

HOUSE TAXATION COMMITTEE  
46th Legislature

The committee was called to order on April 6, 1979, at 8:30 a.m., in room 434, Capitol Building, Helena, by Chairman Herb Huennekens. All members attended the hearing except Rep. Fagg who was absent. Randy McDonald, Staff Attorney was present.

Senate bills 67, 174, 463, 248, and Senate Joint Resolution were to be heard.

Senator Kolstad, Senate District #5, Chester, explained SB 463 establishes the upper limit each county must pay for district court costs. It requires each county to pay up to 3 1/2 mills for their district court costs; will establish a grant-in-need program for district courts for small counties that experience major court costs. Stillwater County will exceed their \$40,000 district court budget on one case, the Cox case. The first 3 1/2 mills of their district court costs would be paid by the counties, and the remaining cost would be paid by the state. The money would be used for court costs only, not construction of buildings. This would preclude counties from going broke should they have other big cases.

SENATE BILL

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Dean Zinnecker, Director of the Montana Association of Counties, commented the district court is the major trial court in the State of Montana. It is a state court, but it is paid for by the county. The state pays the district judges' costs, and over the judges' costs any additional are paid for by the county. At 3 1/2 mills it will cost the state \$.5 million based on the 1977 court budgets. The Rosebud trial would have cost \$48 per capita, up from \$9. There are tremendous inequities in counties when the county is required to pay. Something must be done to protect counties from these major costs.

There were no opponents.

Senator Kolstad closed saying he hoped the committee will take favorable action.

Rep. Dassinger asked how the 3 1/2 mill figure was arrived at. Senator Kolstad said they started with 2 mills and decided to raise it.

Rep. Underdal mentioned the McKenzie trial costs have been an extremely expensive thing in Pondera County and this bill will preclude any such burden in any other county in any one year.

Senator John Manley, District #14, Drummond, sponsor of SB 67, said this bill is called the Sprinkler Bill, but they are trying to change the terminology to "Irrigation Bill" but seem to be stuck with Sprinkler Bill nomenclature. There is a lot of interest in this bill mostly by the people who are changing from flood irrigation and putting new ground into sprinkler irrigation. Taxes on the equipment should be realized through reclassification of the land.

The Department of Revenue is reappraising the ground and then also taxing the irrigation facility in which any ditches or other old-style ways of irrigation

were exempt. When the Department of Revenue sees any technology being used, they jump on the band wagon and tax sprinklers and also the land. This was introduced to rectify that.

SENATE BILL            Les Loble, representing a group of farmers and ranchers from the Drummond area as far east as Rosebud County, advised the  
67                      Department of Revenue instructed their assessors to assess equipment connected with sprinkler irrigation. They do not assess equipment for flood irrigation. Several lawsuits were started and one was tried in Deer Lodge, won, and then it was reversed.

The senate committee struck all the bill after the enacting clause and rewrote it to be sure that paragraph 1 was reenacted. It is just the same bill as it was put into the senate. Other property of like character shall be taxed the same. Page 2, line 1, underground water distribution lines makes sure that the present tax exemption on flood irrigation remains the same.

Line 25 'installed or used on a ranch' wording is used so that sprinkler equipment does not escape the inventory tax. Only when it is installed in the ground does it fall into that category. There are some assessors who still do not tax sprinklers because their assessors did not assess these properties. This would not be taking money away from the counties as tax base. Think how much more the county makes when a progressive farmer or rancher goes to a sprinkler system. The best comparison is summer fallow when it is not irrigated. The Crop and Livestock Reporting Service says about 30 bushels of wheat per acre is average on summerfallow and then it would go up. The difference in the value of a tract if it goes from dryland to summerfallow is from \$101 for a 40-acre tract to \$297 per acre. Alfalfa dryland was assessed and taxed on a 1-ton per acre basis and the tax would be based on \$45 per acre, if a sprinkler is added the tax would be \$200 for a 40-acre tract.

The man with the sprinkler system not only pays that, but on the sprinkler system besides. Most farmers and ranchers who use sprinklers are generally the progressive, energetic farmers. The contribution of such a ranch in the local community went way up. One such ranch employed besides the owner, six full-time men and a crew of 30 during harvest. They provide a great many more dollars besides the tax. Many other counties report such benefits brought about by sprinkler irrigation. He hopes for a DO CONCUR committee report.

