

Approved: February 3, 1995  
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on February 2, 1995 in Room 123-S of the Capitol.

Members present: Senators Salisbury, Burke, Downey, Feleciano, Gooch, Harris, Kerr, Petty, Ranson, Reynolds, Steffes and Vidricksen.

Committee staff present: Lynne Holt, Legislative Research Department  
Bob Nugent, Revisor of Statutes  
Betty Bomar, Committee Secretary

Conferees appearing before the committee:  
William F. Caton, President, Kansas Development Finance Authority

Others attending: See attached list

Upon motion by Senator Burke, seconded by Senator Reynolds, the Minutes of the February 1, 1995 meeting were unanimously adopted.

**SB 11 - Repeal of basic enterprise loan program**

William F. Caton, President, Kansas Development Finance Authority, testified in support of the bill which repeals the Kansas Basic Enterprise Loan Program. The need for the program no longer exists due to the change in the lending climate at Small Business Administration and Farmers Home Administration. At the time the legislation was enacted in 1989, they both required at least 20% capital to obtain loans. Further, the fact that KBEL legislation required potential borrowers to be ineligible for FmHA or SBA programs and did not provide for replenishment of excessive losses which would be expected because of the ineligibility requirements, bonds sold for this program would probably not be investment grade and bear a high interest rate if they would even be sellable. Therefore, the finance team determined that the problem in 1989 relating to loan crisis, has been resolved and these resources should be committed to other forms of economic development. Mr. Caton commented that \$990,000 had been committed to this program which has been invested in the Municipal Investment Pool and earned \$37,000. See attachment 1

**Senator Burke moved that SB 11 be amended on Page 5, Line 10 following the “.” by striking the balance of the line and striking all of Line 11 for adoption of a technical correction, and favorable recommendation of the amended bill. The motion was seconded by Senator Ranson and unanimously approved on a voice vote.**

The Committee adjourned at 8:20 a.m.

The next meeting is scheduled for Friday, February 3, 1995.







# KANSAS

KANSAS DEVELOPMENT FINANCE AUTHORITY

Bill Graves  
Governor

Wm. F. Catton  
President

TESTIMONY  
SENATE BILL 11  
February 2, 1995

Thank you for the opportunity to testify on Senate Bill 11. Considerable work by many people has gone into the Kansas Basic Enterprise Loan ("KBEL") Program in an effort to develop a viable, effective program to create results and enhance economic development in Kansas. I would like to present a short history of the KBEL legislation.

KBEL was enacted by the 1989 Legislature in an attempt to solve a problem for small businesses that were capital deficient in obtaining reasonable financing for acquisition, renovation and expansion of their physical plant. At this point in time the banking industry had been through their serious loan crisis and regulators were requiring considerable equity in small business loans to keep them from being classified as sub-standard assets. Small Business Administration ("SBA") and Farmers Home Administration ("FmHA") also were requiring at least 20% capital in their direct and guaranteed loans. Also, rural commercial property was difficult to appraise at values high enough to support the debt. This situation made it very difficult for small businesses to plan and finance real estate capital expenditures. Unfortunately, the KBEL Program was not funded at the time the need was identified.

In 1993 an appropriation was made to fund the KBEL Guarantee Fund in the amount of \$990,000 with the intent for this fund to be leveraged and create a revolving loan program to provide financing in participation with Kansas financial institutions. At that time KDFA assembled a finance team to begin program development. Piper Jaffray and Bank IV Kansas were retained as bond underwriters and Dave Claypool of Dorsey & Whitney was retained as bond counsel.

The results of the program development indicated two serious problems with the KBEL program. First, it was determined that the lending climate has changed considerably since 1989 at both SBA and FmHA, and at commercial lending institutions. The finance team was unable to define a group of borrowers originally targeted by the KBEL Program that were now unable to receive conventional financing. Secondly, the combination of the facts that the KBEL legislation required potential borrowers to be ineligible for FmHA or SBA programs and the legislation did not provide for any replenishment for excessive losses which would be expected because of the ineligibility requirement, bonds sold for this program would probably not be investment grade and bear a high interest rate if they would even be sellable.

The conclusion of the finance team was that it appears the problem identified in 1989 has been resolved by private enterprise and the federal lending programs without the need for the KBEL legislation. It is in the best interest of the State of Kansas to redirect these resources committed to the KBEL Program to other forms of economic development. I do not consider the repeal of this program as a failure but an example of how good government should work: that with the help of private enterprise the determination that a program was not necessary and money was not wasted by creating a program which was not needed and had inherent cost problems.

I would publicly like to thank those who have generously offered their time and efforts and support to this program. They are David Brant with Bank IV Kansas, Bob Mapes with Piper Jaffray, Dave Claypool with Dorsey & Whitney, Harold Stones with Kansas Bankers Association, former State Representative Diane Gjersted and Greg Krissek with the Kansas Department of Agriculture. These individuals provided valuable service to the State of Kansas and deserve recognition by the State. Again, thank you for the opportunity to come before you.

*February 2, 1995*  
*Commerce*  
*Attachment 1.*