

MINUTES OF THE HOUSE AGRICULTURE & NATURAL RESOURCES COMMITTEE

The meeting was called to order by Chairman Larry Powell at 9:00 a.m. on January 13, 2011, in Room 783 in the Docking State Office Building.

All members were present except:

Representative Michael Peterson - Excused
Representative Vincent Wetta - Excused

Committee staff present:

Sean Ostrow, Office of the Revisor of Statutes
Raney Gilliland, Kansas Legislative Research Department
Michael Wales, Kansas Legislative Research Department
Kay Scarlett, Committee Assistant

Conferees appearing before the Committee:

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

Others attending:

See attached list.

Chairman Powell opened the floor for bill introduction requests. There were none.

Carole Jordan, Director, Rural Development Division, Kansas Department of Commerce, provided an update on activities of the Agriculture Products Development Division in the Kansas Department of Commerce. She stated that agriculture marketing is an integral part of the rural development functions of the Kansas Department of Commerce partnering with and promoting rural Kansas through technical, financial, and capacity-building assistance. They work closely with the Secretary of Agriculture and report on a regular basis to the Agricultural Advisory Board. Highlights and new initiatives in FY 2010 include:

- Launched the Connect Kansas Initiative, an effort to increase broadband internet access throughout rural Kansas;
- Hosted a Marketplace conference for rural entrepreneurs;
- Partnered with the State Energy Office to co-host the Kansas Energy Conference;
- Continued their Kansas Dairy Initiative and enhanced their Agricultural Export Initiative;
- Began utilizing social networking; and
- Took agritourism classes to every corner of the state. (Attachment 1)

Becki Rhoades, Marketing Specialist, answered committee questions concerning financial assistance provided through the Division, including Business Enhancement Grants, agritourism scholarships, and value-added loans. She explained that the majority of their budget is funded by EDIF (Lottery) dollars, \$751,000 in FY 2010, down from \$931,000 in FY 2008. The Division has sought public/private partnerships to maintain programs to producers.

The meeting adjourned at 9:47 a.m. The next meeting of the House Agriculture & Natural Resources Committee is scheduled for January 18, 2011.

HOUSE AG & NATURAL RESOURCES COMMITTEE
GUEST LIST

DATE: JANUARY 13, 2011

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Testimony to the House Agriculture Committee
Carole Jordan
Director, Rural Development Division
Kansas Department of Commerce
January 13, 2011

Good morning, Chairman Powell and members of the House Agriculture Committee. It is my pleasure to update you on the last year's activities of the Agriculture Products Development Division in the Kansas Department of Commerce.

Agriculture marketing is an integral part of the rural development functions of Kansas Commerce. Our vision is to see measurable increases in key indicators—population, infrastructure, housing, jobs, economy, health care, capacity building, leadership, communication—of the rural Kansas community. We do this by partnering with and promoting rural Kansas through technical, financial and capacity-building assistance.

I am proud that Commerce, our state's premier economic development agency, recognizes the importance of agriculture to the foundation of the state's economy and leverages its other programs and resources to maximize the benefits we can offer to agriculture and agribusinesses in Kansas. Agriculture marketing functions have been a part of the Department of Commerce for about a decade and a half; we work closely with the secretary of agriculture and report on a regular basis to the Agricultural Advisory Board.

Highlights and New Initiatives in Fiscal Year 2010

- The division launched the Connect Kansas Initiative, an effort to increase broadband Internet access throughout rural Kansas. We believe high-speed Internet access is important to our rural communities, as well as our farmers and ranchers and other rural entrepreneurs.
- We were the lead state agency in a partnership that resulted in the state's hosting a Marketplace conference for rural entrepreneurs. Events have been in Hays and Dodge City; preliminary plans call for a third, similar event next fall in Salina.
- We partnered with the State Energy Office to co-host the Kansas Energy Conference with staff support from the division.
- We continued our Kansas Dairy Initiative, in cooperation with WKREDA, and our enhanced Agricultural Export Initiative that has allowed us to utilize USDA funds to assist trade missions to Russia and China.
- We've begun utilizing social networking. Visit us online at kansascommerce.com, SimplyKansas.com, ConnectKansas.org, or become a fan of Simply Kansas on Facebook.
- We're taking agritourism classes to every corner of the state.

RURAL DEVELOPMENT

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House Ag & Natural Resources
January 13, 2011
Attachment 1

The Fiscal Challenge

Like other state funded programs, we have faced budget reductions during the past months. The majority of our budget is funded by EDIF (Lottery) dollars. Our guiding principal has been to maintain services to agribusinesses and communities as much as possible and to take cuts from operating expenses. We laid off one employee last year and have held other positions open to find savings. We have sought public/private partnerships to maintain programs to producers with our reduced staff numbers. Our agritourism initiative and dairy initiative are examples of those public/private efforts.

