

MINUTES OF THE SENATE AGRICULTURE COMMITTEE

The meeting was called to order by Chairperson Derek Schmidt at 8:30 a.m. on January 22, 2003 in Room 423-S of the Capitol.

All members were present except: Senator Umbarger, excused

Committee staff present: Raney Gilliland, Legislative Research
Amy Van House, Legislative Research
Lisa Montgomery, Revisor of Statutes
Judy Swanson, Committee Secretary

Conferees appearing before the committee: Ted Zielke, Kansas Corn Commission
Connie Fischer, Kansas Department of Commerce

Others attending: See attached list

Ted Zielke, Chairman of the Kansas Corn Commission presented their Annual Legislative Report. (Attachment 1) With lower production due to drought, he projected this year's revenue to be over \$200,000 below last year's revenue. The commission utilizes check-off funds to enhance corn demand. Ethanol production is an opportunity they are pursuing. Financial Statements are attached to his testimony.

Connie Fischer, Agriculture Marketing Division of Kansas Department of Commerce & Housing, introduced her staff members present. She gave an Agriculture Products Development Division FY 2002 review. (Attachment 2) She reviewed the dairy processing study, specialty crop grant program, technical assistance, and agriculture value added center. In her update for FY 2003 (Attachment 3) she noted that the budget was \$1.347 million as compared to \$1.372 in FY 2002. She summarized their International program, which was successful. She felt her division should stay within the Department of Commerce because they could better advocate for agriculture and products in Kansas, as well as across the globe. Committee discussion followed.

Surrounding states have larger budgets than Kansas for marketing their agriculture products. There is a small percentage of loans that are repaid quickly to the Department of Commerce as businesses succeed. The majority of the loans are with companies that take time to build and repay. There are 14 companies, which is a small percentage of total loans, that are no longer in business and will not repay their loans. Incentives for ethanol production must be looked at if it is to become competitive in Kansas.

Chairman Schmidt announced that Committee members were invited to attend the Commerce Committee meeting on January 24 for a presentation by Chuck Banks, State Director of USDA.

Senator Huelskamp moved to approved the Minutes of the January 15 Committee meeting. Senator Tyson seconded the motion, and motion carried with no opposition.

The meeting adjourned at 9:15 a.m.

SENATE AGRICULTURE COMMITTEE GUEST LIST

DATE: 1-22-03

NAME	REPRESENTING
Jerry Dudley	Ks Dept of Commerce
Ray Hammarlund	Ks Dept. of Commerce
Connie Fischer	Ks Dept. of Commerce
Becki Rhoades	Ks Dept of Commerce
Sarah Robben	Ks Dept. of Commerce
Ted Zickel	Ks corn commission
Ronald Blaes	Ks Law Commission
Don Teske	Ks Farmers Union
Rebecca Reed	Ks Dept of Agriculture
Janet McPherson	Ks Farm Bureau
Edd Johnson	KLA
Dag Wareham	KGFA / KARH
Tom Place	AMCA of Kansas
Rachelle Davis	KDOLH
Stephanie Buchanan	DOB
Turle Dybhead	DOB
Greg Krussell	Ks Corn Growers



Annual Legislative Report

January 22, 2003

*Senate Agriculture
January 22, 2003
Attachment 1*

Testimony of Ted Zielke, Chairman

Mr. Chairman and members of the committee, my name is Ted Zielke. My family and I farm near St. Francis and I am currently serving as the Chairman of the Kansas Corn Commission (KCC). I appreciate the opportunity to appear before you today and present the corn commission's annual legislative report.

Attached with my testimony today, we have also provided you with copies of the commission's FY 2002 financial audit and the 2002 annual report to producers. This report includes a description of current projects in the areas of Production/New Use Research, Domestic Market Development, Foreign Market Development, and Promotion and Education.

The commissions are proceeding through the initial three-year cycle for elections of commissioners by Kansas producers. We believe these elections, for 2003 in the three western agricultural statistics reporting districts, significantly expands the number of producers participating in the commissions' process. Next year's elections in the three eastern districts will complete this first cycle of the elections process.

Since its creation in 1977, the KCC has taken the approach of using this fiscal year's revenue to fund the next fiscal year's programs. With lower production due to the drought, we project this year's revenue to be over \$200,000 below last year's revenue. Because of this historic fiscal policy, the commission is well prepared to maintain current levels of program support, and even voted recently to increase research funded to KSU by \$70,000 for FY 04, despite these lower revenues.

During the previous fiscal year, the KCC processed refunds to 1218 different producers, many of whom submitted multiple requests. These refunds are typically processed and checks mailed within 2-3 working days of receipt at our office, with any rarely taking longer than five working days to complete. FY 02's checkoff refund percentage was approximately sixteen percent (16%).

The commission utilizes check-off funds to enhance corn demand and opportunities with our customers. Use in livestock feed remains the largest market for corn. Exports remain the second largest market for corn. The commission funds cooperators like the U.S. Grains Council and the U.S. Meat Export Federation to gain broader access to international markets. These groups are able to use Federal matching funds, thus giving Kansas producers more bang for their bucks.

Another significant opportunity exists with growing ethanol production. The commission is providing technical support to numerous local groups and Kansas communities that are currently pursuing potential ethanol plants. We are cautiously optimistic that several of these proposed plants will be under construction later this calendar year. We are also excited to be a cosponsor of the U.S. Department of Energy Ethanol Workshop at the Topeka Capitol Plaza conference center beginning this evening and continuing throughout the day tomorrow. We hope you can join us as your schedule permits.

