

Approved _____

Date

3-7-89

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Senator Dave Kerr at _____
Chairperson

8:00 a.m./p.m. on March 2, 1989 in room 123-S of the Capitol.

All members were present except:

Senator Alicia Salisbury

Committee staff present:

Bill Edds, Revisor of Statutes' Office
Lynne Holt, Kans Leg Research Dept
Carol de la Torre, Secretary to the Committee

Conferees appearing before the committee:

Joan Finney, State Treasurer

Jim Maag, Kansas Bankers Association

Ron Wilson, Executive Director, Wichita District Farm
Credit Council

The meeting was called to order by Senator Dave Kerr,
Chairman.

State Treasurer, Joan Finney, briefed the Committee on Senate
Bill 278, Attachment 1.

Senate Bill 278 - an act concerning economic development;
relating to the pooled money investment
board; authorizing certain investments
for the purpose of financing loans to
certain farmers and small businesses in
Kansas; prescribing certain guidelines,
powers, duties and function; imposing
certain limitations.

Questions and discussion by Committee members followed.

The next conferee was Jim Maag, Kansas Bankers Association.
His testimony is found in Attachment 2. He felt there were
no mechanics in the bill which set out how the money would
be used or how half of this \$50 million would be off-set
in the investment of government securities. Mr. Maag felt
in its present form the bill does not provide any incentive
to participate in the program. The other major difference
is that SB278 allows federally-insured credit unions to become
depositories of state moneys.

The next conferee was Ron Wilson, Farm Credit Council, who
gave background and testimony in support of this bill,
Attachment 3.

He stated they support SB278 with an amendment to allow System
institutions to participate in the program. Their Bank for
Cooperatives could use this authority for financing co-ops
who are classified as small businesses. He stated the Farm
Credit System would participate in the program in the same
way it currently operates with banks. Mr. Wilson advised
that similar state investment programs linked to farm loans
are working successfully with the Farm Credit System in
several states and urged SB278 be amended to allow the Farm
Credit System to participate.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT,
room 123-S Statehouse, at 8:00 a.m./p.m. on March 2, 1989

Minutes of the February 28, 1989, meeting were reviewed by the Committee. It was moved by Senator Winter and seconded by Senator Karr that the minutes be approved. Motion carried, minutes approved.

There being no further business, the meeting was adjourned.

TESTIMONY OF JOAN FINNEY, STATE TREASURER BEFORE THE SENATE
ECONOMIC DEVELOPMENT COMMITTEE, MARCH 2, 1989

The Pooled Money Investment Board currently has a total of \$740 million invested in bank certificates of deposit and time deposit accounts. SB 278 would allow for a conservative investment of up to \$50 million of these idle funds in fully-collateralized certificates of deposit in Kansas banks and savings and loans for the purpose of providing low cost loans to certain farmers and small businesses, as defined in the bill. The financial institution could make loans of up to \$50,000 to an eligible farmer and up to \$200,000 to a small business.

Sixteen states utilize these types of investments to encourage private lending primarily to agriculture and small business concerns. Listed below is a brief summary of some of those states and the amount of money they are authorized to invest.

| | |
|---------------|---------------|
| MISSOURI | \$200 million |
| OKLAHOMA | 25 million |
| ILLINOIS | 200 million |
| OHIO | 236 million |
| INDIANA | 60 million |
| IOWA | 70 million |
| PENNSYLVANIA | 200 million |
| WEST VIRGINIA | 225 million |

The Pooled Money Investment Board currently has \$15 million of the Freeway Fund invested in the Kansas Funds for Kansas Farmers and Small Businesses program.

This constitutes the sixth offering of this program which began in September, 1985. When these funds were offered to financial institutions last December, the Board received requests from Kansas bankers for these low cost loan funds, which totaled over \$45 million, or three times the amount available.

The funds are offered to financial institutions at below market prime-related variable rates with provisions that the loaning institutions can add 3% to cover the cost of administering the loan.

Sen. Bev. Devo
3-2-89
Attachment 1

There is no loss of interest income to the state, because of offsetting investments in federally guaranteed instruments which earn a higher rate of interest than currently required by law.

This bill provides for aid and development to a segment of the Kansas economy that has recently been of added concern to the Kansas Legislature. Small borrowers usually must pay higher interest rates in the first place; their rates are at least a point or two above the banks' prime rate. At 11.5% currently, the prime is 150 basis points higher than last year, and many small businesses are paying 13% for money, and sometimes more. If interest rates rise 50 to 100 basis points more, the Kansas economy will slow. With interest rates rising, the results can be especially devastating for the farm and small business segments of our economy. State government has been involved in economic development for a long time. This program is a recognition that family farmers and small businesses are crucial to the economic health of Kansas.

