

MINUTES OF THE HOUSE AGRICULTURE AND NATURAL RESOURCES COMMITTEE

The meeting was called to order by Chairman John Faber at 3:30 P.M. on January 24, 2008 in Room 783 of the DSOB.

All members were present except:

Representative Doug Gatewood - excused
Representative Vaughn Flora - excused

Committee staff present:

Raney Gilliland, Kansas Legislative Research Department
Hank Avila, Kansas Legislative Research Department
Gordon Self, Revisor of Statutes
Kristen Kellems, Revisor of Statutes
Florence Deeter, Committee Assistant

Conferees appearing before the committee:

Becki Rhoades, Department of Commerce, International Marketing, Department of Agriculture
Corey Mohn, Agribusiness Development, Department of Agriculture

Others attending:

See attached list.

The Chair welcomed Jeanne Stinson, Interim Director for Ag Marketing and Community Development, Kansas Department of Commerce, who introduced the Agricultural Marketing team and announced that Carol Jordan will be the new director for Ag Marketing and Community Development.

Responding to previous questions, Becki Rhoades highlighted items in the budget of interest to Committee members (Attachment 1). She said that the EDIF (Economic Development Initiatives Fund) allocations from 2005 through 2008 are relatively consistent, as are the total expenditures, except for a grant from the USDA (United States Department of Agriculture) for \$913,000 for Kansas State University. She noted that the funding beyond EDIF goes to a loan program and other selected programs.

Answering questions, Ms. Rhoades said that the total expenditures includes EDIF and that most of expenditures are derived from EDIF; she noted that the fluctuations are governed by the number of applications received for loan programs. She said that EDIF receives annual funds from the Kansas Lottery. Ms. Rhoades explained that the loan balance grows slightly each year, depending on the amount of repayments—currently there is a balance about \$1 million. She explained 2001 was a turning point in the loan program; after 2001 the division has scrutinized credit more closely and now realizes a good return on their loans. She said the interest rate for loans is interest-free for the first two years, and then becomes one point over the prime rate from then on.

Corey Mohn explained that a review team assesses a loan application, conducts an interview with the applicant, evaluates the applicant's repayment history, and makes a decision; he observed that two to three loans were turned down last year. He said it is important that each applicant be willing to provide some level of matching funding for the start of the business.

Ms. Rhoades replied that usually there are more applications than money available. She said some loans require a feasibility study for start-up companies; some loans are for upgrades. In addition, the division tries to stay on the cutting edge; however the division also seeks to involve many other resources that fit the applicant's needs. She stated that if multiple resources are providing funds, the division always seeks to obtain the first mortgage.

Mr. Mohn replied that high credit score usually causes an applicant to be rejected; the division is not a bank, but uses a criteria matrix, which includes a management assessment, to determine the amount of risk. Ms. Rhoades indicated that should a business default, Agriculture Marketing repossess the business, sells the equipment and pays off the original business loan. She offered to provide information later to identify which of the listed loans were not repaid. Following a member's comment that the 2008 EDIF allocation of \$931,000 included \$300,000 for loans and about \$100,000 for KSU, leaving \$530,000 for administration, she

CONTINUATION SHEET

MINUTES OF THE House Agriculture and Natural Resources Committee at 3:30 P.M. on January 24, 2008 in Room 783 of the DSOB.

listed \$380,000 for salaries, \$132,000 for contractual services, \$16,400 for commodities, and capital outlay for \$5,500 as administrative expenses.

The Chairman requested a balance sheet showing assets and outstanding expenditures to be submitted to the Committee.