Terry Murphy, registered lobbyist, Montana Farm Bureau, and WIFE organizations, feels that it is a very important bill. There are millions of acres of land in Montana of dryland and bench lands which are now producing only low-grade pasture which could be better producers. We should get our water put to better use before we lose it. Should be encouraging the rapid growth of that type of farming and not tax it when other types are not taxed.

Mons Teigen, Montana Stockgrowers and Woolgrowers Association, and Montana Taxpayers Association, supports SB 67, as in the Senate and as he did two years ago, and he hopes that this time it receives a Do Pass by this committee.

Mr. Biggerstaff, Montana Conservation Districts, said water is one of the most important issues. Efficient use of that water is one of the most important things. There are a lot of benefits - doesn't think we should have a tax on sprinklers that penalize people who are trying to do a good job.

Alice Fryslie, Montana Cattleman's Association, supported this proposal in the past and do so now.

Pete Jackson, registered lobbyist, stated farmers have taken the same amount of water and doubled their acreage. Then the assessor reassessed. Farmers and ranchers are improving these lands and making resources much more valuable by using this kind of irrigation which requires a heavy financial investment. He supports this bill.

Ross D. Peace, Fairfield, (there were a great many people in from Fairfield) concurs with what the proponents have talked about in this measure. It is not only the cost of the equipment that goes in with sprinklers, it takes more farm machinery which means a better economy in the area where they are used. We are all very much against this so-called double taxation. The land is reclassified to a higher value for taxation purposes and that is a double tax and he doesn't think we should have to pay the tax on the sprinklers themselves. Sprinklers help control sediment from going into the streams; use half as much water on the land he does have. After all, we are after water conservancy. Need this bill to prevent double taxation. See his testimony attached.

Robert A. Ellis, Helena farmer, Helena Valley Irrigation District and for the 280,000 irrigated ranches that the federal government has constructed in the State of Montana, said the supreme court decision did not allude to the taxation of the sprinklers, it was to the point that the legislature did not have the right to exempt other types of irrigation. It covered the added machinery. This is also an increase in taxation.

Tom Asarf, Forsyth, said there are actually two classes of land that are affected by sprinkler irrigation. The old land where better use of water is made, and the higher land that has not been irrigated before. No other way can that land be irrigated other than through sprinklers. This makes for double taxation and are discouraging progressive use of water. He heartily endorses this bill and asks your favorable consideration.

Steve McDonnell, Agricultural Preservation Association, Three Forks, MT, said the increased cost of food today to the consumers is a major concern to almost everybody including farm people, and they know food costs are increasing. Adding a cost to food only stifles other production. There is a very narrow margin - sometimes an extra cost deters the completion of a project which would go on to provide more food, not only for our nation, but for the world. See his testimony attached.

Deon Hager, Fairfield, said those who have never flood irrigated before, and those who have both flood and sprinklers find flood irrigation takes 3 feet of water, and 1 1/4 foot for sprinkler irrigation. They are faced with a shortage of water in their area. Flood irrigation makes for saline seep. From his own knowledge, and from those who are in under irrigation, and those who irrigate, by going from flood to sprinkler, most people do increase production per acre from 10 to 20%. Going from dryland to a sprinkler system increases production from 15-40 bushels per acre.

Donatus A. Kronebusch, Pondera County Canal and Reservoir Co., and himself, Conrad, supports SB 67. See testimony attached.

Rep. Underdal was asked by Don Crider, Conrad, to state that he is in favor of the bill. He is quite extensively engaged in sprinkler irrigation and is opposed to having to pay tax on sprinkler equipment.

Dick Flickema, Highline Company, is in the process of developing about 300 acres to irrigation. Have two irrigation permits which have been approved. The investment for sprinkler systems and the pipe is large, and if this bill is passed, could go on. At the present time they have to make the decision of whether to return to summerfallow or go to sprinkler irrigation.

Don Burnham, Helena valley, said he is sprinkling half and flooding half his land. The investment to put in a sprinkler system is \$300-400 per acre which is probably more than what most of us paid for the ground originally. Electricity runs from \$8-10 per acre and you have to buy your water. This extra taxation might be just the breaking point of whether you go to this kind of system.

Frank Flynn, Hidden Hollow Ranch, Townsend, representing 20 farmers, supports SB 67.

There were many other proponents of SB 67 including David H. Hastings, whose testimony is attached, Wayne K. Plymale, Townsend, Walter T. Madill, Townsend, Ed Nelson, Montana Taxpayers Association, Helena, and a list of persons attending the hearing.

There were no opponents.

