

MINUTES OF THE HOUSE AGRICULTURE AND NATURAL RESOURCES COMMITTEE

The meeting was called to order by Chairman Larry Powell at 3:30 p.m. on January 21, 2009, in Room 783 of the Docking State Office Building.

All members were present except:

Representative Josh Svaty - excused

Committee staff present:

Pat Matzek, Administrative Assistant
Corey Carnahan, Kansas Legislative Research Department
Raney Gilliland, Kansas Legislative Research Department
Mike Corrigan, Office of the Revisor of Statutes

Conferees appearing before the committee:

Carole Jordan, Director, Division of Rural Development, Kansas Department of Commerce

Others attending:

See attached list.

Carole Jordan, Director, Division of Rural Development, Kansas Department of Commerce, provided information on the new division of rural development within the Kansas Department of Commerce and the programs that are focused on agriculture and rural Kansas (Attachment 1). Ms. Jordan introduced other members of the Kansas Department of Commerce staff who were present; Corey Mohn and Sarah Larison.

Below were targeted items of discussion:

- New Rural Development Division - Governor Sebelius announced the creation of a rural development division in the Department of Commerce. This was a recommendation of the Kansas, Inc., strategic plan of 2007, *Enhancing the Structure of Rural Development in Kansas*.
- The newest program under development is the Neighborhood Stabilization Program that Congress developed to mitigate the results of the mortgage crisis. Monies have been sent to about 21 counties to aid in foreclosures.
- Offices of Rural Opportunity - Their mission is to support the efforts of rural Kansas communities to achieve their goals by increasing awareness and access to available resources.
- Rural Policy Commission - This is a new Commission that was created by passage of SS 453 to develop policy initiatives based on information from offices of rural opportunity.
- Agriculture Marketing - This program provides assistance with expansion and exploration of new technologies through pilot plant programs, food safety studies and nutritional evaluation services.
- Taking Kansas Food products to the World - Helps food companies grow and expand nationally and internationally.
- Loans - Heartland Mill, Inc. was granted a loan to aid in their marketing of organic flour.
- Renewable Energy - Continue to facilitate Kansas Biofuels Working Group, which coordinates biofuels inquiries and activity among different agencies. Reference was made to a map entitled Ethanol and Biodiesel Plant Activity in Kansas, January 2009, (Attachment 2) which provides statistical information.

Future activities planned are:

- Agriculture Day Legislative Luncheon, in cooperation with the Department of Agriculture and Kansas commodity groups, March 19, at the Dillon House.
- The Kansas Agritourism Conference held in Great Bend, March 25-26.
- The first Kansas Marketplace, featuring workshops and exhibits for rural entrepreneurs, in cooperation with a number of groups in Great Bend (not certain of the location) in November 2009.

At the conclusion of the presentation, questions were asked and comments were made by members of the Committee.

The next meeting is scheduled for January 22, 2009.

The meeting was adjourned at 4:15 p.m.

AG. & NATURAL RESOURCES COMMITTEE GUEST LIST

DATE: 1-21-09

NAME	REPRESENTING
CJ Cotso radis	KDA
Paul Johnson	Ks. Cath Conf.
Mari Tucher	Commerce
Sarah Bousar	KFGA + KARA
Berend Koops	Hein Law Firm
Joe Moschauer	Hein Law Firm
Robin Tennison	GMD #1
John Donley	KS Cust Ass'n
J Bowler	KDA

Testimony to the House Agriculture and Natural Resources Committee

Jan. 21, 2009

Agriculture Products Development

Carole Jordan

Director, Rural Development Division
Kansas Department of Commerce

Good morning, Chairman Powell and members of the committee. I'm Carole Jordan, director of the new division of rural development within the Kansas Department of Commerce. I'm here this morning to tell you a little about that division and the Department of Commerce programs that are focused on agriculture and rural Kansas.

After that, I will spend most of my time on the accomplishments of our agriculture products development division over the last year. I've brought along members of our ag marketing team and wanted to take this opportunity to introduce them to you.

New Rural Development Division

First, a little bit about the rural development division. In my lifetime as a Kansan, I've developed a strong belief in the co-dependency of agriculture and rural communities and their importance to a strong economy for the entire state of Kansas.