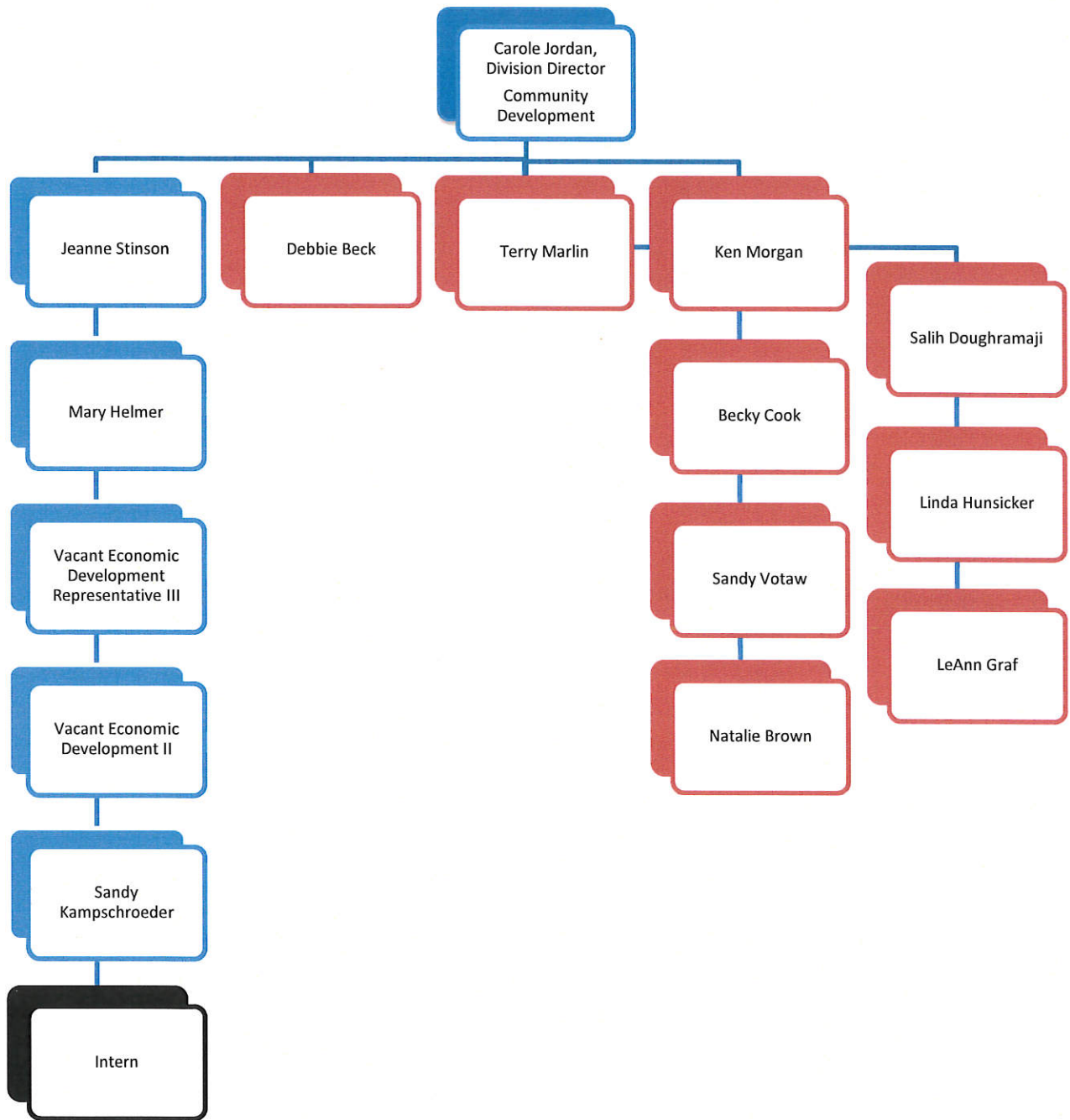
The Chairman congratulated Carole Jordan on her new appointment as Director of Agriculture Marketing.