The budget for agriculture marketing activities has decreased from \$931,000 in FY 2008 to \$852,000 in 2009 and \$751,000 in 2010.

Agriculture Products Development

Agriculture Products Development staff work to increase the viability and the visibility of Kansas agriculture and agribusinesses. We partner closely with the Community Development program to provide assistance to agriculture, agribusiness and communities. Shared management of the two divisions and the regional Offices of Rural Opportunity maximize communication with, and benefits to, rural Kansas. When our rural communities and rural entrepreneurs build sound plans for their future, we try to be there to help.

Agriculture marketing provides assistance with business development and finance, marketing and communications, and industry product research and development. It collaborates with other divisions and agencies, including the Kansas Department of Agriculture, to advocate for agriculture and rural communities. It provides a range of financial and technical assistance to agricultural businesses, ranging from assistance for food processing expansions and renewable energy plant development, to promoting agricultural products internationally. Staff work with Kansas agriculture producers, lenders, educators and researchers to innovatively capture value from raw commodities. We help producers build alliances to take advantage of market opportunities and economies of scale.

Expansion and exploration of new technologies is encouraged with pilot plant programs, food safety studies and nutritional evaluation services. Agriculture is one of the state's foundation industries and will continue to contribute to the state's economy from production and further processing of traditional commodities and livestock, the growth of the specialty crop industry, renewable energy and the biosciences.

Renewable Energy

Agriculture Products staff assist and support sensible and sustainable development of the renewable energy industry, which encompasses ethanol, biodiesel and cellulosic technologies, as well as wind energy in Kansas. Kansas remains positioned to lead in renewable energy production. New development of biodiesel and ethanol slowed during the last couple of years; but renewable energy provides employment and related business activity in many rural communities.

Fiscal Year 2010 ended with 12 Kansas ethanol facilities in operation, with a combined output of 519.5 million gallons per year, and another three plants, with a combined output of 241 million gallons per year, under construction or permitted. The biodiesel industry ended Fiscal Year 2010 with three plants in

operation, with a combined output of 7.4 million gallons per year, and one plant, permitted to produce 72 million gallons per year, under construction or permitted.

Ethanol and biodiesel producers are eligible to receive incentive funds for production and sales. In Fiscal Year 2010, biodiesel producers received \$73,806 in payments, and ethanol producers received approximately \$3.5 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. Since tax year 2003, there have been 373 filings for the credit, with nearly \$784,575 in credits allowed. Other tax credit programs supporting both renewable and conventional energy development have seen application activity. Credits are allowed for renewable energy projects such as biomass-to-energy, electric cogeneration, integrated coal gasification, nitrogen fertilizer plants and storage and blending equipment, as well as for pipeline and refinery projects in conventional energy.

We continue to facilitate the Kansas Biofuels Working Group, which coordinates biofuels inquiries and activity and includes representatives from the Kansas departments of agriculture, health and environment, revenue and transportation, as well as the Kansas Energy Council and the Kansas Securities Commission. Although growth of these industries slowed over the last couple of years, we remain committed to providing customer service to interested communities, companies and individuals.

In addition to the existing tax credit incentives, the state was awarded approximately \$29 million in bond authorization for Qualified Energy Conservation Bonds. These bonds, issued by public or private entities, may finance one or more "qualified conservation purposes." A "qualified conservation purpose" includes capital expenditures incurred for purposes of reducing energy consumption; expenditures for research facilities and research grants to support research energy development or technological advances in energy use; mass commuting facilities and related facilities that reduce the consumption of energy; demonstration projects designed to promote the commercialization of "green" technology; and public education campaigns to promote energy efficiency. To date, three entities have requested approval for bond issuances to utilize the state's allocation; total investment in these projects is \$43 million.

Agriculture Value-Added Loan Program

The Agriculture Value-Added Loan Program was created by the legislature to improve wealth for agricultural producers through the creation of value-added marketing and processing opportunities, resulting in job creation and retention for rural Kansas. "Value-added" is the further processing or alternative marketing of agriculturally derived products to capture additional value in the marketplace—and jobs for Kansans.

In collaboration with the food science and meat science departments of Kansas State University, the loan program provides grant funding for assistance with value-added products, including product screening, packaging, processing, product safety and consumer testing and screening. This commercial benefit to clients is valued at \$594,791 for Fiscal Year 2010.

In this fiscal year, two Kansas companies benefited from value-added loans. Funds provided assistance for the development of a grain sorghum functional food and nutraceuticals processing facility and the restoration of an historic round barn agritourism facility. In total, Kansas companies and organizations received \$344,425 in loans and \$89,242 in grants. Matching funds of \$866,000 were reported. The economic impact of sales, from both the current loan recipients and those previous recipients still reporting, totaled \$222 million.

