

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE.

The meeting was called to order by Chairperson Joann Flower at 3:30 p.m. on March 22, 1999, in Room 423-S of the Capitol.

All members were present except: Representative Flora - excused

Committee staff present: Raney Gilliland, Legislative Research Department
Gordon Self, Revisor of Statutes
Kay Scarlett, Committee Secretary

Conferees appearing before the committee:

Others attending: See attached list

Chairperson Flower asked committee members to review the minutes of March 15 and 17. If there were corrections or additions, members were asked to contact the committee secretary before 10:00 a.m., March 23, or the minutes will stand approved as presented.

Discussion and action on HB 2527 - State moneys, agricultural production loans.

Representative Schwartz distributed copies of a prepared balloon amendment to **HB 2527** establishing procedures and qualifying criteria for a state Agricultural Production Loan Program using Pooled Money Investment Board funds. She explained that state loan deposits made to eligible lending institutions would be at 2 percent below the market rate; in turn, eligible lending institutions would charge no more than 2 percent above the market rate. She explained that no one loan could exceed \$250,000; that only one loan could be made and be outstanding at any one time to each borrower; that the loan must be used for agricultural production purposes, no capital investments; and that no loan could be amortized for a period of more than 8 years. The total aggregate amount of the Agricultural Production Loan Program would be set at \$50 million with the State Treasurer administering the program. The State would not be liable for any of these loans. Representative Schwartz told the committee her amendment was modeled after a successful Oklahoma program, and acknowledged that the amendment would have a higher fiscal note than the original bill. (Attachment 1)

Representative Schwartz moved to adopt her balloon amendment to **HB 2527**. Seconded by Representative Freeborn, the motion carried.

Representative Light moved to amend the balloon by adding the requirement that eligible agricultural borrowers must have a debt-to-asset ratio of 40 percent or greater. Representative Schwartz seconded the motion. The motion carried.

It was noted that the balloon amendment requires the State Treasurer to report annually to the Governor and the Legislature, but has no sunset provision. Representative Schwartz moved to sunset the provisions of this bill on July 1, 2002. Seconded by Representative Dahl, the motion carried.

Derl Treff, Director of Investments, Pooled Money Investment Board, expressed concern about the 8-year amortization period. Representative Faber moved to make it a one-year loan amortization period with a renewable option. The motion was seconded by Representative Johnson. After further discussion and explanation, Representative Faber, with Representative Johnson's permission, withdrew his motion.

Representative Schwartz moved to pass **HB 2527** as amended and because the bill was substantially altered change it to **Substitute for HB 2527**. Seconded by Representative Light, the motion passed.

The meeting adjourned at 5:00 p.m. No further meetings are scheduled.

HOUSE BILL No. 2527

By Committee on Appropriations

2-22

*Strikes Section Nov #9
Section 2
Adds new section 3, 4, 5, 6, 7
8*

*House Agriculture Committee
March 22, 1999
Attachment 1*

9 AN ACT relating to state moneys; providing for agricultural production
10 loans; amending K.S.A. 75-4237 and repealing the existing ~~section~~

sections

11 *Be it enacted by the Legislature of the State of Kansas*

12 ~~Section 1~~ (a) The pooled money investment board shall estab-
13 lish an agricultural production loan program. The program shall provide
14 state moneys under the provisions of K.S.A. 75-4237, and amendments
15 thereto, at a rate of interest, as determined by the pooled money invest-
16 ment board, which is less than the market rate provided in K.S.A. 75-
17 4237, and amendments thereto. Banks receiving state moneys under the
18 agricultural production loan program shall provide agricultural production
19 loans to eligible agricultural borrowers at a rate of interest which is
20 not more than 3% above the market rate as determined under K.S.A. 75-
21 4237, and amendments thereto.

75-4209 and

22 (b) The pooled money investment board shall establish procedures
23 and criteria for the agricultural production loan program, including the
24 ~~defining of eligible agricultural borrowers.~~

Insert attached

25 Sec. ~~2~~ K.S.A. 75-4237 is hereby amended to read as follows: 75-
26 4237. (a) The director of investments shall accept requests from banks

9.

27 interested in obtaining investment accounts of state moneys. Such re-
28 quests may be submitted any business day and shall specify the dollar
29 amount, maturity or maturity range and interest rate. *Except as provided*
30 ~~in section 1, and amendments thereto,~~ if the interest rate bid by the bank
31 is at or greater than the market rate determined by the director of in-
32 vestments in accordance with subsection (b), the director of investments
33 is authorized to award the investment account to the bidding bank at the
34 market rate ~~for at the interest rate provided for in section 1, and amend-~~
35 ~~ments thereto.~~ Awards of investment accounts pursuant to this section
36 shall be subject to investment policies of the pooled money investment
37 board. When multiple bids are received and are in excess of the amount
38 available for investment that day for any maturity, awards shall be made
39 available in ascending order from smallest to largest dollar amount bid,
40 subject to investment policies of the board.

subsection (c)

41 (b) The market rate shall be determined each business day by the
director of investments, in accordance with any procedures established

1 by the pooled money investment board. Subject to any policies of the
2 board, the market rate shall reflect the highest rate at which state moneys
3 can be invested on the open market in investments authorized by sub-
4 section (a) of K.S.A. 75-4209 and amendments thereto for equivalent
5 maturities.