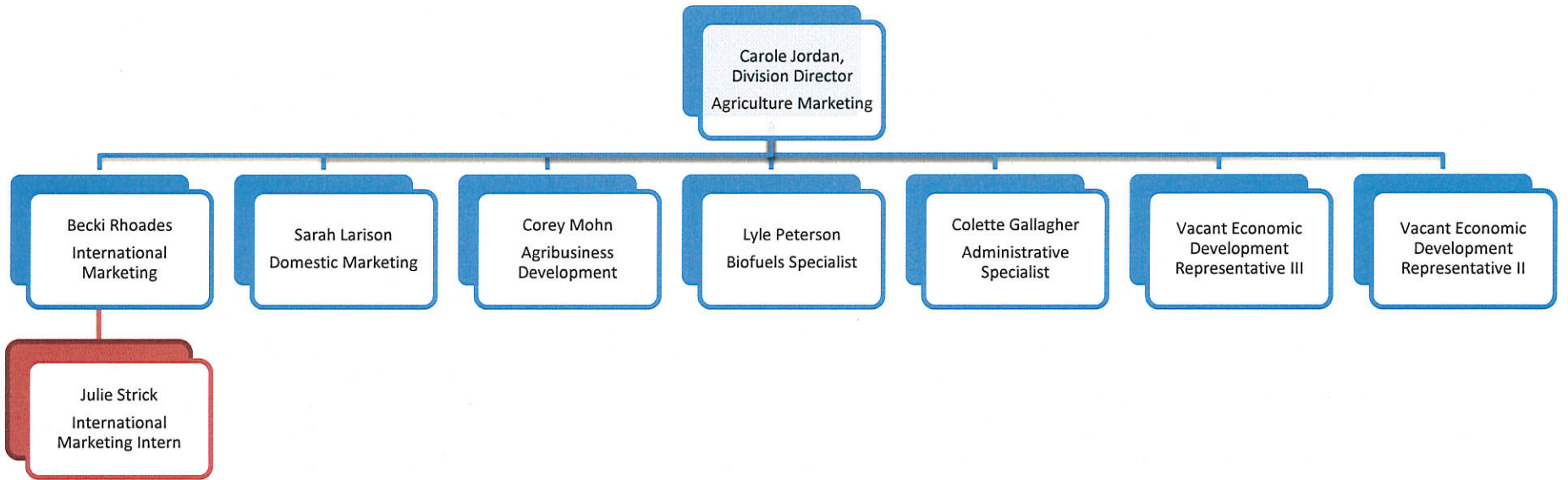
The meeting was adjourned at 4:15 p.m. the next meeting is scheduled for January 27, 2008.