Grants

K-State Meat Science	\$19,242
K-State Food Science	\$70,000
Total Grants:	\$89,242

Loans

Round Barn Ranch, LLC	\$ 76,425
Nu Life Market, LLC	\$268,000
Total Loans:	\$344,425

Kansas Dairy Initiative

The Kansas Department of Commerce Rural Development Division partnered with the western Kansas Rural Economic Development Alliance (wKREDA) in February 2009 to begin the Kansas Dairy Initiative. The initiative is built on wKREDA's strong foundation for recruiting and retaining dairies in Kansas – especially western Kansas. The initiative began early in 2009, and has taken off since last year's annual report. Initiative highlights since last year are:

- 2,600 unique visitors from 52 countries have visited DairyInKansas.com since its July 2009 launch
- Working with five large-scale dairies who are beginning the relocation process and Kansas is in the running
- Attending both the World Dairy Expo in Madison, Wisconsin, as well as the World Ag Expo in Tulare, California
- Co-hosting a dairy expansion and relocation seminar in Wichita
- Hosting a southwest Kansas dairy tour that drew attendees and media from Kansas, Colorado, Texas, Kentucky, Virginia and Saudi Arabia
- Successfully nominating Royal Farms Dairy of Garden City to be one of eight virtual dairy tours at the 2010 World Dairy Expo
- Maintaining a print advertising presence for the state in Progressive Dairyman Magazine
- Talking to interested persons we attract: currently talking seriously to an Iowa and a Washington State dairyman with an interest in Kansas.

Enhanced Export Programs

Fiscal Year 2010 saw the division continue proven export activities and expand its efforts as well. We continued membership in the Food Export Association of the Midwest and joined USLGE (U.S. Livestock Genetics Export, Inc.), and the Livestock Export Association.

Food Export Association of the Midwest is a non-profit organization that promotes the export of food and agricultural products from the Midwestern region of the United States. The organization has been helping exporters of Midwestern food and agricultural products sell their products overseas since 1969,

when it was first created as a cooperative effort between 12 Midwestern state agricultural promotion agencies and the United States Department of Agriculture's Foreign Agricultural Service (FAS).

Kansas companies participated in Food Export-Midwest programs to increase exports of U.S. agricultural products. Ten companies received \$76,390.71 in direct reimbursement for their marketing activities. This program utilizes federal dollars through the Market Access Program of the U.S. Dept. of Agriculture's Foreign Ag Service. Those 10 Kansas companies realized actual sales of \$2,490,700 from the shared investment, an increase of \$109,900 in export sales from the previous year.

USLGE is a nationwide livestock-specific, not-for-profit, trade association representing the international market development interests of the U.S. dairy, beef, sheep, swine and horse breeding industries. Its representation encompasses the embryo and semen industry, livestock export sector, plus leading state departments of agriculture from top livestock-producing states across the United States. The goal is to develop and increase international trade opportunities and sales for the agricultural industry—bulk commodities, livestock and genetics, food/feed ingredients or related equipment, and processed foods through partnerships with the industries and businesses and Commerce trade development activities.

Both organizations let the state and exporters take advantage of cost-sharing services and dollars available through the USDA for export expansion. During the fiscal year, Kansas companies attended highly regarded national food shows with the assistance of the Agriculture Marketing Division and dollars from Food Export Midwest. Also in 2010, we took part in our first partially USLGE-funded mission to Russia in cooperation with Colorado and Montana. We also participated in an animal health mission to China.

Return on investment in USLGE dues was 1:1 after only six months of membership and we look forward to future value for the state of Kansas through our participation.

Kansas Pavilions

Assistance from Commerce can help a new company get started; move into national sales; then enter international markets. Participation in national tradeshow 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.

This year was the third consecutive year the division has sponsored a pavilion for state companies at the Winter Fancy Food Show. Four Kansas companies participated in the show in San Francisco. They were Original Juan Specialty Foods (Kansas City); New Grass Bison Co. (Shawnee); Browniepops, LLC (Leawood); and The Pantry Shelf Co. (Hutchinson). Eight Kansas specialty food companies marketed their products and connected with industry members from around the world June 27-29, 2010 at the Summer Fancy Food Show in New York City. Original Juan Specialty Foods (Kansas City), New Grass Bison Co. (Shawnee), Browniepops, LLC (Leawood), Heffys BBQ (Olathe), One Bite Specialty Foods (Overland Park), The Pantry Shelf Co. (Hutchinson), Rabbit Creek Products (Louisburg) and Louisburg Cider Mill (Louisburg) were located together in the Kansas Pavilion at the Summer Fancy Foods Show. This is the fourth year we have organized a delegation of companies and sponsored a Kansas Pavilion at this show. These eight companies reported on-site sales in New York of \$12,500 and expected additional sales within the six months following the event of approximately \$369,000.

