

SESSION OF 2025

**SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2254**

As Amended by House Committee on  
Agriculture and Natural Resources

**Brief\***

HB 2254, as amended, would require a milk processor to hold in trust all payments received from the sale of milk for the benefit of the milk producer from whom the milk was purchased until the milk producer has received full payment of the purchase price for the milk.

***Definitions (Section 1)***

The bill would reference definitions in continuing law regarding the terms “association,” “cooperative,” “milk processor,” and “milk producer.”

The bill would define “milk producer” to also include any cooperative association that sells or markets milk on behalf of an individual milk producer.

The bill would also define the following terms:

- “Purchase price” would mean an amount of money, based on estimated butterfat content at the time of delivery, that a milk processor agrees to pay a milk producer for a purchase of raw milk; and
- “Timely payment” would mean a payment made within three days following the payment due date under a milk marketing order or similar terms in a contract.

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <https://klrd.gov/>

## ***Trust and Escrow Requirements (Section 2)***

### *Trusts*

The bill would require a milk processor (processor) to hold in trust all payments received from the sale of milk for the benefit of the milk producer (producer) from whom the milk was purchased. This would continue until the producer has received full payment of the purchase price for the milk. Funds placed in escrow would be held in trust.

### *Escrow Account*

The bill would allow a producer who sells milk to a processor to require that processor to establish an escrow account for the benefit of the producer. If a producer requires the establishment of an escrow account, the processor would deposit all payments into the escrow account until the producer has received full payment.

**Sum of money determination.** The bill would then require the processor to deposit into the account a sum of money determined by multiplying the total amount of all payments received by the processor from the sale of milk or dairy products by the fraction determined by dividing the total quantity of milk purchased by the processor for sale as milk or dairy products into the quantity of milk sold by the producer to the processor.

**Full payment.** The bill would require the processor to continue making payments into the escrow account until the producer has received full payment of the purchase price of the milk.

**Establishment of account.** The bill would require the escrow account to be established as a segregated, interest-bearing account in a financial institution located in Kansas, the deposits of which are insured by the Federal Deposit

Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

**Combination of accounts.** If a processor is required to establish more than one escrow account for purposes of this bill, the processor could combine the accounts into a single account. If the accumulated funds in a combined escrow account are insufficient to pay all producers, the agent of the financial institution (agent) would distribute funds in proportion to the amount due each producer.

**Distribution of funds.** The bill would require the agent to distribute funds to producers upon proof of identity, or if required by an applicable federal milk marketing order, to the Federal Milk Administration.

**Failure of timely payment.** These provisions would not apply to a processor until there has been failure to make a timely payment to a producer.

#### *Ownership of the Funds*

The bill would determine that funds held in trust by a processor or in an escrow account are the property of the producer.

#### *Exemption*

A processor would not be required to establish an escrow account or maintain payments in trust for a payment if:

- Full payment of the purchase price is not received, and the producer does not give written notice to the processor by the end of the 30th business day after the final date for payment of the purchase price; or
- A payment instrument received by the producer is dishonored, and the producer does not give written

notice to the processor by the end of the 15th business day after the day that the notice of dishonor was received.

### ***Prohibition of Purchase (Section 3)***

The bill would prohibit a processor from purchasing raw milk from a producer unless:

- Payment of the purchase price is made according to the provisions prescribed by an applicable federal milk marketing order;
- Any additional provisions are agreed on by both the producer or the producer's agent and the processor; and
- The medium of exchange used is cash, a check for the full amount of the purchase price, or a wire transfer of money in the full amount.

A payment delivered by a processor to the applicable federal milk market administrator on behalf of a producer in compliance with the terms of an applicable federal milk marketing order would be considered to be delivery of payment to the producer.

### ***Cooperative Associations (Section 4)***

The bill would not apply to transactions between a cooperative association, while acting as a marketing agent, and its members.

### ***Liability for Lack of Payment (Section 5)***

A processor that fails to pay for raw milk, as provided by this act, is liable to the producer for:

- The purchase price of the raw milk;
- Interest on the purchase price at the highest legal rate, from the date that possession is transferred until the date the payment is made, in accordance with this act; and
- A reasonable attorney fee for the collection of the payment.

### **Background**

The bill was introduced by the House Committee on Agriculture and Natural Resources at the request of Representative Rahjes.

### ***House Committee on Agriculture***

In the House Committee hearing, **proponent** testimony was provided by representatives of Kansas Dairy and the Kansas Livestock Association and by a dairy producer who is a member of the Kansas Livestock Association. The proponents stated the bill seeks to provide protection to dairy producers who may be marketing directly to a processor or together through their cooperative. The bill puts a process in place in the event a processor misses a payment or goes bankrupt. In addition, the bill is substantially similar to Texas dairy law where some of the major milk processors operating in Kansas also have processing facilities.

No other testimony was provided.

The House Committee amended the bill to adopt a technical amendment.

## **Fiscal Information**

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, the Department of Agriculture indicates enactment of the bill would have no measurable effect on operations; however, the Department indicates the bill would impose a monetary burden which could create a deterrent to milk plants conducting business in the state or those considering Kansas for future development. The Department states the bill could ultimately lead to lost fees for the agency if businesses moved out of the state. Any fiscal effect associated with enactment of the bill is not reflected in *The FY 2026 Governor's Budget Report*.

Milk; milk producers; funds; financial institutions; escrow; trusts; raw milk