

Approved _____
Date 5/1/87

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Phil Kline at
Chairperson

7:40am a.m./p.m. on Thursday, April 30, 1987 in room 423S of the Capitol.

All members were present except: Representatives Barkis, Dyck, Foster, Goossen, Helgerson, Love, Mainey, R.H. Miller and Teagarden (All Excused).

Committee staff present:

Lynn Holt, Research
Molly Mulloy, Secretary

Conferees appearing before the committee:

Senator Dave Kerr
Kim Wells, Gaar & Bell
Allen Bell, Department of Administration

Chairman Kline called the meeting to order and opened the hearing on S.B. 73. This bill creates a finance authority (Kansas Development Finance Authority) with the power to issue bonds for the purpose of financing capital improvements for state agencies and economic development projects in the private sector.

Senator Dave Kerr briefed the committee on S.B. 73, stating that it came out of the Capital Markets and Taxation Task Force of last summer's Economic Development Commission and would create a central financing vehicle to act on behalf of state agencies and private companies. This bonding authority would improve access to capital markets for smaller entities by bundling their bonds together. Senator Kerr said that in other states, bonding authorities operate with fees generated by the bonds but have initial start up costs which could be paid back from future earnings. He compared the Kansas Development Finance Authority's structure to that of the Kansas Turnpike Authority, which is supported by its own self-generated fees.

The second conferee was Kim Wells, who referred to a staff briefing distributed by Lynn Holt (Attachment 1) and discussed the bill in detail. He stated that Section 5, which creates the authority to issue bonds, was the key section. He noted that the board will have five members, with not more than three being in one political party. In response to a committee inquiry as to whether the new bonding authority could be placed under an existing entity such as Kansas Inc., both Mr. Wells and Senator Kerr said that there was not really an entity under which it would appropriately fit. Senator Kerr also commented that there is an oversight requirement in the form of semi-annual reporting for the bond authority.

Allen Bell, Department of Administration, testified that the fiscal impact of the bill, in the form of start up costs, would be approximately \$200,000. It was suggested that one source of start up funds might be to take \$200,000 out of the export finance budget of the Department of Commerce.

Rep. Leach asked if the Task Force had looked into creating a state bank, such as the one in South Dakota, to oversee the bonding issue. He also suggested that perhaps there should be an amendment in regard to the bond authority being self-sufficient.

After further discussion, the meeting adjourned at 8:30am. Chairman Kline announced that there would be a meeting during the noon recess for further discussion and possible action on S.B. 73.

MEMORANDUM

April 29, 1987

TO: House and Senate Committees on Economic Development
FROM: Kansas Legislative Research Department
RE: Staff Briefing on Substitute for Senate Bill No. 73

Substitute for S.B. 73 creates a finance authority with the power to issue bonds for the purpose of financing capital improvements for state agencies and economic development projects in the private sector. The intent is to create a mechanism whereby certain enterprises, unable under existing law to obtain fixed rate long-term financing, could secure such financing and to afford the state greater flexibility in financing capital improvements. The following is a description by section of the bill.

New Section 1. This section names this act the Kansas Development Finance Authority Act.

New Section 2. This section contains definitions. Subsection c clarifies that the Authority could provide capital financing for farms, including land. The inclusion of municipal and quasi-municipal corporations as political subdivisions and the definition of pooled bonds correspond to provisions in S.B. 407.

New Section 3. This section addresses the governance of the Finance Authority. The number of members to serve on the Board of Directors was reduced from 11 to five. Members of the Board of Directors would include the Secretary of the Department of Commerce and four Governor's appointees, subject to Senate confirmation. Not less than three members of the Board must be representative of the general public and not more than three members can be members of the same political party. The intent of not requiring all Governor's appointees to be public members would be to reserve one membership that could be filled by a state employee. The Governor would also designate the chairperson, vice-chairperson, and appoint the president of the Board.

New Section 4. This section delineates the powers of the Authority.

New Section 5. This section authorizes and empowers the Authority to issue bonds for the following purposes: (1) as discussed in subsection a, which relates to local units of government, bonds may be issued either for a specific activity or on a pooled basis for a series of activities or projects authorized by one or a group of political subdivisions in amounts determined by the Authority for the purposes outlined in previous sections. This authority does not extend to the issuance of bonds or use of their proceeds for the purchase, condemnation, or acquisition of a utility plant or utility distribution system, nor for financing facilities that would be financed by general obligation or utility revenue bonds of a political subdivision. The Authority may, however, acquire general obligation and utility revenue bonds issued by a

Attachment 1
04/30/87 (Am)

political subdivision with the proceeds of taxable pooled bonds; (2) as discussed in subsection b, which relates to state government, bonds may be issued for activities or projects of a state agency, as requested by the Secretary of Administration. The Authority would also be empowered to issue bonds to refund any bonded indebtedness of any state agency; (3) as discussed in subsection c, which relates to enterprises or facilities defined in New Section 2, bonds may be issued for financing such enterprises or facilities; (4) as discussed in subsection d, bonds may be issued for venture capital funds; and (5) as discussed in subsection e, a "catch-all" subsection, the proceeds of any bond issues, together with any other available funds, may be used for venture capital investments or to purchase, lease, construct, restore, renovate, alter, or repair facilities, make loans, purchase mortgages or security interests in loan participations, and pay all associated expenses related to the issuance of bonds. This subsection also authorizes the use of proceeds of bonds addressed in subsections a, b, c, and d.

New Section 6. Subsection a addresses the nature of the bonds to be issued by the Authority. Subsection b notes that the authorizing resolution may provide for the execution of a trust indenture between the Authority and any financial institution within or outside of Kansas. Subsection c stipulates that any authorizing resolution and trust indenture relating to the issuance and security of the bonds will constitute a contract between the Authority and holders and registered owners of the bonds.

New Section 7. This section relates to the terms governing the sale and execution of bonds and specifies, in subsection c, that the bonds will not be an obligation of the state.

New Section 8. This section provides that bonds issued by the Authority, except for those specifically declared to be taxable in the authorizing resolution, shall be exempt from all state, county, and municipal taxes.

New Section 9. This section addresses the terms governing pledges made by the Authority concerning revenues, moneys, funds, or other property.

New Section 10. This section releases from personal liability any director or officer of the Authority from problems arising with bond issuances unless that person acted with corrupt intent.

New Section 11. This section permits the Authority to create and establish one or more special funds or accounts to secure bonds issued by the Authority.

New Section 12. This section allows the Authority to issue bonds for the purpose of refunding bonds and specifies the conditions under which this may be accomplished.

New Section 13. This section requires the Authority to make an annual report of its activities, including an audit prepared by a nationally-recognized CPA firm, and to provide a semi-annual report to the Governor and the Legislature.

New Section 14. This section authorizes the Authority to use the services of other state governmental units but stipulates that the costs and expenses of such services must be borne by the Authority.

New Section 15. This section forbids conflict of interest on the part of officers, directors, or employees of the Authority.

New Section 16. This section clarifies that the powers of the Authority should be regarded as providing an "alternative method for the doing of things authorized." As such, this Act might be construed as a self-sufficient bond issuance law.

New Section 17. This section amends K.S.A. 1986 Supp. 9-1402 to authorize savings and loan companies and banks to use bonds issued pursuant to this Act as collateral for deposits of public money.

New Section 18. This section repeals K.S.A. 1986 Supp. 9-1402.

New Section 19. This section specifies that this Act will become effective upon its publication in the Kansas Register.

brief-73.lh/LH/jsf