Finally, last summer we began a new promotion campaign for Kansas fuel retailers and the public highlighting the benefits of using ethanol-blended, or as we are promoting, E-10 Unleaded Fuel. Kansas traditionally has had low-market penetration of E-10 Unleaded but we are striving to increase usage here in the state. Some examples of this marketing campaign's brochures are included in your folder.

At the Kansas Corn Commission, we continue to move forward on behalf of Kansas corn producers and look forward to continuing these efforts in the years to come.

KANSAS CORN COMMISSION

Garnett, Kansas

FINANCIAL STATEMENTS

WITH

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2002 and 2001



September 25, 2002

Board of Directors
Kansas Corn Commission
Garnett, Kansas

Independent Auditors' Report

We have audited the accompanying statement of assets, liabilities and net assets - cash basis of Kansas Corn Commission (a quasi municipal entity) as of June 30, 2002 and 2001, and the related statement of activities - cash basis for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets - cash basis of Kansas Corn Commission as of June 30, 2002 and 2001, and the changes in its net assets for the year then ended on the basis of accounting described in Note 1.

Varney Accountants CPA, LLC

Certified Public Accountants

Certified Public Accountants' Report

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KANSAS CORN COMMISSION
 Garnett, Kansas
 STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS
 June 30,

	<u>2002</u>	<u>2001</u>
ASSETS		
Current Assets		
Cash		
Operations	\$ 3,456	\$ (39,721)
High Performance Savings	707,159	-
Overnight Repo Agreement	357,000	1,060,000
CD	1,000,000	1,000,000
	<u>\$ 2,067,615</u>	<u>\$ 2,020,279</u>
TOTAL ASSETS		
	<u>\$ 2,067,615</u>	<u>\$ 2,020,279</u>
NET ASSETS		
Net Assets	<u>\$ 2,067,615</u>	<u>\$ 2,020,279</u>
TOTAL NET ASSETS	<u>\$ 2,067,615</u>	<u>\$ 2,020,279</u>

Financial Statements

KANSAS CORN COMMISSION
 Garnett, Kansas
STATEMENT OF ACTIVITIES - CASH BASIS
 For the Years Ended June 30,

Financial Statements

	2002	2001
CHANGES IN NET ASSETS		
REVENUE		
Check-off collections	\$ 1,741,293	\$ 1,733,501
Refunds	(278,092)	(269,542)
Net	\$ 1,463,201	\$ 1,463,959
Contract refunds	-	7,958
Interest income	101,588	59,367
Total Revenue	\$ 1,564,789	\$ 1,531,284
 EXPENSES		
Administrative		
Communications	\$ 77,391	\$ 81,925
KCGA - Administration	104,000	69,000
In-state travel	7,160	10,260
Out-of-state travel	30,481	27,350
Office	4,288	5,204
Meetings	1,888	4,800
Hospitality	4,409	2,015
Grants	5,900	4,400
Program		
KCGA	260,500	214,000
KS Department of Agriculture	7,091	5,749
KSU - International Grains	-	250,000
KSU - Research	180,304	347,055
National Corn Growers Association	300,000	220,000
Other contracts	96,041	107,154
US Grains Council	350,000	350,000
US Meat Export Federation	88,000	50,000
Total Expenses	\$ 1,517,453	\$ 1,748,912
 INCREASE (DECREASE) IN NET ASSETS	\$ 47,336	\$ (217,628)
 NET ASSETS - JULY 1, 2001	2,020,279	-
Transferred from Kansas Department of Agriculture	-	2,237,907
 NET ASSETS - JUNE 30, 2002	\$ 2,067,615	\$ 2,020,279

KANSAS CORN COMMISSION
Garnett, Kansas
NOTES TO FINANCIAL STATEMENTS
June 30, 2002 and 2001

Notes To Financial Statements

Note 1: Summary of Significant Accounting Policies

Organization

The Kansas Corn Commission is organized as an instrumentality of the state to conduct a campaign of corn promotion and market development through research, education and information.

Method of Accounting

The financial statements are prepared using the cash basis of accounting, which differs from generally accepted accounting principles in that revenues are recorded when received rather than when earned and expenses are recorded when paid rather than when the obligation is incurred.

Income Taxes

The Commission is a quasi municipal entity that is not subject to income tax and, accordingly, no provision has been made for income taxes.

Pension Plan

There is no formal pension plan.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments and Credit Risk

Deposits, which include certificates of deposit, are carried at cost which approximates fair value. The following tables summarize the collateral supporting the Commission's deposits at June 30, 2002:

	<u>Carrying Value</u>
Category 1	
Deposits covered by Federal Depository Insurance or collateral held by the Commission or its agent in the Commission's name.	\$ 200,000
Category 2	
Deposits covered by collateral held by the pledging financial institution or its agent in the Commission's name.	1,867,615
Total Deposits	\$ 2,067,615

Kansas Corn Commission
Income & Expense Budget vs. Actual
 July 2001 through June 2002

