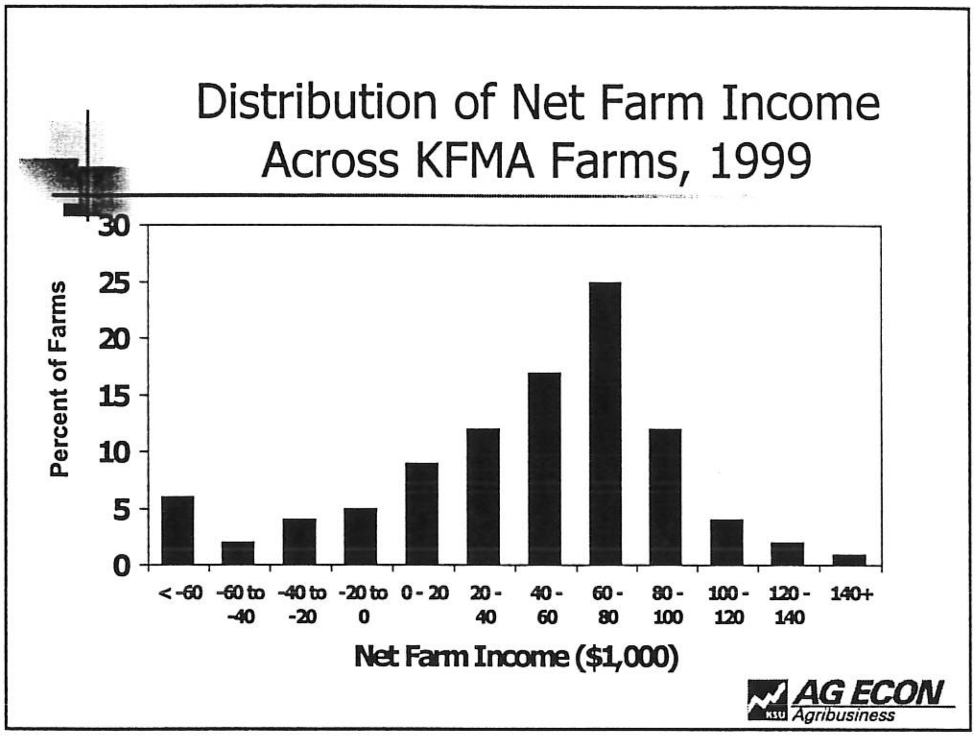
Distribution of Net Farm Income
Across KFMA Farms, 1999
Percent of Farms
30
25
20
15
10
5
0
< -60
-60 to -40
-40 to -20
-20 to 0
0 - 20
20 - 40
40 - 60
60 - 80
80 - 100
100 - 120
120 - 140
140+
Net Farm Income ($1,000)
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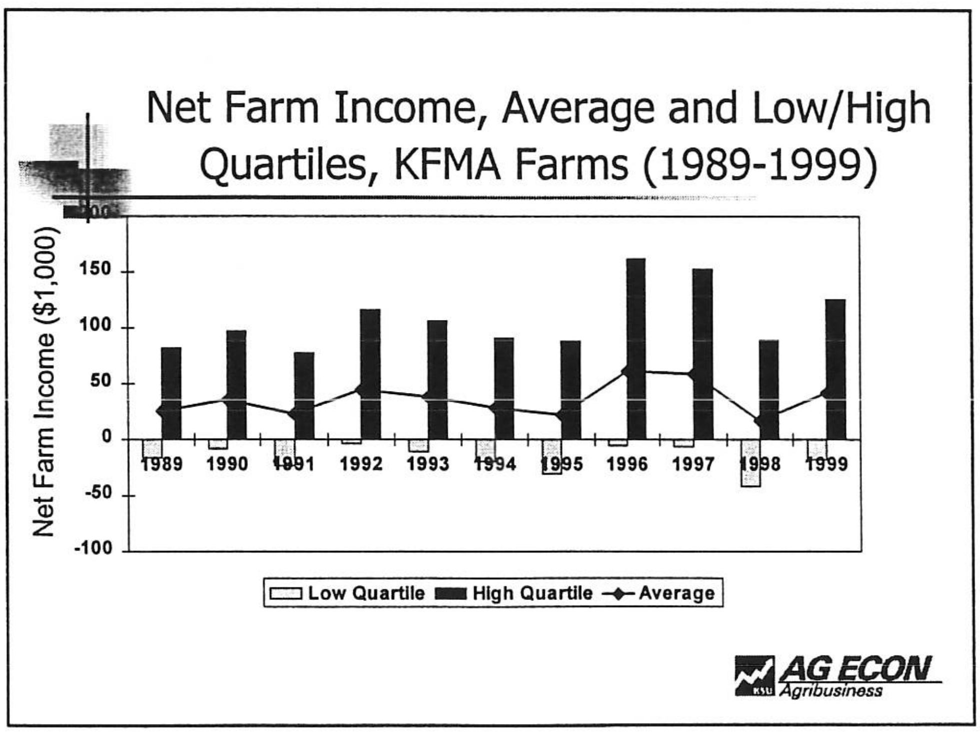
Net Farm Income, Average and Low/High
Quartiles, KFMA Farms (1989-1999)
Net Farm Income ($1,000)
150
100
50
0
-50
-100
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
Low Quartile
High Quartile
Average
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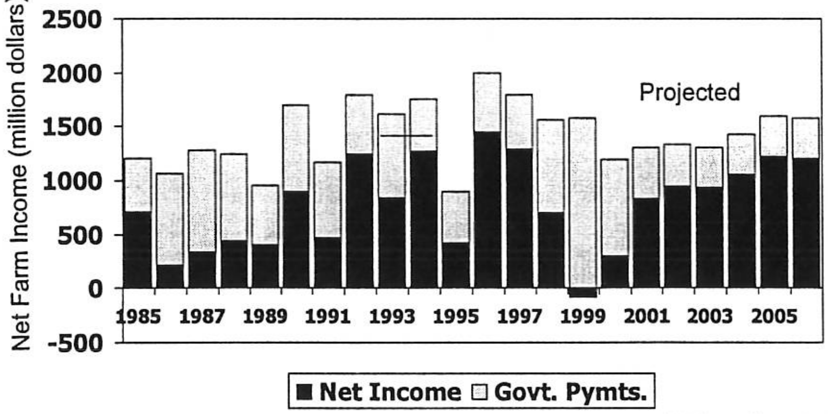
Kansas Net Income and Government Program Payments, 1985-2006
(2000-2006 Projected)