Last September, Governor Sebelius announced the creation of a rural development division in the Department of Commerce. I am serving as senior director of rural development, and I believe this was a promotion for rural Kansas. This change gives agriculture and rural Kansas a direct pipeline to the Secretary of Commerce, and him to us. It also focuses and creates a direct route to rural development activities in state government and among the rural development partners. This was a recommendation of the Kansas, Inc., strategic plan of 2007, *Enhancing the Structure of Rural Development in Kansas*, a document well worth reading.

Our Department of Commerce budget devotes more than \$2 million in state dollars to rural development activities each year. When added with pass-through dollars and some \$16 million in federal dollars which also are distributed most years through us to projects in rural communities,

that means we manage some \$24-\$29 million that go out to rural areas of our state each year. This year, with the economic stimulus package, we may be the recipient of more federal dollars for infrastructure efforts and hope to maximize the benefit of those dollars to rural Kansas and Kansans.

The Rural Development Division is an umbrella under which we have some 30 programs and 20-plus employees that deal with some aspect of rural development. Those subdivisions include agriculture marketing, community development and the offices of rural opportunity. What they have in common is they add value to agriculture and add value to rural communities....thus they add value to the state of Kansas. Or to be more basic, we work to push state and federal dollars out into the rural areas of our state and to use them wisely to help rural areas and communities meet their goals. A few of our value adding programs include:

- Agriculture value added loans
- CDBG grants to build city parks, infrastructure, fire stations
- Rural business development tax credits
- Individual Development Accounts
- Main Street
- Incentives Without Walls
- Small Business Development Centers
- NetWork Kansas
- Agritourism and agritourism business assistance
- CDBG urgent need grants—Greensburg and SE Kansas floods in 2007, Chapman and Jewell this year
- Newest program we are developing is the Neighborhood Stabilization Program that Congress developed to mitigate the results of the mortgage crisis.

Offices of Rural Opportunity

Last year at this time we were announcing the opening of the first office of rural opportunity. Now all four offices are hard at work, based in community colleges in Colby, Garden City, Sterling and Chanute. The Office of Rural Opportunity supports the efforts of rural Kansas communities to achieve their goals by increasing awareness and access to available resources.

Often we had heard that our smaller communities just did not know what resources were available to them. The Office of Rural Opportunity was created specifically to deal with this problem. We tell the rural communities that we are not here to dictate to them from Topeka; instead, we are here to help them reach their goals after they have agreed upon them and created a roadmap to success.

The offices of rural opportunity not only gather data about available resources and connect towns with the resources, but they also can tell us where there are conditions and situations for which there are not sufficient resources. Housing, health care and infrastructure are areas of concern all across the state.

Rural Policy Commission

As you will recall, last year you passed SS 453 creating a Rural Policy Commission to serve as a think tank on rural issues. It is our hope that this group can develop creative policy initiatives based on the information we are hearing from our offices of rural opportunity. Although they still face senate confirmation, we have now received the names of the appointees.

They include Patty Clark, Wichita; Richard Veach, Ulysses; Senator Marci Francisco, Lawrence; Representative Bill Light, Rolla; Dr. Robert Moser, Tribune; Steve Baccus, Manhattan; Catherine Domsch, Bird City; Jerry Karr, Emporia; and Representative Ed Trimmer, Winfield.

Agriculture Marketing

The Agriculture Products Development Division works to increase the viability and the visibility of Kansas agriculture and agribusinesses. It partners closely with the Community Development section of our division to provide assistance to agriculture, agribusiness and communities. Shared management of the programs and the new regional offices of rural opportunity maximize communication with, and benefits to, rural Kansas. Agriculture and rural communities are natural partners in this state.

With a focus on agriculturally based ventures (food, feed, fiber and energy), we can help with business development and finance, marketing and communications, and industry product research and development.

We also collaborate with other divisions, agencies and groups to advocate for agriculture and rural communities of Kansas. The Agriculture Marketing Division can provide a range of financial and technical assistance to agricultural businesses, ranging from assistance for food processing expansions and renewable fuel plant development, to promoting agricultural products internationally. Staff members work with Kansas agriculture producers, lenders, educators and researchers to innovatively capture value from raw commodities. They often suggest ways for producers to build alliances to take advantage of market opportunities and economies of scale. Especially aware of the uncertain economic times, we have worked aggressively to go to our customers out across the state to explain our programs. We also are working closely with our Kansas farm and commodity groups to ensure that our efforts complement their goals and the use of commodity check-off dollars.