	Jul '01 - Jun '02	Budget	% of Budget
Income			
Checkoff Funds			
Assessments Received	1,741,294.72	1,912,000.00	91.1%
Refunds to Producers	-278,092.45	-308,000.00	90.3%
Total Checkoff Funds	1,463,202.27	1,604,000.00	91.2%
Interest Received	101,587.63	100,000.00	101.6%
Total Income	1,564,789.90	1,704,000.00	91.8%
Expense			
Communications			
Annual Report	5,618.26	7,500.00	74.9%
Elections	3,465.97	15,000.00	23.1%
Postage	1,038.05	3,000.00	34.6%
Postage Permit	300.00	400.00	75.0%
Printing	500.00	3,000.00	16.7%
Radio	66,672.94	75,000.00	88.9%
Telephone	-203.86	1,000.00	-20.4%
Total Communications	77,391.36	104,900.00	73.8%
Ethanol Expansion Program			
David & Associates	8,057.34	28,000.00	28.8%
KCGA - Administration	30,000.00	30,000.00	100.0%
National Ethanol Vehicle Coalit	10,000.00	10,000.00	100.0%
Vehicle, Additional Expenses	20,971.91	27,000.00	77.7%
Total Ethanol Expansion Program	69,029.25	95,000.00	72.7%
Ethanol Grain Processors, Inc.	7,000.00	7,000.00	100.0%
Grants	5,900.00	6,000.00	98.3%
Hospitality	4,409.01	3,000.00	147.0%
Meeting Expense	1,888.10	7,500.00	25.2%
Office Expenses	1,087.65	5,000.00	21.8%
Professional Services			
Auditing Services	3,200.00	4,500.00	71.1%
KCGA - Administration	74,000.00	74,000.00	100.0%
KCGA - Programs	260,500.00	260,500.00	100.0%
Ks Crop Residue Mngt Alliance	5,000.00	5,000.00	100.0%
Ks Dept of Ag - Audit	2,420.99	6,000.00	40.3%
Ks Dept of Ag - Fiscal	4,670.49	2,000.00	233.5%
Ks Found for Ag in the Class			
KFAC Van	624.84		
Ks Found for Ag in the Class - Other	5,000.00	5,000.00	100.0%
Total Ks Found for Ag in the Class	5,624.84	5,000.00	112.5%
Ks Grain Transportation Survey	1,937.00	2,000.00	96.9%
KSU - Research			
KSU Prior Year Project Refunds	-5,150.03		
KSU - Research - Other	185,454.00	165,562.00	112.0%
Total KSU - Research	180,303.97	165,562.00	108.9%
National Corn Growers Assn.			
Core Funding	120,000.00	120,000.00	100.0%
E-Diesel Project	20,000.00	20,000.00	100.0%
Portfolio - Biotech	50,000.00	50,000.00	100.0%
Portfolio - Ethanol	50,000.00	50,000.00	100.0%
Portfolio - Research & Develop	50,000.00	50,000.00	100.0%
Portfolio - Transportation	10,000.00	10,000.00	100.0%
Total National Corn Growers Assn.	300,000.00	300,000.00	100.0%
Nesika Energy Feasibility Study	7,000.00	7,000.00	100.0%
ProExporter Network Grain Study	7,950.00	7,950.00	100.0%
Santa Fe Trail Enterprises	7,000.00	7,000.00	100.0%
Smith Center Ethanol Feasibilit	7,000.00	7,000.00	100.0%
Undetermined Contracts	0.00	134,550.00	0.0%
Univ of Idaho Trout Project	8,500.00	8,500.00	100.0%
US Grains Council			

Kansas Corn Commission
Income & Expense Budget vs. Actual
 July 2001 through June 2002

	Jul '01 - Jun '02	Budget	% of Budget
Foreign Market Development	300,000.00	300,000.00	100.0%
Market Access Program	50,000.00	50,000.00	100.0%
Total US Grains Council	350,000.00	350,000.00	100.0%
US Meat Export Federation			
Japanese Marketing Project	8,000.00	8,000.00	100.0%
US Meat Export Federation - Other	80,000.00	80,000.00	100.0%
Total US Meat Export Federation	88,000.00	88,000.00	100.0%
Total Professional Services	1,313,107.29	1,434,562.00	91.5%
Transfers Between Accounts	0.00		
Travel			
In State Travel	7,160.11	10,000.00	71.6%
Out of State Travel	30,481.17	35,000.00	87.1%
Total Travel	37,641.28	45,000.00	83.6%
Uncategorized Expenses	0.00		
Total Expense	1,517,453.94	1,707,962.00	88.8%
Net income	47,335.96	-3,962.00	-1,194.7%

Agriculture Products Development Division

FY 2002 Review

BUDGET: \$1.372 Million

FTE'S: 9

Introduction and Overview

The mission of the Agriculture Products Development Division is to "help improve the economic conditions of Kansas agriculture producers while boosting the prosperity of rural communities." This vital function is accomplished by utilizing the unique talents of the Division to leverage State resources to capture additional revenue for agriculture producers. Further, by diversifying the agricultural economy, rural Kansas becomes a more resilient and robust business environment. The resources of the Agriculture Value Added Center (AVAC), the *From the Land of Kansas* trademark program, International Trade Development, and Domestic Marketing programs are the tools available to assist rural Kansas in its efforts. These programs, administered and directed by the Topeka staff and the Western Kansas Field Office in Hays, provide the direction and momentum to accomplish these goals.

FY02 marked the sixth year of existence for the Division, and this year added to the strong foundation of previous years. Division client sales, patronage, and premiums totaled \$58,911,640 for FY02. In addition, the Division facilitated \$154,000 in export grants for two food companies through participation in the Mid-America International Trade Council (MIATCO).