6 ~~Sec. 2-~~ K.S.A. ~~75-4237~~ hereby repealed.

7 ~~Sec. 4-~~ This act shall take effect and be in force from and after its
8 publication in the Kansas register.

(c) Notwithstanding the provisions of this section, agricultural production loan deposits made pursuant to the provisions of sections 1 through 7, and amendments thereto, shall be at 2% less than the market rate provided by this section.

75-4209 and 75-4237 are

1-2

New Section 1. The provisions of sections 1 through 7, and amendments thereto, shall be known and may be cited as the Kansas agricultural production loan deposit program.

New Sec. 2. As used in this act: (a) "Agricultural production loan deposit" means an investment account placed by the director of investments under the provisions of article 42 of chapter 75 of the Kansas Statutes Annotated with an eligible lending institution for the purpose of carrying out the intent of this act;

(b) "agricultural production loan deposit loan package" means the forms provided by the state treasurer for the purpose of applying for an agricultural production loan deposit;

(c) "eligible lending institution" means a bank, as defined under K.S.A. 75-4201, and amendments thereto, that agrees to participate in the Kansas agricultural production loan deposit program and is eligible to be a depository of state funds; and

(d) "eligible agricultural borrower" means any person, partnership or family farm corporation as defined in K.S.A. 17-5903 and amendments thereto involved in farming.

New Sec. 3. (a) The state treasurer is hereby authorized to administer the Kansas agricultural production loan deposit program. Such program shall be for the purpose of providing incentives for the making of agricultural production loans. The state treasurer shall promulgate rules and regulations to carry out the provisions of this act.

(b) The state treasurer shall submit an annual report outlining the status of the program to the governor and the

legislature.

New Sec. 4. (a) The state treasurer is hereby authorized to disseminate information and to provide agricultural production loan deposit loan packages to the lending institutions eligible for participation in this act.

(b) The agricultural production loan deposit loan package shall be completed by the borrower before being forwarded to the lending institution for consideration.

(c) (1) An eligible lending institution that agrees to receive an agricultural production loan deposit ^{1.} shall accept and review applications for loans from eligible agricultural borrowers. ^{2.} The lending institution shall apply all usual lending standards to determine the credit worthiness of eligible agricultural borrowers. No single agricultural production loan deposit loan ^{3.} shall exceed \$250,000. The total aggregate amount of agricultural production loan deposit loans under this program shall not exceed ^{4.} \$50,000,000.

(2) ^{5.} Only one agricultural production loan deposit loan shall be made and be outstanding at any one time to any agricultural borrower.

(3) ^{6.} No loan shall be amortized for a period of more than eight years.

(d) ^{7.} An eligible agricultural borrower shall certify on its loan application that the reduced rate loan will be used exclusively for the purposes of this act.

^{8.} *Bank either accepts or denies*
(e) The eligible lending institution may approve or reject an agricultural production loan deposit loan package based on the

lending institution's evaluation of the eligible agricultural borrowers included in the package, the amount of the individual loan in the package and other appropriate considerations.

(f) ⁹ The eligible ~~lending institution~~ shall ~~forward~~ to the ~~state treasurer~~, an approved agricultural production loan deposit ~~loan package~~, in the form and manner prescribed and approved by the ~~state treasurer~~. The package shall include information regarding the amount of the loan requested by each eligible agricultural borrower and such other information regarding each eligible agricultural borrower the state treasurer requires, including a certification by the applicant that such applicant is an eligible agricultural borrower.

New Sec. 5. ¹⁰ (a) The state treasurer may accept or reject an agricultural production loan deposit loan package based on the ~~state treasurer's~~ evaluation of whether the loan to the eligible ~~agricultural borrower~~ meets the purposes of this act. If sufficient funds are not available for an agricultural production loan deposit, then the ~~applications~~ may be considered in the ~~order received~~ when funds are once again available subject to a review by the lending institution.

(b) ¹¹ ~~Upon~~ acceptance, the state treasurer shall ~~certify to~~ the ~~director of investments~~ the ~~amount required~~ for such agricultural production ~~loan deposit loan package~~ and the ~~director of investments~~ shall place an agricultural production loan deposit in the amount certified by the state treasurer with the ~~eligible lending institution~~ at an interest rate, ~~which is 2%~~ below the market rate provided in K.S.A. 75-4237, and amendments

thereto. When necessary, the state treasurer may request the director of investments to place such agricultural production loan deposit prior to acceptance of an agricultural production loan deposit loan package.