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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 % of Net	 18% 93%	 14% 74%	 10% 64%	 14% 75%

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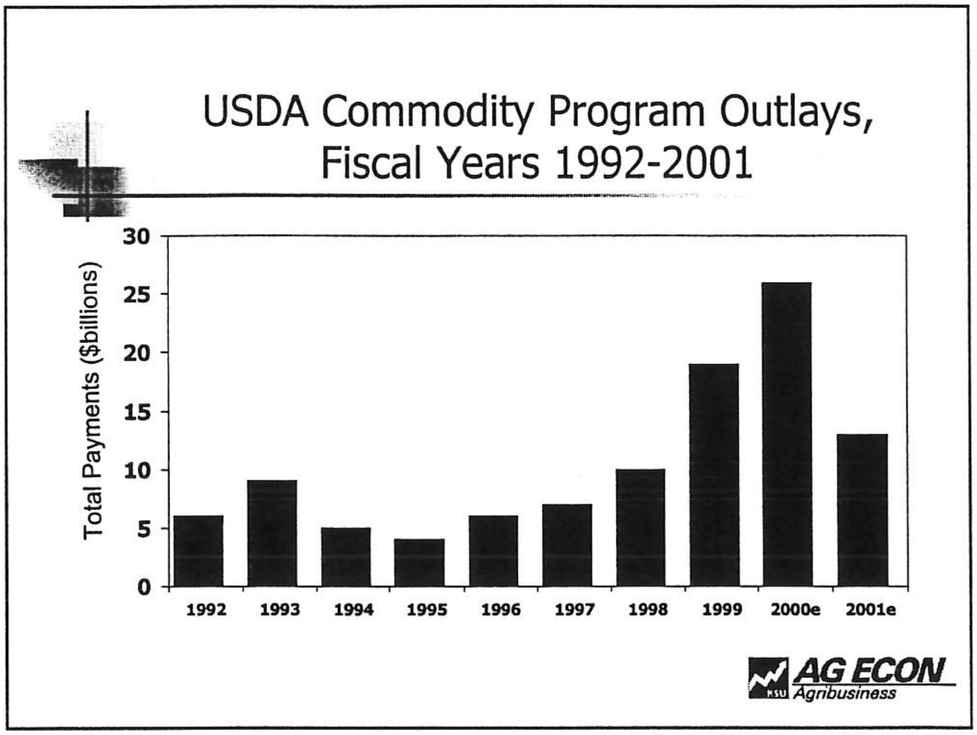