For the fourth year, the Division, in cooperation with USDA Rural Development, sponsored the fourth annual Value-Added Conference in Garden City, Kansas. In addition to the conference, this year's activities were expanded to include a Southwest Kansas Value-Added Tour. This successful and well-received tour provided a unique opportunity for Kansas producers and other stakeholders to see firsthand the efforts of Kansas producers engaged in value-added ventures and to witness the opportunities realized. The conference offered keynote presentations on U.S. Premium Beef and AgraMarke, along with breakout sessions addressing business and marketing issues with value-added agriculture.

The Western Kansas Field Office provided a vital link to Kansas producers and agribusinesses to access the opportunities and resources available from the Division. Continued efforts in the areas of ethanol, meat marketing, and specialty grains represent a small portion of the economic spectrum of western Kansas agriculture, and the Field Office continues to provide a critical link to expedite inquiries and to capitalize on the unique talents and resources available in western Kansas.

In addition to the Agriculture Products Development Division, other divisions of the KDOC&H assisted agriculture clients with funding of \$3,445,543.92 through the programs of Workforce Training, the Kansas Economic Opportunity Initiatives Fund, Community Development Block Grants, and the Kansas International Trade Show Assistance Program.

*Senate Agriculture
Attachment 2
1-22-03*

Domestic Marketing

Dairy Processing Study

In response to the requests of small dairy producers, the Division has undertaken a study of the feasibility of small-scale processing in Kansas. By leveraging state funds with a USDA grant of \$30,000, the Division was able to explore the entire value chain from inputs to customer demand. The consumer survey component of the study was completed in FY02, and results are positive. It revealed that there is a demand for high-quality milk products, including organic products, within an acceptable marketing area of Kansas producers. The study also highlights the techniques that are required for marketing and supply chain relationships necessary to penetrate and capture market share for these differentiated products.

The Division has completed the production portion of the report and is nearing completion of the processing component. When finished, this feasibility summary will be one of the few public domain resources available in the U.S. for use by producers wishing to capture additional value for their efforts. This report illustrates how cooperative efforts between the public and private sectors can benefit producers on a statewide scope. The published report will be available in Fall 2002.

Specialty Crop Grant Program

Through efforts of the Division, along with the United States Department of Agriculture (USDA) and the Kansas Department of Agriculture, the Specialty Crop Grant Program enhanced the diversification of the agriculture economy. A one-time appropriation of \$210,000 from the USDA was provided for the specialty crop industry. The focus of this grant program was to assist farmers in establishing or expanding farm infrastructure for specialty crop production and marketing. Thirteen organizations in Kansas were provided funding by this program to augment existing enterprises, expand into new markets, and diversify their product offerings by utilizing grant funds.

The following organizations will utilize the grants to accomplish their goals:

- **Atchison Farmer's Market, Inc. (Atchison County)**, \$1,684 – This market will utilize funds to increase consumer awareness of the variety of available produce, the nutritional benefits of the products, preservation and preparation tips, and the value that local food production represents to the community.
- **Downtown Topeka Farmer's Market (Shawnee County)**, \$1,850 – The goal of this group is to increase the customer base of the market, expand the use of billboards and printed materials, and to further educational efforts with the USD 501 and USD 345 school districts.

- **Salina Farmer's Market Association (Saline County), \$5,630** – Increased advertising and promotional materials with grant funding will enhance the already expanding customer base for this farmer's market.
- **Fieldstone Enterprises (Osage County), \$21,751** – A hi-density fruit orchard is the foundation of Fieldstone's efforts. By utilizing grant funds, this enterprise will expand and enhance a "U-pick" harvesting program, as well as maintaining and improving existing plantings.
- **Garden Variety Greenhouse (Osborne County), \$24,163** – More cost-effective heating for two existing greenhouses is the goal of this project. By utilizing water and corn for heating, Garden Variety hopes to both decrease expenses and increase production.
- **Keolzer Bee Farm (Nemaha County), \$12,122** – Funds will be utilized to expand the companies honey production.
- **North American Turf (Gray County), \$22,967** – This project will assist in marketing efforts by North American Turf, increasing both advertising and trade territory to Colorado and north central Kansas.
- **Brenda's Berries (Cherokee County), \$15,850** – By utilizing funds to install drip irrigation and spraying equipment, the establishment of fruit crops will best utilize available resources and climate.
- **Smoky Hills Bison Co. (McPherson County), \$20,000** – Expanding tourism and increasing production facilities is the goal of this project.
- **Gary's Berries (Jefferson County), \$20,000** – The grant will provide Gary's Berries with the opportunity to expand sales of berries and other specialty crop products. Funds will be used to build an enclosed structure to expand its product line.
- **4 Star Hydroponics (Stafford County), \$18,983** – This company needs to cover its greenhouses with Dyna-Glass to increase tomato production. This will result in an additional one to four hours of lighting for extra production.
- **Davenport Orchard and Vineyard (Douglas County), \$25,000** – Funds will be used to purchase larger, more efficient wine processing equipment, which will be added to current production. This additional equipment will contribute to current and future growth in sales.
- **Kansas State University (statewide), \$20,000** – K-State research and extension in Olathe will purchase equipment to evaluate post-harvest handling of horticulture crops. Funds will be used to purchase high grove tunnels, walk-in coolers, and washing facilities.