Senator Manley closed saying he couldn't add too much to what has been said. One thing that hasn't been stressed - the federal government passed 208. I would say probably within the next 5-6 years, all over the U.S. flood irrigation will no longer be allowed. 208 is a water quality bill and is really something. It was put out by the environmental people in Washington, D.C. I am sure all irrigation will have to be done by sprinkler - won't allow water to run off a field back into a stream. This could mean a difference between able to do it and not being able to do it. Sprinklers use less than half the amount of water as flood.

It doesn't mention a thing of what the state and counties and local communities gain by someone putting in the development. One man trebled his land through sprinkler irrigation - he pays taxes on much more machinery, on more cattle, on reclassification of his land - maybe paying \$5,000 into the community today rather than \$500. The fiscal note, if they really wanted to be progressive, would have added to the value, the communities gain rather than what tax base they might be losing.

Questions from the committee -

Rep. Williams asked Mr. Loble: Is it not true that under a law passed in 1975 and amended in 1977 for the first three years after land is converted to irrigation, that the taxable value remains the same with either flood or sprinklers? Mr. Loble said Yes. Senator Manley said in most cases this is not done. The Department of Revenue, unless you know about the allowance

and force them into allowing it, don't give you the three years, Rep, Williams asked whether the Department of Revenue is ignoring the law and farmers don't know about it? In HB 213, sprinkler irrigation equipment is being taxed at a 15% reduction and at the same time have reduced from 13 to 11% classification. He doesn't feel that has a tendency to reduce taxation on small farm equipment.

Senator Manley thinks reducing the sprinkler taxation wouldn't be sufficient to allow development.

Rep. Vinger asked Senator Manley if under flood does that exempt pumps. No.

Rep. Dassinger asked Mr. Loble whether the equipment used for flood irrigation is exempt. The pipe under the ground - stuff that is fixed to the land - is not taxed.

Terry Murphy brought out the fact that the lessening of the tax would be incentive to provide for more irrigation. What is the cost ratio of actual cost of flood irrigation and the tax that is involved -- \$300-400 per acre to provide for sprinkler irrigation - how much would taxes be - what is the ratio?

Mr. Burnham put in a sprinkler system 6-7 years ago because of erosion. He has to pay for the water whether it is used or not. Cost at that time was \$300 per acre for cost of sprinkler above the ground - for the whole works. That system covered 320 acres and the taxes on that same system was just under \$1,000 per year. Has \$10 per acre electricity and almost \$6 per acre for water, plus cost of a man. Have almost doubled production on the ground and alleviated soil erosion problems that were killing them. At the time of putting that in it cost less than the \$400 per acre it would cost now. Buried line is not taxable - they only tax what is above the ground.

Rep. Huennekens asked Mr. Loble if he had the increase in revenue figures since he had listed costs, etc. on a sample farm. He didn't have.

Senator Manley said the taxes on one farm were raised from \$2.52 to \$23.32 per acre.

Rep. Huennekens said there has been a tremendous increase in the use of sprinkler irrigation despite not taking advantage of the present tax advantage. There will be an even greater increase considering that one problem is the oversupply of small grains. What happens if production is increased - what will happen to prices? Senator Manley said we don't have an oversupply of beef today. If grain is not profitable, farmers will change and put the land into other production.

Rep. Reichert asked how are neighboring state systems taxed? She was told they are exempt - cattle are exempt also.

Mr. Kronebusch commented that putting on water is not making an oversupply of food products. There is a lot of land that is unprofitable without irrigation. Can make a little profit by using systems which get away from saline seep problems. Getting away from flooding and going to continuous cropping, it is necessary to go to sprinkler systems.

Rep. Huennekens remarked that beef prices are cyclical and pretty obviously the more we produce, the lower prices will become. Can only produce as many beets as can be handled by the company.

Rep. Sivertsen reminded that the problem is that to the advantage of the American people, the agricultural people have continued to provide food at the least cost of anywhere. Depression in the cattle market was not just caused by an oversupply of beef but because of government interference. The same is happening in grain today. Can't get rid of the grain because of transportation and government interference. If we are going to keep these farms and make them pay, we have got to continue to increase production and make them profitable. We are not willing to provide a little bit of protection to help save these farmers. Can't make them pay so that is why we have alien ownership and corporation farming.

Rep. Fabrega asked Senator Manley about a taxpayer's valuation going from \$2 to \$23 per acre. Senator Manley answered that if a non-irrigated farmland was classified at 4A, the assessed value of an acre would be \$6.94 and if wild hay land were put under a sprinkler and put up 3 tons to the acre, which would be pretty good for a wild hayland, it would be assessed at \$67.60 per acre so you pay quite a jump by installation. If you don't make more money, you couldn't do this. Rep. Fabrega - it increases the valuation by about 10 times. There are tax inequities in the present taxation system. In California everything is buried and that would be exempt in Montana.