USDA Commodity Program Outlays,
Fiscal Years 1992-2001
Total Payments ($billions)
30
25
20
15
10
5
0
1992
1993
1994
1995
1996
1997
1998
1999
2000e
2001e
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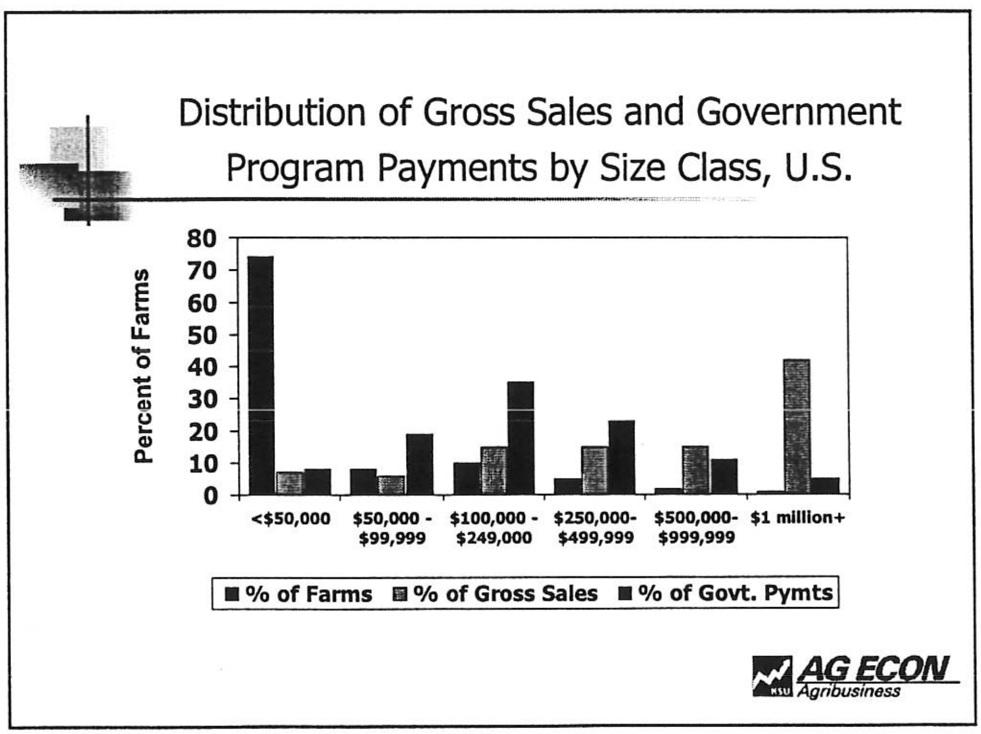

Distribution of Gross Sales and Government
Program Payments by Size Class, U.S.
Percent of Farms
80
70
60
50
40
30
20
10
0
<$50,000
$50,000 - $99,999
$100,000 - $249,000
$250,000- $499,999
$500,000- $999,999
$1 million+
% of Farms
% of Gross Sales
% of Govt. Pymts
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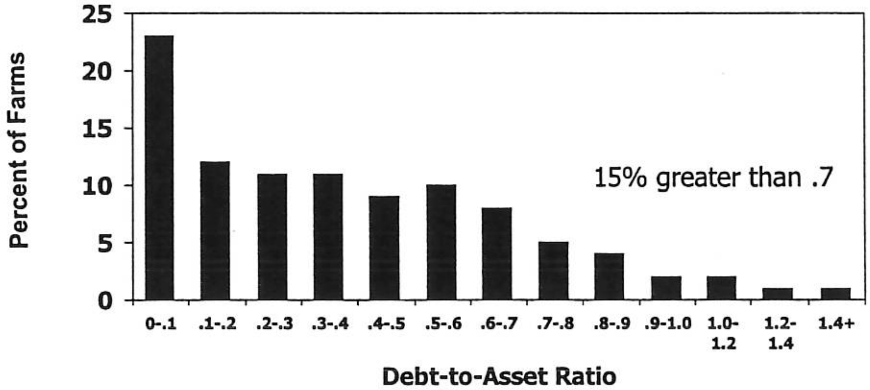
Distribution of Debt-to-Asset Ratios Across KFMA Farms, 1999