Ag Marketing Division

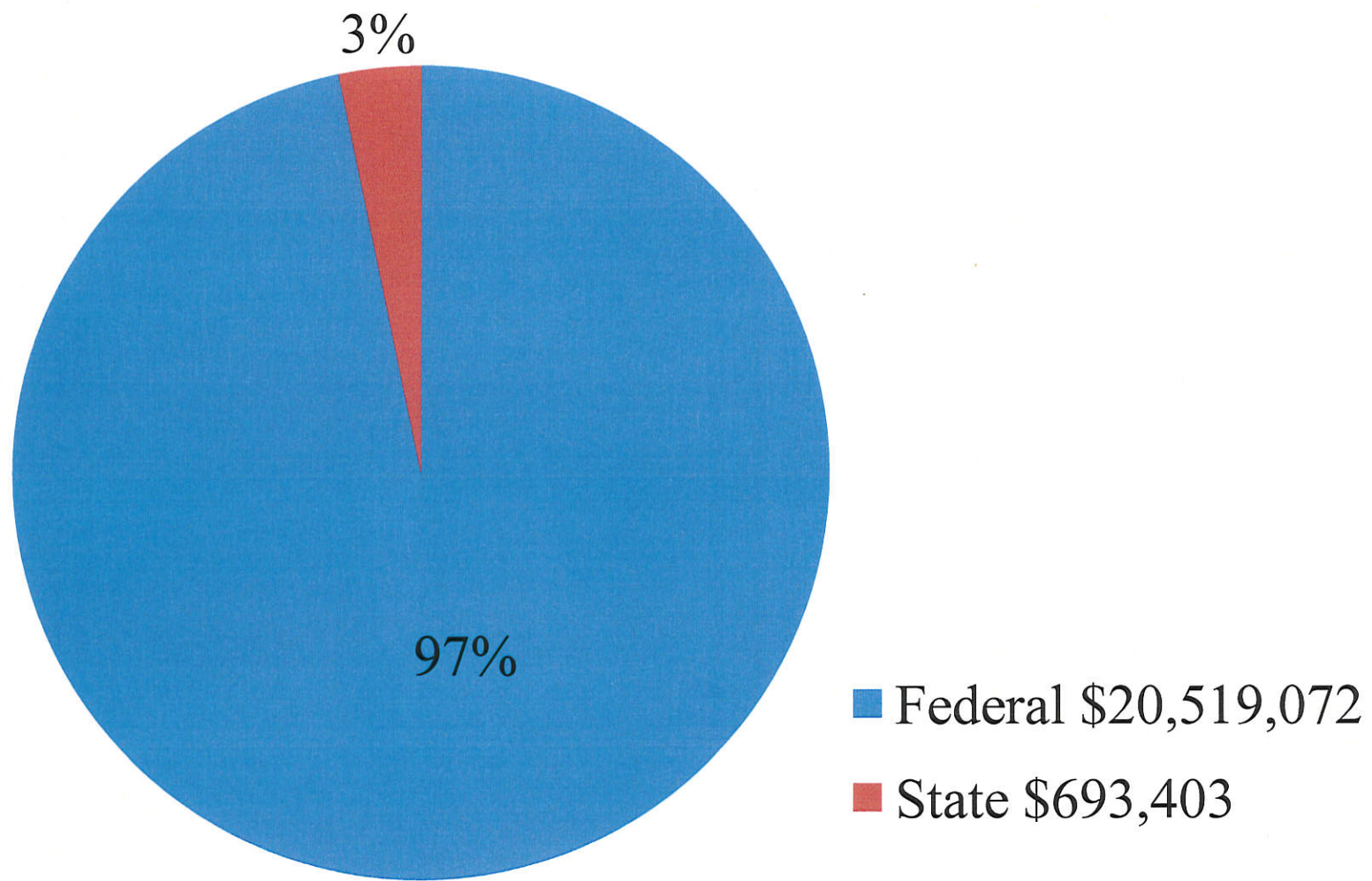
The Kansas Department of Commerce, and therefore the Ag Marketing Division, receives funding through the Economic Development Initiatives Fund (EDIF) each year. This fund receives its monies from Lottery proceeds and its purpose is to support economic development initiatives within the state.

The Ag Marketing Division promotes economic development by working with agricultural companies to create successful and sustainable businesses through technical assistance, business coaching and referring clients to resources of information. In addition, the Division has a low interest loan program funded by both the EDIF and Market Development Funds for new and existing value added businesses to put monies directly in the hands of the producers. The Division also offers two small grant programs through the Market Development Fund for education and marketing.