Technical Assistance

Technical assistance is a hallmark of the Division. The Division staff brings a varied and wide-ranging skill set to agriculture marketing inquiries. By providing this assistance, the opportunity to have an immediate and lasting impact on value-added projects is enhanced. Many times the obstacles to value-added ventures are not solely monetary in nature. Many producers, whether individuals or groups, have sought the expertise of the Division in finding solutions to challenges. The staff has provided technical assistance in a number of key areas in Kansas agriculture:

- Inquiries regarding meat processing and marketing continue to dominate the daily work of the Division. Many producers can, and do, capture additional farm-gate value, either through direct marketing of meat products, or through additional processing of a unique processed meat item for which they intend to capture a premium. However, establishing or upgrading a program such as this requires financial and marketing expertise, as well as certain technical and regulatory awareness. The Division staff has built considerable insight and expertise in the area of meat marketing and processing. A group of northeast Kansas bison producers benefited from the insights and network of the KDOC&H in its efforts to locate products in retail outlets in the Kansas City Metropolitan area.
- An increasing desire on the part of Kansas dairy producers to further process raw milk into either fluid milk or manufactured dairy products is another area of growing awareness. From upgrading an operation from incidental farm sales to a state inspected plant, to locating used equipment and regulatory insight, the Division assists a rising wave of dairy clients with alternative marketing ideas.
- In cooperation with independent consultants, the KDOC&H performed standard industrial classification research for the Kansas Organic Producers (KOP). KOP is currently constructing a survey of midwestern livestock feed dealers to determine demand for organic grain and forage products. Utilizing the Division staff and research resources of the agency, this request was expedited to establish a baseline for the survey's target audience.

Agriculture Value Added Center

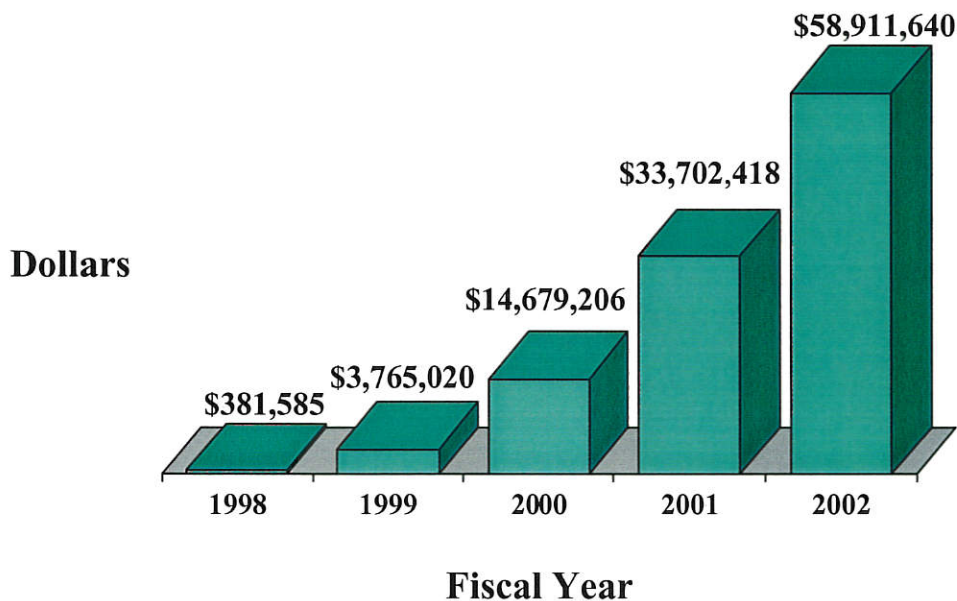
Value-added businesses and producer groups are an increasingly important part of today's agriculture marketplace. The ability of agriculture producers to participate in additional segments of the agriculture supply chain affords them the opportunity for additional revenue sources. The Value Added Center at the KDOC&H is instrumental in assisting these producer efforts by providing both technical and financial support to producer-driven projects. The Foods & Feeds program, the Industrial Agriculture program, and the Cooperative Development program are available to assist in financial analysis, marketing research, and technical assistance to help producers in capturing additional value from their efforts. Financial assistance in the form of bridge loans, commercialization loans, and market development loans are available to assist producers in their value-added ventures.

In FY02, the Division provided \$490,000 in the form of commercialization loans to six Kansas business groups. In addition, the Division provided \$60,000 to Kansas State University for pilot plant work in labeling, nutritional analysis, and regulatory compliance. An additional \$72,000 was granted to the Kansas Livestock Association for feasibility analysis of large-scale composting.

The results of these efforts are impressive. For FY02, projects financed by the Agriculture Products Development Division processed 673,412 head of beef cattle; 26,916 bushels of soybeans; 262,881 pounds of wheat, barley, rye and oat grass; 49,802 pounds of alfalfa; 101,756 bushels of wheat; 1,636,405 bushels of corn; 2,144 hogs; 58,937,894 pounds of milk; 4,000 pounds of tomatoes; and utilized 750,000 pounds of wheat resin from Kansas suppliers.

The graph below highlights the increase in sales by Division clients over previous years. Sales, patronage, and dividends in FY02 totaled \$58,911,640, an increase of 75 percent over FY01 levels.

Agriculture Value Added Center Client Sales, Patronage & Premiums



FY02 Agriculture Value Added Center Projects

KSU Food Science Pilot Plant: Many Kansas companies need technical assistance in the areas of food labeling, nutritional analysis, shelf-life testing, and product development. By providing the KSU Food Science Pilot Plant with \$50,000 to conduct these services, 942 clients saved over \$440,028.

KSU Meat Science Pilot Plant: Similar needs are being met on behalf of producers interested in value-added ventures with meat products. By providing the KSU Meat Science Pilot Plant with \$10,000 to perform these needed technical services, 411 clients saved over \$36,600.