We assist with expansion and exploration of new technologies through pilot plant programs, food safety studies and nutritional evaluation services. Agriculture is one of the state's foundation industries—always has, always will be. It will contribute to the state's economy in the future through production of traditional commodities and livestock, the growth of the specialty crop industry, renewable energy and the biosciences.

Taking Kansas Food Products to the World

We can help a food company get started. Participation in national trade shows can help companies take the next step into larger production and sales in the national and international

marketplace. Through the Kansas Pavilions project, we help companies exhibit in an organized Kansas area at highly regarded trade shows. We also help them develop a more effective and attractive individual trade show presence. In FY 2008, we organized three Kansas pavilions. Five companies showed their products in New York in July; four in San Diego in January, and eight in New York in June.

The products being exhibited represent Kansas companies that formed our pavilion at a major food show in New York last year.

Agritourism

Development of the agritourism industry continues in the state. Agritourism can allow traditional Kansas farmers to expand their businesses by making them tourist destinations. Many urban residents are nostalgic or curious about rural life, and are happy to pay for the opportunity to visit and participate in the activities of a working farm or agribusiness.

We now have 255 registered agritourism businesses in Kansas. Registration through our department provides access to many resources, including tax credits toward purchase of liability insurance, agritourism scholarship grants, and a newly launched agritourism development loan program. The division introduced the loan during FY 2008, designed to help new and established agritourism operations enhance their business operations.

In FY 2008, \$12,663 in agritourism scholarships were awarded to six registered businesses, allowing them to attend two educational tours and three educational conferences, including the Kansas Bed and Breakfast Association Conference and the North American Farm Direct Marketing Association's Early Learning Retreat and Annual Conference.

Agritourism Scholarship Recipients

Company	Grant Award
Harvest Farms	\$3,590
Browndale Farms	2,200
Klausmeyer Dairy	1,630
Smoky Hill Vineyard & Winery	2,000
Walters' Pumpkin Patch	2,413
Double Arrow C Ranch	800
Total Grants Awarded	\$12,633

Progress Continues for Specialty Crops

The division continues to partner with the grape and wine industry and the Kansas Department of Agriculture to support this important segment of Kansas agriculture, as well as other "specialty" crops....such as organic products, locally grown produce, fruits and vegetables or artisan products.

The state's 16 currently operating wineries produce more than 50,000 gallons of wine. Kansas wineries are popular agritourism destinations, and use locally grown grapes, berries and other fruits to create unique wines. The passage of legislation allowing Kansas farm wineries to ship directly to out-of-state customers, and wine to be served and sold by the glass and the bottle at the Kansas State Fair, have helped the industry grow. Licensed wineries now are located in Eudora, Holton, Ellinwood, Whitewater, Louisburg, Basehor, McLouth, Lawrence, Wamego, Williamsburg, Salina, Paola, Udall and Mulvane. Read more about our wineries at winesofkansas.com.

Adding visibility to the industry has been a priority for the division. The State Fair Grape Stomp and People's Choice Wine Judging events, hosted by the division, showcased the Kansas grape and wine industries. We have featured specialty crops at a Department of Commerce display in the Bluestem Building at the fair. Displays portraying the grape and wine industries, agritourism in Kansas, farmers' markets, Kansas Travel and Tourism, and Kansas trademark products have been highlighted over the duration of the fair.

We work closely with the Department of Agriculture to allocate USDA dollars for the specialty crop industry in the state, and we are always proponents of improving market opportunities for segments of agriculture.

We want Kansas producers to be able to take advantage of consumer trends for organic foods and locally grown foods whenever possible. A number of groups are interested in building on the natural and historic resources of the Kansas River Valley, and we helped them put on workshops in Topeka and Lawrence last fall looking at The Future of Food in the Kansas River Valley. We helped the group bring in speaker Ken Meter to discuss the value of our regional agricultural heritage and the potential of local food production to provide critical revenue, employment and entrepreneurial opportunities, expanding markets for local growers and ranchers, increased visitor traffic, enhanced community image and improved quality of life. We have been able to assist projects of this type through sponsorship dollars and in-kind support.