Agritourism

At the end of Fiscal Year 2010, 274 agritourism businesses were current in their registrations with the Department of Commerce. Registration is a voluntary process that gives agritourism businesses access to many resources, including agritourism scholarship funds, agritourism attraction development loans, limited liability signage and entry to the Simply Kansas program.

In Fiscal Year 2010, \$8,289 in agritourism scholarships were awarded to Kansas companies to help them learn from more established businesses, attend conventions in their areas of interest, or pay for creative educational opportunities. Through this program, our rural tourism businesses have gone to national conferences, attended meetings developed specifically for farms that want to plant and host corn mazes, or created their own programs to visit with specialized operations in other states.

2010 Scholarship Recipients

Company	City	Grant Award
KC Pumpkin Patch	Overland Park	\$5,000
Stone Barn Mercantile	Dexter	\$1,737
Beaver Creek Ranch	Atwood	\$1,552
Total		\$8,289

The Flint Hills Resource Conservation and Development Council developed the course “Agritourism: Your Next Cash Crop?” in 2008. We have contracted to sponsor this class in other locations in 2011—plans are ongoing now for a class in Pratt in February, Garden City, and Colby in April.

A new project begun last fiscal year is participation with Commerce travel and tourism and Kansas Wildlife and Parks in the National Pheasant Fest in Omaha at the end of this month and Kansas City next year. The national pheasant hunting convention attracts some 25,000 pheasant hunting enthusiasts. Hunting remains a viable agritourism activity for Kansas farms and ranches.

Kansas Products Trademark Program

“Simply Kansas”—a trademark program for agricultural-based products grown and/or produced in Kansas – was launched in August 2008. Complete with an updated logo and expanded menu of benefits to its members, Simply Kansas promotes quality-made Kansas products to consumers interested in supporting Kansas companies. To date, 180 Kansas companies have joined the program.

Benefits available to members include the Business Enhancement Grant, a company profile on SimplyKansas.com, access to Simply Kansas point-of-purchase materials, and the chance to be featured at various Department of Commerce functions throughout the year. Simply Kansas is nearing 200 members today.

During the fiscal year, a Simply Kansas Facebook page was launched and maintained, and SimplyKansas.com was enhanced to provide better information for consumers, as well as companies with memberships in the program. Educational workshops were developed with the companies in mind,

and featured information to help companies improve their business planning, marketing, compliance with rules and regulations, and add new skills, such as the effective use of social networking to expand their businesses.

Funds for marketing and consulting fees may be awarded to eligible companies through the Business Enhancement Grant program.

2010 Business Enhancement Grants

Company	Lcoation	Grant Award
Somerset Ridge	Paola	\$2,500
Smoky Hill Bison	Assaria	\$2,500
Renyer's Pumpkin Patch	Wetmore	\$1,140
Sleepy Jean's Chocolate	Lawrence	\$2,500
My Neighbor Steve	Baldwin City	\$1,698
Monty's Smoked Jerky	Bird City	\$2,500
Grace Hill Winery	Whitewater	\$2,500
Prairie Harvest	Newton	\$2,475
Gaeddert Farms Sweet Corn	Buhler	\$2,500
High Noon Saloon	Leavenworth	\$2,325
Nut Nation	Lawrence	\$2,500
Chef Mark's Kitchen	Shawnee	\$2,500
Wichita Farmers Market Vendors	Wichita	\$1,225
Total awards	\$28,863	\$28,863

Rural Broadband Initiative

During the fiscal year we began a partnership with Connected Nation, a national non-profit organization that develops broadband availability maps and organizes campaigns to expand high-speed Internet access and adoption in states. We began a mapping initiative, funded by a grant from the Information Network of Kansas. After announcement of federal ARRA dollars for mapping and planning, we won a \$2 million federal grant that allowed us to expand the state's broadband mapping and planning initiative.

At the same time, Kansas businesses and other entities have received grants and loans of more than \$150 million through ARRA to expand services within the state. Our goal now is to continue activities to allow the state to think beyond these grants into a long-term strategy of high-speed Internet availability to benefit telemedicine, e-government, education and economic development in every corner of the state. Among our initiatives are projects to gather more data on coverage, availability and gaps; establishment of a Broadband Task Force; hosting of a Broadband Summit; and establishment of local/regional technology teams.

The Rural Community

We know that farmers and ranchers depend on their rural communities; likewise, the communities depend on them. So we ensure our activities on the community development side are integrated with our agribusiness work. Some of these complementary programs include our Offices of Rural Opportunity, our grants for Small Community Improvements (SCIP) and Community Capacity Building, our Community Service Tax Credit Program, our Main Street Program, our federally funded CDBG grants, and our broadband initiative. Although rural Kansas has struggled, we remain optimistic that our collaborations with other public and private entities can help the rural community help itself into a vibrant future.

Thank you for your attention. Are there any questions?