Prairie Forrest Products, Hutchinson: The Value Added Center provided Prairie Forrest Products with a commercialization loan for \$60,000 to purchase a panel saw for correct sizing of fiberboard products that are produced from wheat straw available in Kansas.

Ethanol Project Funding: Interest in ethanol production continues to grow in Kansas. With continued concern regarding MTBE oxygenate in fuel contaminating ground water, the use of ethanol as a gasoline additive for cleaner-burning fuel is growing. The Division continues to provide technical assistance and funding to groups interested in exploring ethanol production. In addition, by utilizing the FY00 Ethanol Template, developed by the KDOC&H and the Kansas Grain Sorghum and Corn commissions, interested groups can determine the suitability of locating an ethanol facility in their communities.

The following groups received funding for development of their ethanol projects:

Central Kansas Renewable Fuels, McPherson: This group received a commercialization loan for \$50,000 for the purchase of technical services and other start-up costs for establishment of an ethanol plant based on grain sorghum usage.

Western Kansas Agri-Energy, Hoxie: This group has proceeded to the equity drive stage and has received a commercialization loan for \$100,000 for professional services and start-up costs for the plant to be located near Campus, Kansas.

East Kansas Agri-Energy, Garnett: This is another group that has proceeded to the equity drive phase and has received \$75,000 for professional services and start-up costs for its ethanol project. This project has over 100 members contributing capital to the business.

Heartland Mills, Marienthal: This established firm received a commercialization loan for \$85,000 to purchase a pneumatic grain handling system for the mill it is constructing in Marienthal, Kansas. The mill will be used to process organic grains that the company has been marketing for a number of years to downstream clients in niche marketing of bread and other grain-based products. The mill they are constructing will replace the milling that is currently being performed by an outside firm. By having their own mill, they will reduce their transportation costs and will be better able to schedule operations to meet customer demand.

Companion Baking, Shawnee: Providing artisan baked goods to a diverse customer base is the goal of a market expansion of Companion Baking. By targeting existing retail channels and establishing new market opportunities, Companion Baking will be providing the Kansas City Metropolitan area with special bread products derived from unique quality ingredients from Kansas producers. The commercialization loan will provide \$120,000 for the purchase of specialized ovens needed for the preparation of their distinctive product offerings. Companion Baking expects the Kansas City market will utilize 538,000 pounds of flour in 2003.

Composting Feasibility Study: Cooperating with the Kansas Livestock Association (KLA), the Kansas Department of Health and Environment, and the Environmental Protection Agency, the Division provided a \$72,000 grant to the KLA for a marketing feasibility study of a commercial-size compost pilot project. The project will research the viability of composting livestock waste on a commercial scale with the ultimate goal of turning a perceived environmental hazard into a profit center.

International Program

Mid-America International Agriculture Trade Council (MIATCO)

International marketing of Kansas agriculture products is a vital part of the work conducted by the Division. As a leader in international marketing efforts for the state of Kansas, the KDOC&H has maintained its relationship with the Mid-America International Trade Council (MIATCO) and has utilized grant funding from MIATCO to assist two companies in their international marketing efforts. A total of \$154,000 was obtained by Kansas companies to assist in their efforts. The companies are required to match funding contributions.

The companies receiving funding are:

- Natural Life Pet Products, Frontenac - \$117,500
- Original Juan Specialty Foods, Inc., Kansas City - \$36,500

The results of the efforts of the Division and these companies are indeed impressive. For the \$154,000 in funding obtained, actual sales as a result increased by \$944,501, or a six-dollar return for every dollar obtained.

Mexican Specialty Corn Survey

The Agriculture Products Development Division undertook an initiative to research and analyze the potential market for specialty corn varieties in the Mexican market. In cooperation with the Trade Division and our Mexican field office, the study included a survey of corn importers, distributors, and processors in Mexico to determine current types of corn used, consumption volumes, purchasing patterns, and logistic factors. In addition, government and industry leaders were interviewed to add additional insight into potential Mexican markets.

The Mexican market represents an evolving market where the consumer base continues to build the amount of disposable income and, hence, the demand trends are shifting to a higher quality baseline. As the world's fourth largest consumer of corn, Mexico has increased the utilization of both ISO-9000 and NMX-CC-004 protocols and moved toward specialized grain utilization for manufactured corn products and derivatives. The marketplace in Mexico represents an additional opportunity for specialty corn production and identity preservation efforts for Kansas producers.

Trade Teams

The international trade staff of the Agriculture Products Development Division, in concert with the Trade Division, continues to host a number of trade delegations that are interested in trade opportunities with the state of Kansas. In FY02, these delegations included:

- French West African delegation
- Kazakhstan Ambassador agriculture tour
- International grain team from Latin American and Asia
- Turkish agriculture tour of Kansas City Board of Trade and Pine's turf farm
- Sub-Saharan African trade delegation
- Brazilian and Chinese agriculture officials
- Japanese Consul General

From the Land of Kansas Trademark Program

This well-known program continues to have a positive impact on the Kansas economy. The loyalty and dedication to the *From the Land of Kansas (FLOK)* program is a true indicator of the impact it has had on small businesses in the state of Kansas. The diversity of products and the talent of the members of this program is a testament to the skill, ambition, and ingenuity the Kansas economy continues to foster. Through the Trade Show Assistance program, the Business Enhancement Fund, and services provided by the Value Added Center, small businesses in Kansas benefit from assistance in technical areas, marketing, and finances. In FY02, 648 *FLOK* companies utilized Division services to assist in their business development efforts.