Agriculture Value Added Center – Service to Entrepreneurs

This program's goal is to improve wealth for agricultural producers through creation of value added marketing and processing opportunities that also retain and create jobs in rural Kansas. "Value added" is defined as the further processing or alternative marketing of agriculturally derived products to capture additional value in the marketplace.

The agriculture value added loans can be market development funds for projects that explore a market or facilitate entry into a market; bridge funds for equity drives or escrow financing for start-up funds; or commercialization funds for projects that involve actual processing, equipment, physical structures and gap financing. These loans are interest-free for two years; the interest rate is fixed at one point over prime interest.

The Agriculture Value Added Center program provides marketing assistance, technical support, information and research to create producer-based alliances and to assist Kansas agricultural producers with value added ventures. In FY 2008, 10 Kansas companies and organizations

received \$579,488 in loans and \$96,880 in grants. Matching funds of \$220,542 were reported. The economic impact of sales from the current recipients and those still reporting totaled \$233.5 million in sales.

We focus on loans, not grants in most cases, and have a healthy program that allows us to redeploy repayment dollars to other worthy projects. We are not the lender of last resort—our loan applicants are subject to the same credit checks, business and market plan requirements that a bank would require. We try to be good stewards of state dollars. We are able to give valuable advice to folks looking for new opportunities in value added agriculture.

Grants to:

K-State Food Science, Manhattan	\$70,000
K-State Meat Science, Manhattan	\$16,880
<u>K-State Food Science-Equipment, Manhattan</u>	<u>\$10,000</u>
Total Grants:	\$96,880

Loans:

2008-03	Linn Willow Creek Dairy LLC	17,750
2008-06	Hoelscher Agriculture Development	16,000
2008-07	Peaceful Prairie Farm LLC	6,000
2008-08	Anderson County Poultry Processing	16,099
2008-09	A-Pack	50,000
2008-10	Blackberry Mercantile	6,000
2008-12	Walters' Pumpkin Patch, LLC	79,250
<u>2008-13</u>	<u>Heartland Mill, Inc.</u>	<u>294,909</u>
Total Loans:		\$579,488

Renewable Energy

We have assisted with and supported sensible and sustainable development of the renewable energy industry, which encompasses ethanol, biodiesel and cellulosic technologies, as well as wind energy in Kansas. As a traditional agricultural leader, and a state blessed with tremendous natural resources, Kansas is positioned to be a forerunner in the area of renewable energy production. Although a number of forces slowed new development of biodiesel and ethanol during the last year, we believe that market forces will stabilize to allow renewable energy production to be successful in Kansas, bringing employment and related business activity to many rural communities.

FY 2008 ended with 12 Kansas ethanol facilities in operation with a combined permitted output of 501 million gallons per year. The biodiesel industry is developing at a slower pace, with overall demand for soybeans and tallow making the feasibility of projects difficult. Both ethanol and biodiesel producers are able to draw on incentive funds. In FY 2008, biodiesel producers received more than \$48,000 in payments, and ethanol producers received more than \$5.2 million. In addition, a number of new tax credit programs have been put in place. Of these,

the Alternative Fuel Tax Credit is the longest standing and has had the most activity. During the fiscal year, 49 people applied for credits totaling \$64,366. Other tax credit programs supporting biomass-to-energy, electric cogeneration, integrated coal gasification, nitrogen fertilizer plants, and storage and blending equipment have seen some application activity but had no official payouts at the end of the fiscal year.

Abengoa Bioenergy continues steps to develop one of six proposed cellulosic ethanol facilities partially funded by a U.S. Department of Energy grant in 2007. That cellulosic ethanol plant will be co-located with a conventional ethanol plant near Hugoton. Actual production from the plants is expected in 2011.

We continue to partner with Kansas Wheat and other stakeholders to fund the creation of the *Kansas Biomass Toolkit*, a reference guide for Kansas farmers to determine the marketplace for agriculture residues and address issues related to their collection, storage and transportation.

We continue to facilitate the Kansas Biofuels Working Group, which coordinates biofuels inquiries and activity among different agencies.

Staff work closely with the Kansas Energy Office to ensure the Division is knowledgeable about trends and business realities of the renewable energy industry.

International Trade

We work to increase export sales of Kansas agricultural commodities and processed foods. Kansas exports grew during the fiscal year, partially fueled by the weak dollar, and led by agricultural products.