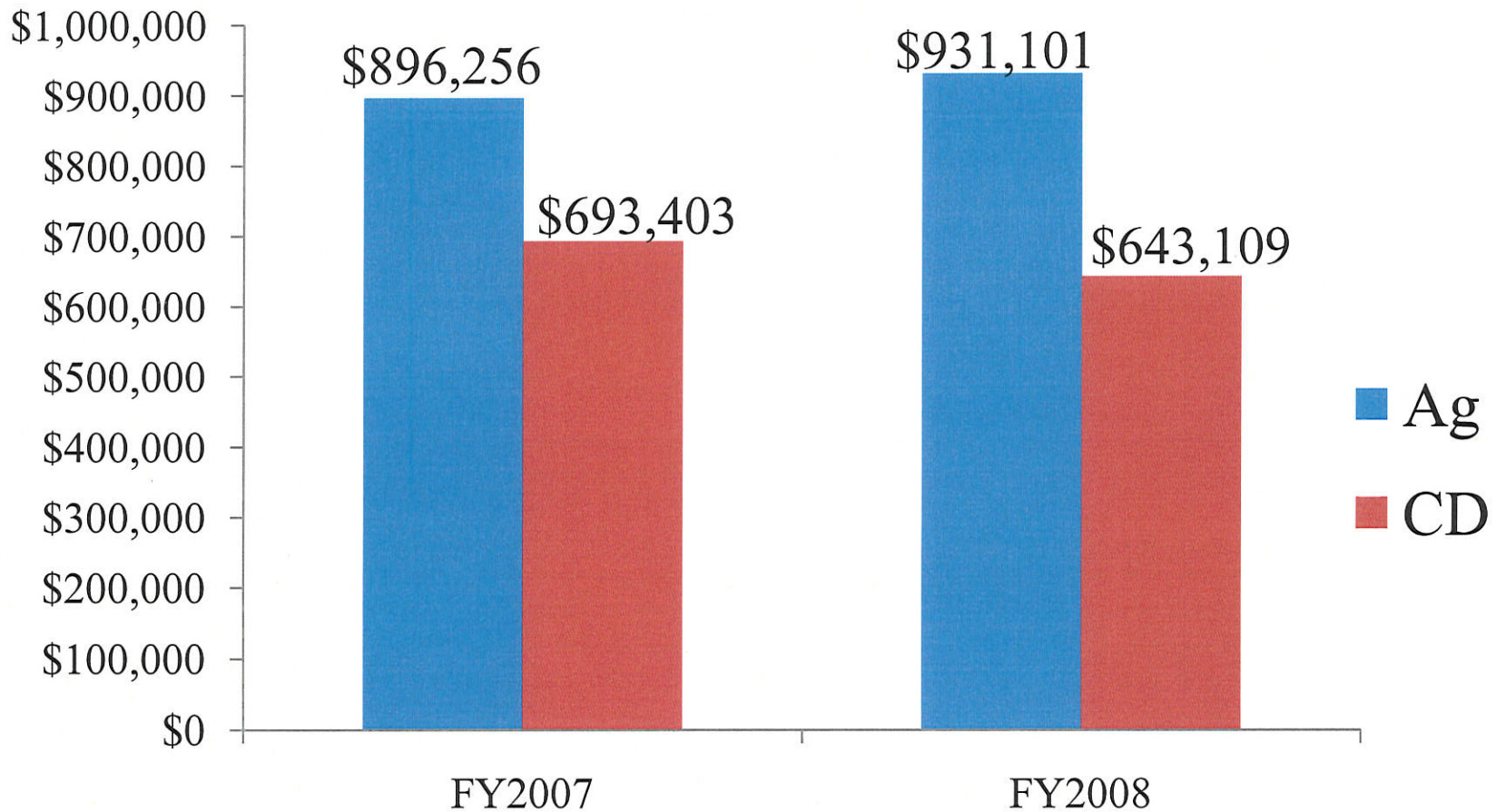




CD State \$ vs. Federal \$ FY07



EDIF--Ag vs. CD State Funding





1/24/2008

1-6

Agriculture Marketing Allocations vs. Expenditures in the Department of Commerce

<u>Fiscal Year</u>	<u>Total EDIF Allocation</u>	<u>Total Expenditures</u> *	<u>Dollar Change</u> *	<u>Percent Change</u> *	<u>Funding Over EDIF</u>
FY 1997		1,231,957			
FY 1998		1,306,856	\$ 74,899	6.1 %	
FY 1999		1,477,205	170,349	13.0	
FY 2000		1,237,730	(239,475)	(16.2)	
FY 2001		1,419,252	181,522	14.7	
FY 2002		1,371,740	(47,512)	(3.3)	
FY 2003		1,696,873	325,133	23.7	
FY 2004		1,175,670	(521,203)	(30.7)	
FY 2005	948,976	2,299,159	1,123,489	95.6	1,350,183
FY 2006	992,824	1,030,642	(1,268,517)	(55.2)	37,818
FY 2007	896,256	899,604	(131,038)	(12.7)	3,348
FY 2008 Gov. Rec.	931,100	1,771,600	871,996	96.9	840,500
FY 2009 Gov. Rec.		1,762,164	(9,436)	(0.5)	
Change from FY 1997				43.0 %	

* As provided by Kansas Legislative Research Department, 1/22/08.