The 16th Annual Buy Kansas, Buy America Expo again proved to be a resounding success with all participants and the general public. This annual display of talent and innovation hosted 42 *FLOK* companies, whose products were displayed in a centerpiece booth at the trade show. The display of *FLOK* products in one booth under a unified theme was a hit with show attendees.

The Trade Show Assistance program helped ten *FLOK* clients in FY02 with cumulative awards of \$2,469.86. In turn, these clients generated \$10,354.25 in sales from their respective shows. The companies utilizing FY02 Trade Show Assistance program funds are as follows:

Magnificent Metal	Scranton	\$250.00
Jim's Iron Art	Topeka	\$250.00
The Button Man	Lawrence	\$250.00
Fancy T's and More	Waterville	\$250.00
Harvest Lark Company	Chapman	\$250.00
Kreative Stitches	Ensign	\$219.86
Kansas Wheat House	Cimarron	\$250.00
Grannie's Homemade Mustard	Hillsboro	\$250.00
Treehouse Berry Farms	Linwood	\$250.00
Central Supply	Great Bend	\$250.00

The *From the Land of Kansas* program also includes the Business Enhancement program, which provides a dollar-for-dollar match for businesses to explore market development, business development, and many other areas deemed appropriate by the Division. The following companies utilized Business Enhancement program funds in FY02:

Magnificent Metal	Scranton	\$500.00
The Button Man	Lawrence	\$500.00
Pome on the Range	Williamsburg	\$500.00

Western Kansas Field Office

The Western Kansas Field Office, located on the campus of Ft. Hays State University, continues to play an integral part in the efforts of the Division to highlight and capture the benefits and rewards a diverse state like Kansas has to offer. The Field Office was the coordinating force behind the Heartland Mills project, which brings another alternative market venue and value-adding options to western Kansas producers.

Dairy Recruitment

The Western Kansas Field Office plays a vital role in the efforts to recruit dairies to western Kansas. By working in concert with the western Kansas Rural Economic Development Alliance (wKREDA), the dairy industry in western Kansas is expanding its role in the economy and the diversity of the state. From hosting visiting producers and groups interested in

relocating to western Kansas and working with wKREDA to study the ancillary industries related to dairying; to replacement heifer production and dairy processing, this partnership continues to reap dividends.

The efforts of the KDOC&H and wKREDA have played an important part in the growth and health of the Kansas dairy industry. Because of these efforts, Kansas ranks sixth in yearly gains for milk production in the U.S., with an increase of 4.5 percent. Total milk production by Kansas dairies has increased by 34.2 percent. The number of cows in Kansas has increased by 13.4 percent, to a total of 93,000 head. Per cow production of milk has increased 2,678 pounds, as measured on a yearly basis.

Ethanol

The Western Kansas Field Office continues to act as a clearinghouse for ethanol inquiries from that portion of the state. Many producers realize the opportunities that ethanol production represents to them and their communities, and they see ethanol production as another opportunity to capture additional value for their production. Western Kansas has an existing market for distiller's grain, a by-product of ethanol production, in the feedlot and dairy industries in the state. The Field Office continues to assist producers in feasibility studies, in equity drives, and with technical assistance.

Update for Fiscal Year 2003

Budget: \$1.347 Million

FTE'S: 9

Events:

2002 Agriculture Value Added Conference/Kansas Commodities Classic: The Division joined forces with Kansas producer associations to host the annual value added conference in conjunction with the annual Kansas Commodity Classic in Wichita. The conference, attended by approximately 200 persons, focused on marketing, risk management, and value added activities for agriculture producers.

2002 Direct Marketing Seminar: In December of 2002, the Division partnered with Farm Bureau District #2 to host a seminar for producers interested in directly marketing their agricultural products. Approximately 75 people attended the one-day conference held at Johnson County Community College.

Kansas Ethanol Workshop: Continuing its commitment to growing the ethanol industry in Kansas, the Division has partnered with the coordinators of the *Kansas Ethanol Workshop*, to be held at the Capital Plaza Hotel in Topeka, Kansas, on January 23, 2003.

International:

Japan: In September of 2002, the Division, in coordination with the KDOC&H Japan Office, spearheaded a series of beef promotion events in Tokyo, Japan. These events were planned in conjunction with the 34th Annual Midwest US Japan Conference.

Cuba: In December of 2002, the Agriculture and Trade Divisions facilitated an agriculture trade mission to Cuba, led by then Lt. Governor Gary Sherrer and Lt. Governor John Moore. The mission also included representatives of the Kansas Soybean Commission, Kansas Pork Producers Association, Kansas Corn Commission, Kansas Wheat Commission, Kansas Grain Sorghum Producers Association, and the Kansas Farm Bureau. The delegation met with Pedro Alvarez, Chairman of Alimport, the Cuban state organization responsible for importing agriculture commodities, and Eduardo Bencomo, Chairman of Cimex Corporation, the Cuban company responsible for importing processed food products, as well as other government leaders. The Division is currently following up with Kansas companies on the opportunities to sell both agriculture commodities and processed food products to Cuba.