The Division's International Marketing programs can promote Kansas agricultural products at the global level by conducting trade missions to target countries and coordinating itineraries for foreign buying teams. These programs are also a valuable information source, offering importer lists by product and country, providing product and supplier lists of importers and maintaining computer access to the U.S. Department of Agriculture databases and foreign market analysis data. Technical information regarding livestock shipment, health regulations, payment terms and other exportation requirements is also available from staff.

The Department conducts many of its international trade activities through Food Export-Midwest, a non-profit association that helps U.S. companies promote their Midwestern food and agricultural products in foreign markets. In conjunction with its 12-member-state agricultural promotion agencies, Food Export-Midwest offers a broad range of comprehensive programs and services to assist companies with the entire exporting process, from learning the fundamentals of exporting to identifying overseas opportunities and potential distributors. Food Export-Midwest also helps fund international marketing campaigns and promotes products overseas.

This year, the dues paid by the state of Kansas to Food Export-Midwest resulted in a projected export sales increase of slightly more than \$1.46 million and an overall return on investment of \$16:1 (money received through grant program to dues paid by state).

Fiscal Year 2008 Food Export-Midwest recipients were:

- Best Regards, Olathe; tea cookies
- Cereal Ingredients, Inc., Leavenworth; flavor bits used in baking
- Harvest Lark Company, Chapman; whole-grain, all-natural food bars
- Maser Industries, LLC, Stilwell; all-natural salsa
- New Grass Bison Co., Shawnee; bison jerky, sausage and other meat products
- Original Juan Specialty Foods, Inc., Kansas City; salsa, hot sauces, BBQ Sauce, dressings, etc.
- Premium Nutritional Products Inc/ZuPreem, Shawnee; pet food, food for zoo animals

Kansas Products Trademark Program

The trademark program is designed to promote the use and sales of Kansas-based products resulting in additional revenues for Trademark Program members.

After 30 years of serving Kansas companies, the *From the Land of Kansas* trademark program was retired with 327 members entitled to the benefits of membership. The trademark program offered business assistance through the Business Enhancement Grant, technical assistance from Agriculture Marketing staff and promotion of Kansas companies in a variety of methods.

The new trademark program, *Simply Kansas*, was launched at the beginning of FY 2009. The new program was developed after more than a year of research, surveys and focus groups to ensure that it will benefit its members and consumers searching for Kansas products. With an updated logo and expanded menu of benefits to Kansas producers, the trademark program is well situated to showcase member companies before consumers interested in purchasing from Kansas companies.

As a benefit of membership, grants are available. Fifteen companies received Business Enhancement Grants in Fiscal Year 2008. Funds in the amount of \$26,456.42 were awarded. So far, these grants have helped generate sales of more than \$103,822.07.

Grant Recipients

Project		Funds Awarded
2008-01	Davenport Winery	\$ 2,000
2008-02	The Flower Nook	1,170
2008-03	New Grass Bison	2,500
2008-04	Kaw Valley Farm Tour	2,200
2008-05	Renyer's Pumpkin Patch	1,454
2008-06	Longford Water Company	2,100
2008-07	Amore Chocolate Pizza Co.	2,500

2008-08	Prairie Harvest	1,072
2008-09	Pieroguy's Pierogies	2,500
2008-10	Depot Market	777
2008-12	Pendleton's Country Market	2,500
2008-13	Walters' Pumpkin Patch	2,500
2008-15	Lawrence Farmers' Market	2,500
2008-16	Images on Stone	<u>682</u>
	TOTAL	\$ 26,456

In Conclusion

I've talked about the past year. I want to also talk a little about the upcoming year.

We will continue to utilize the budget dollars we have as efficiently and effectively as we can to benefit rural Kansas. We will work closely with our rural communities and our agricultural groups to maximize our efforts.

In the near future, I want to mention some activities we are planning, including:

- Agriculture Day Legislative Luncheon, in cooperation with the Department of Agriculture and Kansas commodity groups, March 19 at the Dillon House.
- The Kansas Agritourism Conference in Great Bend, March 25-26.
- The first Kansas Marketplace, featuring workshops and exhibits for rural entrepreneurs, in cooperation with a number of groups in Great Bend in November 2009.

Thank you for your attention. Are there any questions?