Kansas Department of Commerce Agriculture Marketing Division

Biofuels Funding Since 2001

FY01

Nesika Energy LLC Ethanol Feasibility	\$15,500
Total	\$15,500

FY02

Western Plains Energy LLC	\$100,000
East Kansas AgriEnergy	\$75,000
Central KS Renewable Fuels	\$50,000
Total	\$225,000

FY04

Kansas Renewable Energy	\$10,000
E2-Ethanol Energy	\$30,000
Total	\$40,000

FY06

KanAgri Energy LLC	\$40,000
Conestoga Energy	\$27,500
NEK SEN Energy Partners	\$40,000
State Energy Program Grant	\$30,000
AgraMarke Ethanol	\$30,000
Northeast KS Bioenergy	\$79,500
Central KS Biodevelopment	\$22,000
Conestoga Energy (Liberal Ethanol)	\$7,500
Total	\$276,500

FY07

South Central Kansas Bioenergy	\$20,000
Kansas Wheat Biomass Project	\$50,000
Total	\$70,000

FY08

Hoelscher Ag Development	\$16,000
Total to Date	\$16,000

Total for all Fiscal Years:	\$643,000
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Ethyl Alcohol Production Incentive

- \$0.075 for each gallon sold by the producer.
- Producers who are in production prior to July 1, 2001 and who increase production capacity on or after July 1, 2001 by an amount of 5 million gallons qualify for the incentive for a maximum of 15 million gallons sold per year.
- Producers who commenced production on or after July 1, 2001 and who sold at least 5 million gallons qualify for the incentive for a maximum of 15 million gallons sold per year.
- \$875,000 per quarter is added to the fund for distribution. If production exceeds the fund balance, a proration of the distribution is performed.
- Program sunsets July 1, 2011.
- Reference Kansas Statutes 79-34,160-164

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Biodiesel Fuel Producer Incentive

- \$0.30 for each gallon sold by the producer.
- Kansas qualified biodiesel fuel producers may file for the incentive beginning July 1, 2007.
- A one-time payment of \$400,000 will be added to the fund for distribution through June 30, 2008.
- \$875,000 per quarter beginning July 1, 2008 is added to the fund for distribution. If production exceeds the fund balance, a proration of the distribution is performed.
- Program sunsets July 1, 2016.
- Reference Kansas Statutes 79-34, 155-159

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Biomass-to-Energy Plant Tax Credit

- An income tax credit, beginning with the 2006 tax year, for expenditures in new construction or expansion of the capacity in an existing plant.
- The credit is 10 percent of the taxpayer's qualified investment on the first \$250 million invested, and 5 percent of the taxpayer's qualified investment that exceeds \$250 million.
- Credit shall be taken in 10 equal annual installments.
- Before making a qualified investment, a taxpayer shall apply to the Secretary of Commerce to enter into an agreement for a tax credit.
- In addition to the income tax credit, a taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility. Such deduction shall be equal to 55 percent of the amortizable costs of the facility for the first taxable year, and 5 percent for the next nine taxable years. The provisions of this section shall apply to all taxable years commencing after December 31, 2006 and is administered by the Secretary of Revenue.
- Reference Kansas Statutes 79-32, 233-237

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Agriculture Value Added Loan

- Loans for feasibility studies, business plans or equity drives are typically funded at the 50 percent level.
- Loans for feasibility studies are forgivable if the project does not move forward. Equity drive loans are typically paid back within 120 days of successful conclusion of the equity drive.
- Other loans are interest-free for two years and 1 percent over prime for the balance of the loan.

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Enterprise Zone Incentives

- Investment tax credit of \$1,000 for each qualified business facility investment starting at \$51,000 or more.
- Jobs tax credit of \$1,500-\$2,500 with a minimum of two jobs created.
- Exemption from state and local sales tax on all tangible personal property or services purchased for the construction, enlarging or remodeling of a business. The sale and installation of machinery and equipment purchased for the installation at the business shall also be exempt from sales tax.
- Credits can be carried forward until used.

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High Performance Incentive Program (HPIP)

- HPIP provides an investment tax credit to companies that pay above-average wages and have a strong commitment to skills development for their workers.
- Employer must invest 2 percent of payroll in training or participate in one of Commerce's workforce training programs.
- A capital investment tax credit equal to 10 percent of eligible investment that exceeds \$50,000.
- A project description must be submitted prior to any commitment of investment.
- Credits can be carried forward 10 years.
- A company can elect to take the High Performance Investment Credits or the Enterprise Zone Investment Tax Credits, but not both.

