Kansas Cooperative Council
Kansas Agribusiness Retailers Association

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February 1, 2017

TO: Chair Larry Campbell and Members
House Committee on K-12 Education Budget

From: Leslie Kaufman, President/CEO
Kansas Cooperative Council (KCC)

Ron Seeber, Vice President – Government Affairs
Kansas Agribusiness Retailers Association (KARA)

RE: Written Only Opposition to HB 2143 – Requiring school districts to procure specific spend categories through the department of education

Chair Campbell and members of the House Committee on K-12 Education Budget, thank you for the opportunity to share with you our concerns regarding HB 2143, and some questions raised by the bill. I am Leslie Kaufman, with the Kansas Cooperative Council (KCC) and I submit this testimony on behalf of our members and the members of the Kansas Agribusiness Retailers Association (KARA).

The KCC's membership includes farm marketing and ag supply cooperatives, rural electric and telecommunications companies, insurance and risk management operations, credit unions and Farm Credit system members. KARA is a voluntary trade association whose membership includes over 700 agribusiness firms that are primarily retail facilities supplying fertilizers, crop protection chemicals and seed to Kansas farmers. Together, our agribusiness members provide a variety of fuels to their local areas and many will serve the local school districts located within their operational foot-print. As such, this bill is of interest to our associations and our members.

As a starting point, most of our members operate in smaller communities across the state. They take pride in supporting the local economy and are an integral part of the social fabric in their area. In these communities across this entire state, the merchants, townspeople and the school districts work together for the mutual benefit of the entire community. Even with the provision for one percent leeway for local purchases, we still think this bill does much to undercut those positive relationships.

In this vein, HB 2143 appears, to us, to run counter to the intent of economic initiatives advanced in recent years by the legislature and the administration to encourage business growth in smaller communities.

In addition to these general observations on the potential overall impacts of HB 2143, we also have some specific questions about the draft itself and its implications:

- Section 1 and 2 interaction – Fuel vs. motor fuel vs. natural gas. In Section 1, the word "fuel" is used in describing the items for which the Secretary shall make agreements for on behalf of schools. Then, on page 2, provision is specifically made for two specific types of fuel – "motor fuel" and "natural gas." We are unsure of the intent behind the differentiation in one section but not the other and it seems, to us, somewhat confusing.

- Section 1, pg. 1, line 19 – Limiting local price to 1% differential. As we understand this provision, items noted in this section (particularly fuel) would have to be procured locally within 1% of the state procurement price. So that would be plus or minus 1%. Thus, our members, or any vendor, would be prohibited from offering a discount in excess of 1% of the Secretary's negotiated price because that would be outside the statutory range. Why would the state want to limit a discount to only 1% of the state negotiated price if the vendor was willing to grant a better price break?

    - Co-op offers school district 3 cent discount on each gallon of gasoline or diesel purchased at the pump. Depending on the Secretary's contracted price, the 3 cents could be more than 1% difference from the state rate. If so, the co-op would be forced to reduce the discount and actually the school district would end up paying more under the state procurement strategy than they had been paying in prior years.

- Section 1, pg. 1, line 28 – Statutorily terminating a contract. This provision causes us concern may have already made investments or taken other actions incurring costs in anticipation of fulfilling a contract whose term was negotiated to extend beyond the July 1, 2019 deadline.

- We have members who do all their business with school districts via the pump and not bulk sales. Doing business at the pump has allowed their local schools to avoid the cost and regulatory burden of building and maintaining fuel storage and secondary containment, if applicable. Will these types of purchasing arrangements even be available if this bill is enacted? If not, won't many school districts be forced to install bulk holding systems and if so, how cost effective is that?

- When looking at the list of items that would be pulled under a state procurement umbrella, fuel chemistry, existing distribution systems and pricing seems, to us, to pose some logistical challenges for fuel not present with other items:

    - Fuels are flammable, hazardous material subject to layers of regulatory control over manufacture, transportation and storage;
    - Fuels are an exchange traded commodity and pricing is subject to the volatilities of the marketplace;
    - Pricing can vary noticeably from area to area, in some part dependent on your proximity to pipelines and terminals, which will influence transportation costs.

- When we try and envision how consolidating procurement for fuel in a specific state agency will even function, it seems there is the potential for the local retailer, like our members, to be negatively impacted:
    - Shut out of the process and lose the local school business altogether;
    - Forced to sell below their actual cost; or
    - Prevented from offering a discount to the local school.

These questions and comments express our concerns with HB 2143. Additionally, in regard to fuel sales, the bill seems built on the assumption that the state WILL negotiate a better deal than our members and their community partners at the local school district have negotiated over the years. Such an assumption also seems to ignore the financial support, either through price discounts or other contributions that our members provide to their local educational system. Additionally, when school districts contract for/purchase goods with local vendors, dollars are circulated back into their own community which benefits the local economy.

Our KCC board chair and board member for KGFA, as well, has provided some additional comments. We have attached them with this statement and would respectfully draw your attention to his statement.

As noted above, HB 2143 raises many questions and concerns for our members. And, from all appearances, it would disrupt business and community relationships between local schools and area service providers, like our members. As such, we cannot support this bill and we respectfully request this committee not advance it. Thank you for your consideration.

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February 1, 2017

TO: Chair Campbell and Members
House Committee on K-12 Education Budget

FROM: James Jirak, General Manager, Valley Coop Inc.
Chair, Board of Directors – Kansas Cooperative Council
Board of Directors – Kansas Grain and Feed Association
Member – Kansas Agribusiness Retailers Association

RE: Concerns with HB 2143 – Requiring school districts to procure specific spend categories through the department of education

Many cooperatives enjoy a good working relationship with their local school districts. Schools can purchase both fuel and propane through their local ag supply and marketing cooperative. In some areas the local cooperative is the primary provider of fuel services and maintains multiple fuel stations throughout the district. As a cooperative, one of our key beliefs is to provide services to our customers at the best competitive price possible. This proposed bill, HB 2143 would remove the decision power from local board control in order to save money, which in the case of refined fuels and propane would only amount to a few pennies per gallon if there even is a lower price available. Many rural districts would be burdened by either going long distances to find providers or having to put up and maintain their own fuel tanks to even take advantage of any cost savings. Because of additional costs of transportation and infrastructure, it is doubtful there would be any cost savings for rural districts. In my experience, rural cooperatives gift tens of thousands of dollars in support of the school and its activities. What we have contributed to the area districts far surpasses any profit we have made from fuel and propane sales and I would hate to hurt the relationship that we have built over many years with our local school districts. Please consider more than a negligible savings in making your decision on this bill.

Thank you!

James L. Jirak
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