

SUBJECT: Using farm and ranch finance program bonds to aid businesses

COMMITTEE: Financial Institutions — committee substitute recommended

VOTE: 5 ayes — Marchant, Elkins, Giddings, Gutierrez, Patterson

0 nays

4 absent — Carona, Grusendorf, Hudson, Romo

SENATE VOTE: On final passage, April 25 — voice vote

WITNESSES: No public hearing

BACKGROUND: The Texas Agricultural Finance Authority (TAFE), created by statute in 1987, runs several bond-financed programs that assist rural businesses and help Texas farmers buy land. TAFE is administered by the agriculture commissioner with the aid of a nine-member, governor-appointed board.

Agricultural fund. TAFE administers the Texas agricultural fund and a rural microenterprise fund. In 1987, the year TAFE was created, voters rejected a constitutional amendment authorizing \$100 million in general-obligation bonds for the fund, plus \$25 million for the enterprise fund. However, voters in 1989 authorized an amendment allowing the sale of \$25 million in general obligation bonds to finance the agricultural fund, plus \$5 million for a rural microenterprise fund.

In 1993 voters rejected an increase of \$75 million in general obligation bond authority for TAFE-run programs, proposed by the Legislature after TAFE reported that it had used \$23 million to help 38 businesses and had only \$2 million in bond authority left, while loan requests exceeded \$300 million. TAFE makes loans to agricultural businesses.

TAFE is allowed to issue up to \$500 million in revenue bonds (in addition to the \$30 million in general obligation bonds) for the business-assistance programs.

Farm and ranch finance. In addition to the rural business programs, TAFAs share in the administration of the Farm and Ranch Finance Program, created by the Legislature to use constitutional bond-issuing authority granted by the voters in 1985. In 1993 TAFAs were put in charge of the *program*, while the Veteran's Land Board was put in charge of the farm and ranch finance program *fund*. TAFAs were authorized to sell up to \$500 million in general obligation bonds for the fund.

General obligation bonds are a debt owed by the state and therefore require specific constitutional authorization through voter approval. Repayment is guaranteed by the state from the first money coming into the treasury each fiscal year. Revenue bonds are usually paid from revenue derived from a particular program. Since revenue bonds are not officially a state debt, they may be authorized by statute rather than constitutional amendment, but because the state does not guarantee repayment of revenue bonds, the money borrowed generally must be repaid at a higher interest rate than for general obligation bonds.

Art. 3, sec. 49, of the Constitution prohibits the Legislature from creating state debt, and thus is amended to authorize specific general obligation bond issues.

DIGEST:

CSSB 1260 would eliminate any statutory cap on TAFAs' bond authority in the agricultural fund and rural microenterprise programs, contingent on constitutional authorization, and eliminate Veteran's Land Board authority to administer the farm and ranch program fund.

The bill would transfer fund administration from the Veteran's Land Board to TAFAs for the farm and ranch loan guarantee program and make conforming changes to delete references to the land board.

The bill would require TAFAs to deposit the proceeds from the sale of bonds, as authorized by the Texas Constitution, into the Texas agricultural fund. It would also eliminate specific restrictions on investment of bond proceeds.

The legislation would take effect January 1, 1996, contingent on approval of a constitutional amendment (SJR 51 by Montford) allowing use of farm and ranch finance program bonds to be used for the Texas agricultural fund.

**SUPPORTERS
SAY:**

CSSB 1260 is the implementing legislation to the constitutional amendment proposed by SJR 51 by Montford that would allow the excess bond capacity in the farm and ranch land program to be used for the Texas agricultural fund, which provides low-interest financing to promote agricultural enterprises, agricultural products and other rural economic development programs.

CSSB 1260 would allow a needed injection of capital to help the state preserve its agricultural economy without increasing the state's total bond debt authorization. The Texas agricultural fund provides financial assistance to small Texas agricultural businesses to produce, process and market crops and products grown or produced primarily in Texas. Demand for the seed capital provided by this program is high.

The Texas Farm and Ranch Finance Program provides financing to eligible farmers and ranchers to purchase land for a base of operation. The Constitution allows up to \$500 million in bonds to be outstanding at one time, but the administrators of the program report the demand for loans has not approached that amount. Merging administration of the two programs would be consistent with the goal of promoting Texas agriculture and would be a more efficient use of this unused bond authority.

The Texas agricultural fund may be financed with up to \$500 million in revenue bonds through statutory authority as well as \$25 million in general obligation bonds. Since general obligation bonds are backed by the state, they carry a lower interest rate than revenue bonds. Since the proposed constitutional would only shift, not increase, existing general obligation bond authority, it would not add to the state's authorized bond debt. The fund depends on loan repayments to pay back the bonds and does not use general revenue.

The sunset review of the Texas Department of Agriculture conducted this session made many recommendations for the operation of TAFAs to increase the safeguards for state funds. This legislation would ensure the continued success of the farm and ranch loan guarantee programs by moving the responsibility of managing the fund from the Veteran's Land Board to TAFAs.

**OPPONENTS
SAY:**

Texas voters have twice rejected additional bond authority for the Texas agricultural fund, which should make it clear that they do not favor increased state borrowing for this purpose. In 1987 they rejected a \$100 million bond issue for the program, and only two years ago rejected an extra \$75 million for the fund.

The farm and ranch land purchase program, which promotes maintaining family agriculture, serves a different purpose than the Texas agricultural fund, which promotes business enterprises. Bond authority that the land program may need later should not be diverted.

NOTES:

The Senate-passed version of SB 1260 would have implemented the Senate-passed version of SJR 51 by Montford, which would have merged the general obligation bond authority of farm and ranch land purchase program (\$500 million) and the Texas agricultural fund and rural microenterprise development fund (\$30 million). The committee substitute would generally authorize proceeds from farm and ranch finance program bonds to be deposited into the Texas Agricultural Fund, as authorized by the Texas Constitution. It would also eliminate the \$25 million cap on general obligation bond issuance to the Texas agricultural fund and the \$5 million cap on the rural microenterprise development fund.

As passed by the Senate, SJR 51 would have merged the general obligation bond authority of the farm and ranch finance program and the agricultural business loan programs into one \$530 million bond authority. As passed by the House, SJR 51 would allow a shift of \$200 million of the \$500 million of the farm and ranch finance program to the Texas agricultural fund. The Senate refused to concur with the House amendment, and a conference committee has been appointed.

If SJR 51 by Montford, is being considered by a conference committee. It would amend the Constitution to allow \$200 million of the farm and ranch finance program bond proceeds to be used for the agricultural fund.