David Bybee, (785) 296-7174, dbybee@kansascommerce.com

CDBG – Economic Development Loans

- The maximum amount of funding is \$35,000 per created job up to \$750,000.
- At least 51 percent of the jobs must meet HUD's low-and-moderate income (LMI) test for the county in which the project is located.
- The local unit of government must apply for infrastructure funding on behalf of a private for-profit biofuel entity. Funds may be used for water, sewer, road or a rail spur.
- This program requires that half the funds be paid back over a 10-year period at a 2 percent rate. This payment stream is accomplished through a special assessment placed on the property.

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KANSAS Alternative Energy Incentives

Renewable Electric Cogeneration Facility Tax Credit

- “Renewable Electric Cogeneration Facility is a facility owned and operated by the owner of an industrial, commercial or agricultural process to generate electricity for use in such process to displace current or provide for future electricity use.
- Income tax credit equal to 10 percent of taxpayer’s qualified investment for the first \$50 million and an amount equal to 5 percent of the amount that exceeds \$50 million. Program is for taxable years commencing after December 31, 2006 and before January 1, 2012.
- Credit shall be taken in 10 equal annual installments.
- Before making a qualified investment, a taxpayer shall apply to the Secretary of Commerce to enter into an agreement for a tax credit.
- In addition to the income tax credit, a taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility. Such deduction shall be equal to 55 percent of the amortizable costs of the facility for the first taxable year, and 5 percent for the next nine taxable years. The provisions of this section shall apply to all taxable years commencing after December 31, 2006 and is administered by the Secretary of Revenue.
- Reference Enrolled House Bill No. 2038
Lyle Peterson, (785) 296-6080, lpeterson@kansascommerce.com
- New Renewable Electric Cogeneration Facility; The Kansas Development Finance Authority is authorized to issue revenue bonds in amounts sufficient to finance the construction costs of such facility.
- Reference Enrolled House Bill No. 2038
Rebecca Floyd, (785) 357-4445 Ext. 303, rfloyd@kdjfa.org

Alternative-Fuel Fueling Station Tax Credit

- Expenditures for qualified alternative-fuel fueling stations shall be allowed a credit against the income tax imposed against the owner of such facility.
- For any qualified alternative-fuel fueling station placed in service on or after January 1, 1996 and before January 1, 2005, an amount equal to 50 percent of the total amount expended but not to exceed \$200,000 for each fueling station.
- For any qualified alternative-fuel fueling station placed in service on or after January 1, 2005 and before January 1, 2009, an amount equal to 40 percent of the total amount expended but not to exceed \$160,000 for each fueling station.
- For any qualified alternative-fuel fueling station placed in service on or after January 1, 2009, an amount equal to 40 percent of the total amount expended but not to exceed \$100,000 for each fueling station.
- This fund is administered by the Kansas Department of Revenue.
- Reference Enrolled House Bill No. 2145
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Storage and Blending Equipment Tax Credit

- “Storage and Blending Equipment” means any equipment which is used for storing and blending petroleum-based fuel and biodiesel, ethanol or other biofuel and is installed at a fuel terminal, refinery or biofuel production plant. This does not include equipment used only for denaturing ethyl alcohol.
- Income tax credit equal to 10 percent of the taxpayer’s qualified investment for the first \$10 million invested and an amount equal to 5 percent of the amount that exceeds \$10 million. Program is for taxable years commencing after December 31, 2006 and before January 1, 2012.
- Credit shall be taken in 10 equal annual installments.
- Before making a qualified investment, a taxpayer shall apply to the Secretary of Commerce to enter into an agreement for a tax credit.
- In addition to the income tax credit, a taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility. Such deduction shall be equal to 55 percent of the amortizable costs of the facility for the first taxable year, and 5 percent for the next nine taxable years. The provisions of this section shall apply to all taxable years commencing after December 31, 2006 and is administered by the Secretary of Revenue.
- Storage and Blending Equipment is exempt from all property taxes levied for the 10 taxable years immediately following installation.
- Reference Enrolled House Bill No. 2038
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Kansas Retail Dealers Incentive Fund