MIATCO: The Division has assisted five Kansas companies in receiving \$137,060 in grant financing from the Midwest International Agriculture Trade Council for international market development. The following companies have received funding:

- Natural Life Pet Products
- Original Juan Specialty Foods, Inc.
- S&M NuTec, LLC
- The Pantry Shelf Co.
- Wyldewood Cellars

Senate Agriculture
Attachment 3
1-22-03

Agriculture Value Added Center:

The Division has funded the following value-added projects in FY03:

2003-01 KSU Meat Science Pilot Plant

Grant Amount: \$10,000

State of Kansas

This grant funds the KSU Meat Extension lab and is very important to the state's meat processors. In fiscal year 2002, the lab served 411 clients, saving them over \$36,600.

2003-02 KSU Food Science Pilot Plant

Grant Amount: \$50,000

State of Kansas

The lab serves a variety of needs of food processors, including food labeling, nutritional analysis, shelf life testing, and product development. The pilot plant saved 942 clients over \$440,028.

2003-05 Jason Wiebe Dairy

Loan Amount: \$30,000

Durham, Kansas

Jason Wiebe began selling fresh cheese from his farm in November 2000. Since that time he has had over 200 different customers. The cheese is made from Wiebe's 100-head cowherd. With this loan, Wiebe will expand his cheese making to utilize more of his milk production. He will sell the cheese directly to consumers through grocery stores in Hillsboro, Abilene, Salina, Wichita, and McPherson.

2003-06 Dinah's Noodles

Loan Amount: \$79,500

Clyde, Kansas

Dinah Terrill will use the loan to expand her egg noodle and dressings business. Specifically, the funds will purchase a larger pasta machine and a CO2 tunnel for production purposes.

2003-07 Cooperative Agricultural Services, Inc. Loan Amount: \$90,986

Oakley, Kansas

The loan was used to purchase the Insta-Pro conveyor package system for a soybean processing plant serving Northwest Kansas.

2003-08 Prairie Pride, Inc.

Loan Amount: \$60,000

Potwin, Kansas

The loan was awarded to Prairie Pride, Inc. to purchase and install a universal dairy processing facility. The business will be able to produce a wide variety of dairy products such as cheese, yogurt, bottled milk and sour cream. The processing unit will use 4,000 pounds of milk per day the first year, and 12,000 pounds of milk per day thereafter.

2003-09 Davenport Orchards & Vineyards

Loan Amount: \$75,000

Eudora, Kansas

The loan will be used to construct a grape harvesting & wine production building. The winery opened commercially in 1997. Since that time, they have operated out of a converted garage for sales, a machine shed for crushing, & a basement for cellar operations. The winery is currently producing 2,000 – 2,500 gallons per year. They plan to build a 30' x 50' facility for the production and sales of wine. With the expansion, Davenport will increase production to 10,000 gallons per year.

Domestic Marketing:

Utilizing funding from the USDA Block grant allocated to Kansas, the Division partnered with the Kansas Department of Agriculture to administer \$125,000 in grant financing to the following entities:

RWH Farms Inc. (D.B.A. R-W Milling Company) **\$25,000**
“Value Added Marketing of Kansas Alfalfa in Organic Fertilizers.” The grant provided R-W Milling Company with funding for marketing and market development. The company has been developing new products that are targeted to reach the market in the fall of 2002. This project will help move alfalfa into a relatively new, rapidly growing, high value added market for Kansas alfalfa. *Pottawatomie County*

Beaver Creek Ranch and Hunting Lodge **\$22,000**
“Direct Marketing Kansas Resources through Tourism.” The grant provided Beaver Creek Ranch and Hunting Lodge with funding for the upgrade to a commercial-sized kitchen. Beaver Creek has plans to hire a full-time chef to prepare home grown produce, chickens, and beef to market directly to hunting and vacation guests.
Rawlins County

KanSoy LLC **\$22,000**
“Soybean Oil Marketing and New Product Plan.” The grant provided KanSoy LLC with funding for marketing and equipment of its soybean processing facility. The business has identified the need to transform the operation into a more sophisticated, professional marketing and new product entity. With funding, KanSoy LLC will be able to more aggressively brand and package current products while continually developing new products.
Washington County

Wiedmann Farm Fresh Meats **\$6,000**
“Wiedmann Farm Fresh Meats Diversification.” The grant provided Wiedmann Farm Fresh Meats funding for equipment and marketing for its direct marketing meat company. An opportunity for an increase in storage equipment is needed for the business to continue with the current demand for their product, as well as provide for expansion. In addition, Wiedmann will address new marketing avenues for their products.
Nemaha County

Natural Path Food Market (formerly Grassland Farms) **\$25,000**
“Business Expansion.” Grassland Farms is using the grant funding to expand its organic beef and pork operation to include an on-farm retail facility. They have identified the need for a certified kitchen to prepare fresh products from homegrown commodities. Grassland Farms will utilize the funding for the purchase of equipment and marketing.
Cowley County

Wakarusa Valley Farm **\$22,000**
“Specialty Mushroom Cultivation.” Wakarusa Valley Farm will utilize the grant funding for an indoor mushroom operation. Wakarusa Valley has identified an untapped market with fresh local produce in the Topeka, Lawrence, and Kansas City areas. The current market strategies include: subscription service, farmers’ markets, Community Mercantile, and local restaurants.
Douglas County

Kansas Christmas Tree Growers Association, Inc.

\$6,000

“Marketing Kansas Christmas Trees.” The Christmas Tree Growers Association is utilizing the grant for a marketing campaign. With the increase in artificial Christmas tree usage, the association would like to target funds for an advertising campaign through television. The funds will assist with the cost of television ad space.

Shawnee County