(c) The eligible lending institution shall enter into an agricultural production loan deposit agreement with the state treasurer, which shall include requirements necessary to implement the purposes of the Kansas agricultural production loan deposit program. Such requirements shall include an agreement by the eligible lending institution to lend an amount equal to the agricultural production loan deposit to eligible agricultural borrowers ~~at an interest rate~~ which is not more than 2% above the market rate as determined under K.S.A. 75-4237, and amendments thereto. The agreement shall include provisions for the agricultural production loan deposit to be placed for a maturity considered appropriate in coordination with the underlying agricultural production loan. The agreement shall include provisions for the reduction of the agricultural production loan deposit in an amount equal to any payment of loan principal by the eligible agricultural borrower.

New Sec. 6. (a) Upon the placement of an agricultural production loan deposit with an eligible lending institution, the institution shall fund the loan to each approved eligible agricultural borrower listed in the agricultural production loan deposit loan package in accordance with the agricultural production loan deposit agreement between the institution and the state treasurer. The loan shall be at a rate as provided in

section 5 and amendments thereto. A certification of compliance with this section in the form and manner as prescribed by the state treasurer shall be required of the eligible lending institution.

(b) The state treasurer shall take any and all steps necessary to implement the Kansas agricultural production loan deposit program.

~~New Sec. 7.~~ The state and the state treasurer shall not be liable to any eligible lending institution in any manner for payment of the principal or interest on the loan to an eligible agricultural borrower. Any delay in payments or default on the part of an eligible agricultural borrower does not in any manner affect the agricultural production loan deposit agreement between the eligible lending institution and the state treasurer.

Sec. 8. K.S.A. 75-4209 is hereby amended to read as follows: 75-4209. (a) The director of investments may invest and reinvest state moneys eligible for investment which are not invested in accordance with K.S.A. 75-4237, in the following investments:

(1) Direct obligations of, or obligations that are insured as to principal and interest by, the United States of America or any agency thereof and obligations and securities of the United States sponsored enterprises which under federal law may be accepted as security for public funds, on and after the effective date of this act moneys available for investment under this subsection shall not be invested in mortgage-backed securities of such enterprises and of the government national mortgage association, except that any such mortgage-backed securities held

prior to the effective date of this act may be held to maturity;

(2) repurchase agreements with a bank or a primary government securities dealer which reports to the market reports division of the federal reserve bank of New York for direct obligations of, or obligations that are insured as to principal and interest by, the United States government or any agency thereof and obligations and securities of United States government sponsored enterprises which under federal law may be accepted as security for public funds;

(3) commercial paper that does not exceed 270 days to maturity and which has received one of the two highest commercial paper credit ratings by a nationally recognized investment rating firm.

(b) When moneys are available for deposit or investments, the director of investments may invest in SKILL act projects and bonds pursuant to K.S.A. 1997 Supp. 74-8920, and amendments thereto, and in state agency bonds and bond projects.

(c) When moneys are available for deposits or investments, the director of investments may invest in preferred stock of Kansas venture capital, inc., under terms and conditions prescribed by K.S.A. 74-8203, and amendments thereto, but such investments shall not in the aggregate exceed a total amount of \$10,000,000.

(d) When moneys are available for deposits or investments, the director of investments may invest in loans pursuant to legislative mandates, except that not more than the lesser of 10% or \$80,000,000 of the state moneys shall be invested.

(e) Interest on investment accounts in banks is to be paid at maturity, but not less than annually.

(f) Investments made by the director of investments under the provisions of this section shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

(g) Investments under subsection (a) or (b) of this section or under K.S.A. 75-4237 shall be for a period not to exceed four years, except that agricultural production loan deposits authorized under the provisions of sections 1 through 7, shall not exceed a period of eight years.

(h) Investments in securities under paragraph (1) of subsection (a) shall be limited to securities which do not have any more interest rate risk than do direct United States government obligations of similar maturities. For purposes of this subsection, "interest rate risk" means market value changes due to changes in current interest rates.

(i) The director of investments shall not invest state moneys eligible for investment under subsection (a), in the municipal investment pool fund, created under K.S.A. 1997 Supp. 12-1677a, and amendments thereto.

(j) The director of investments shall not invest moneys in the pooled money investment portfolio in derivatives. As used in this subsection, "derivatives" means a financial contract whose

value depends on the value of an underlying asset or index of asset values.

(k) Moneys and investments in the pooled money investment portfolio shall be invested and reinvested by the director of investments in accordance with investment policies developed, approved, published and updated on an annual basis by the board. Such investment policies shall include at a minimum guidelines which identify credit standards, eligible instruments, allowable maturity ranges, methods for valuing the portfolio, calculating earnings and yields and limits on portfolio concentration for each type of investment. Any changes in such investment policies shall be approved by the pooled money investment board. Such investment policies may specify the contents of reports, methods of crediting funds and accounts and other operating procedures.

(1) The board shall adopt rules and regulations to establish an overall percentage limitation on the investment of moneys in investments authorized under paragraph (3) of subsection (a), and within such authorized investment, the board shall establish a percentage limitation on the investment in any single business entity.