- Kansas Retail Dealers Incentive Fund was created for the payment of incentives to Kansas retail dealers who sell and dispense renewable fuels or biodiesel through a motor fuel pump.
- On January 1, 2009, and quarterly thereafter, \$400,000 will be directed from the general fund into the Kansas Retail Dealers Incentive Fund. On or after July 1, 2009 the unobligated balance in the fund shall not exceed \$1.5 million.
- The retail dealer’s renewable fuels threshold percentage must be 10 percent for any quarter in the calendar year 2009, and increase 1 percent per year to a total of 25 percent by the end of calendar year 2024. For any determination period in which the retail dealer attains the threshold percentage, the incentive rate is 6.5 cents per gallon.
- The retail dealer’s biodiesel threshold percentage must be 2 percent for any quarter in the calendar year 2009, and increase 2 percent per year to a total of 25 percent by the end of calendar year 2024. For any determination period in which the retail dealer attains the threshold percentage, the incentive rate is 3 cents per gallon.
- The provisions of the Kansas Retail Dealers Incentive Fund shall expire on January 1, 2026.
- Reference Enrolled House Bill No. 2145
Edie Martin, (785) 296-3307, edie_martin@kdor.state.ks.us

Waste Heat Utilization System

- “Waste Heat Utilization System” means facilities and equipment for the recovery of waste heat generated in the process of generating electricity and the use of such heat to generate additional electricity or to produce fuels from renewable energy resources or technologies.
- “Waste Heat Utilization Property” shall be exempt from all property taxes levied under the laws of the state of Kansas for 10 taxable years immediately following the taxable year in which construction or installation is complete.
- In addition to the property tax credit, a taxpayer shall be entitled to a deduction from Kansas adjusted gross income of the amortizable costs of a new facility. Such deduction shall be equal to 55 percent of the amortizable costs of the facility for the first taxable year, and 5 percent for the next nine taxable years. The provisions of this section shall apply to all taxable years commencing after December 31, 2006 and is administered by the Secretary of Revenue.
- Reference Enrolled House Bill No. 2038
Edie Martin, (785) 296-3307, edie_martin@kdor.state.ks.us
- Waste Heat Utilization System; The Kansas Development Finance Authority is authorized to issue revenue bonds in amounts sufficient to finance the construction, purchase and installation of such a system at an electric generation facility.
- Reference Enrolled House Bill No. 2038
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Coal or Coke Gasification Nitrogen Fertilizer Plant

- For the placement into service of a new integrated coal or coke gasification nitrogen fertilizer plant or the expansion of an existing integrated coal or coke gasification nitrogen fertilizer plant.
- Income tax credit equal to 10 percent of the taxpayer’s qualified investment for the first \$250,000 invested and an amount equal to 5 percent of the amount that exceeds \$250,000. Program is for taxable years commencing after December 31, 2005 and before January 1, 2011.
- Credit shall be taken in 10 equal annual installments.
- Before making a qualified investment, a taxpayer shall apply to the Secretary of Commerce to enter into an agreement for a tax credit.
- Reference Enrolled House Bill No. 2038
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Coal Gasification Power Plant

- For the placement of a new integrated coal gasification power plant into service or the expansion of an existing integrated coal gasification power plant.
- Income tax credit equal to 10 percent of the taxpayer’s qualified investment for the first \$250,000 invested and an amount equal to 5 percent of the amount that exceeds \$250,000. Program is for taxable years commencing after December 31, 2005 and before January 1, 2011.
- Credit shall be taken in 10 equal annual installments.
- Before making a qualified investment, a taxpayer shall apply to the Kansas Corporation Commission to enter into an agreement for a tax credit.
- Reference Enrolled House Bill No. 2038
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Workforce Training Funds

- The Kansas Industrial Training program is designed to help new and expanding companies offset the costs of training workers for new jobs.
- Training funds can be used to reimburse negotiated costs for pre-employment, on-the-job and/or classroom training.
- The average reimbursement level for Kansas Industrial Training is \$300-\$500 per position.
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