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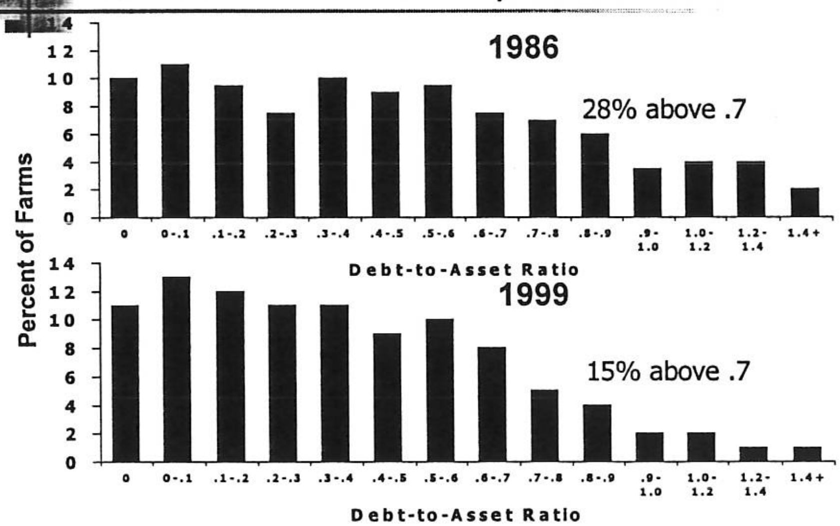
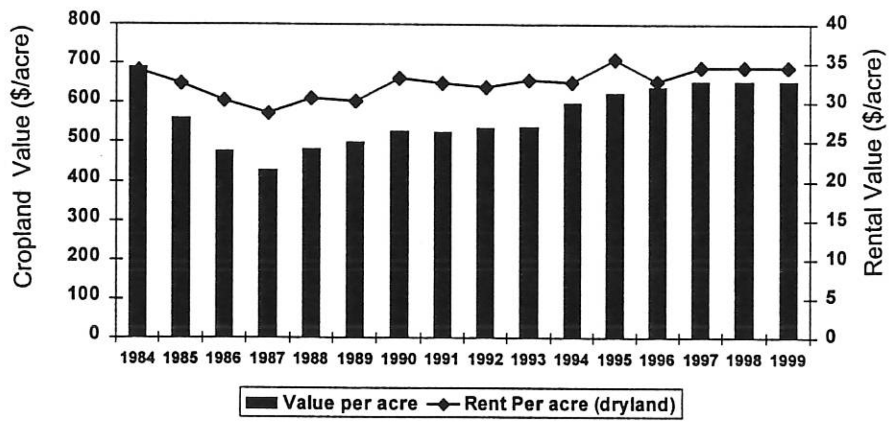
Distribution of Debt-to-Asset Ratios Across KFMA Farms, 1986 & 1999



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 21st 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.
  - Increased environmental stewardship programs.

AG ECON KSU Agribusiness

Testimony
of

Bruce Thornton
Vice President-Lending

Frontier Farm Credit, ACA
Parsons Lending Office
Parsons, Kansas

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

January 31, 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 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
Senate Agriculture Committee
At the State Capitol in Topeka, Kansas

January 31, 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.

In case the committee members are not aware of it, several oth

programs. For example, Missouri, Illinois, Ohio, Pennsylvania anc

Senate Agriculture Committee
Date 1-31-01
Attachment # 4-1 thru 4-4

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.

I would urge consideration of quarterly or even monthly repricing of the program 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.

I understand that the annual repricing frequency is statutory and would require a revision to the existing language.

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 Senate 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.

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.

Address: RR 3 Bo:
Phone #s Home:
Bank:

Senate Agriculture Committee
Date 1-31-01
Attachment # 5