I respectfully ask this committee to report SB 278 favorably for passage.



The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

March 2, 1989

TO: Senate Committee on Economic Development
FROM: James S. Maag, Kansas Bankers Association
RE: SB 278 - Loans to farmers and small businesses

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss the provisions of SB 278 with the Committee. The bill would allow the Pooled Money Investment Board (PMIB) to invest \$50 million in CDs in Kansas "financial institutions".

The bill is somewhat similar to the program which the PMIB has offered on four different occasions in 1985 and 1986. However, there are two key differences from those programs. In each of the four programs banks and S&Ls were allowed to pay below market rates for the state deposits in return for loaning the money to farmers and small businesses at reduced rates. Therefore, there was a significant incentive for banks to participate if they had marginal customers who could be assisted by restructuring their loan at a lower interest rate. No such incentive is present in SB 278 and thus the state would just be shifting money from existing accounts to this newly formed account.

The other major difference from the four PMIB programs is that SB 278 allows federally-insured credit unions to become depositories of state moneys. This would be a complete departure from existing state policy. We have always believed that credit unions should not be allowed to participate in the holding of state moneys until such time as they pay state taxes in the same manner as banks and S&Ls. Therefore, we would be strongly opposed to SB 278 as it is presently drafted to include credit unions.

If the bill is further amended to conform it more closely with the previous PMIB programs then there is a strong possibility that a number of Kansas banks would participate, but as presently structured there is no incentive for banks to become involved since they can already use state inactive moneys as the basis for loans to farmers and small businesses.

We appreciate the Committee's willingness to listen to our concerns about this legislation.

Jim Co - Hervo
3-2-89
Attachment 2

**Wichita District
Farm Credit Council, Inc.**

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Wichita, Kansas 67201-2940
316/266-5540

805 Chisholm Trail
P.O. Box 909
Enid, Oklahoma 73701

4695 Franklin Street
P.O. Box 16046
Denver, Colorado 80216

3109 Carlisle, N.E.
P.O. Box 37440
Albuquerque, New Mexico 87176-7440

TESTIMONY
TO THE
SENATE ECONOMIC DEVELOPMENT COMMITTEE
ON
SENATE BILL 278

March 2, 1989

Mr. Chairman and members of the Committee, I am Ron Wilson, Executive Director of the Wichita District Farm Credit Council. The Council represents the farmer-owned associations and banks of the Farm Credit System in four states. Our headquarters is in Wichita, Kansas. The Farm Credit System currently provides more than \$1.3 billion in financing through more than 20,000 loans to farmers, ranchers and cooperatives in Kansas.

Economic development is crucial to the future of our State. Such economic development must build on our state's largest and most basic industry -- agriculture. The funding in S.B. 278 would allow state funds to be used through the private sector to benefit Kansas citizens.

We support the concept of providing state funds to private lenders for loans to farmers and ranchers. The farmer-owned Farm Credit System specializes in agricultural lending and is a logical mechanism to reach Kansas farmers. The Farm Credit System is the largest single lender to agriculture in Kansas. We support Senate Bill 278 with an amendment to allow System institutions to participate in the program.

Our Bank for Cooperatives could use this authority for financing co-ops who are classified as small businesses. Similarly, Federal Land Bank

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3-2-89
Attachment 3*

Associations and Production Credit Associations could provide financing at a beneficial interest rate to Kansas farmers.

The Farm Credit System would participate in the program in the same way it currently operates with banks. The Pooled Money Investment Board would invest in a Farm Credit bond, for example, just as it might purchase a certificate of deposit in a bank. The System institution would make the loan to a farmer.

Farm Credit securities (notes, bonds, debentures or other obligations) are issued by the Farm Credit System Funding Corporation on behalf of the entire System. Kansas law specifically provides in KSA 75-4201 (p)(1) that securities such as Farm Credit securities may be pledged as collateral for state funds invested in banks. These securities are similar to other investments made by the PMIB, except for these advantages:

1. All benefits of the investment accrue to agriculture; and
2. System securities issued by the Funding Corporation on behalf of any System Bank are insured by the Farm Credit System Insurance Corporation. In contrast to the \$100,000 limited protection offered by FDIC, there is no limit on the amount of investment protected by the Farm Credit System Insurance Corporation.

Similar state investment programs linked to farm loans are working very successfully with the Farm Credit System in several states. Oklahoma, Missouri, Wyoming and Ohio currently have linked deposit programs involving the Farm Credit System.

We urge that S.B. 278 be amended to allow the Farm Credit System to participate. You in the Legislature should be commended for your concern for the economic future of our State. We hope you will approve S.B. 278 with these amendments. Thank you for this opportunity to comment.