Rep. Reichert asked Mr. Peace if you have a small farm and work off the farm, when you figure the cost of the entire operation is it worthwhile? Mr. Peace told her figuring on the entire operation, interest, taxes, etc., it costs about \$186 per acre; crops produced bring in about \$207 per acre, and that leaves \$21. If he didn't have an off-farm job, he wouldn't have much income tax to pay on that amount. He produces 94 bushels of barley and hay at 5 tons per acre. With the costs today, there is no way we can make it pay and reduction of taxes would help.

Rep. Hirsch said machinery needs are increased, and property taxes are paid on them. If you take just dryland prairie, you increase the carrying capacity from one cow to two cows per acre. When you go to an operation like that, the advantages to the county are just overwhelming from the livestock aspect.

Rep. Dassinger thinks if sprinklers are exempt, should exempt flood equipment also. Senator Manley said SB 67 only attempts to reduce taxation on those that are affixed to the land. Rep. Dassinger represents one county that is industrial and the other is farm oriented. One county that is mostly farm has problems because of lack of tax base. What tax should be used to raise more money? Senator Manley thinks the extra production from this ground would be a plus rather than a minus figure. In many counties this hasn't been assessed and taxed.

Rep. Underdal said turning good dryland farm land into irrigated land, what is the difference in taxes when a sprinkler system is installed? How does it compare with the dryland taxes and irrigated taxes? Senator Manley said it makes for a higher assessment on the land and from higher production. Rep. Underdal said the difference between classification of good dryland could basically stay pretty close to the same, and your land would still pay as much taxes as by not taxing the system. Senator Manley said it would pay as much or more. Have to watch that counties do not lose tax base valuations.

Senator Tom Hager, District #30, Billings, sponsor of SB 174, explained the Greenbelt bill passed several years ago where land would be taxed on production value rather than sale value. The Department of Revenue was taxing land under confined animal areas as agricultural, but are now taxing it under industrial classification. These areas are poultry farms, pig palaces, dairies, or feed-lots. The purpose of SB 174 is to state that land used to raise animals for food or fiber, would be eligible for cropland classification.

SENATE BILL            This is only fair as those confined animal facilities are  
                         used for that purpose. This would not affect the improve-  
174                    ments on that land. Would only affect the land underneath.

There were no opponents.

Senator Hager did not feel a closing statement was necessary.

Rep. Williams said this would be classified as commercial. Is it taxed on a commercial basis? Senator Hager said the DoR has raised the value of land. Rep. Williams asked do you think we might have a constitutional problem here? Senator Hager said this is agricultural land. If you raise something confined on it, you are not producing anything, Rep. Williams mentioned. Senator Hager said it is used to produce food and fiber and should be treated as agricultural land.

Rep. Huennekens thought if you handled the butchering and other process, you would be included in part as industrial. Senator Hager said they do process the eggs. The production should be considered in this manner.

Rep. Sivertsen wondered if the language is clear enough. He doesn't think we should include processing or anything like that since that is commercial. Would ask that the committee take a real good look at the language.

Rep. Fabrega thought relative to the area of land as not being less than 5 contiguous acres, this might not be in the right place.

Rep. Huennekens suggested that a (c) be added following line 7 a subsection (c) be added saying it is used to raise animals in confined areas for the production of food or fiber, including but not limited to livestock, feedlots, dairies, fish hatcheries, and poultry farms.

Rep. Bertelsen asked Senator Hager if he felt the fiscal note is accurate. He wasn't sure.

Rep. Fabrega mentioned the change to industrial classification was just made this year. As you are being assessed now, what is the increase in the assessment. Senator Hager said one area went from \$1700 to \$21,000 and the other was increased to about the same amount. There were 10 acres in one piece.

Senator Tom Towe, District #34, Billings, sponsor of SB 248, explained this is the Young Farmers bill, which looks to its funding from the coal tax trust fund. It is to help young farmers get a start in farming and to help communities. Many people are leaving farms. The average age of farmers today is 51.1 years. We are losing young farmers. Agricultural land is being gobbled up by alien owners, movie stars and others.

We are becoming a nation of clerks, a state of hired hands and not owner operators. Perhaps we should help the farmers - the young people who are capable of farming but aren't able to do so because of lack of finances. In order to buy a farm that would be capable of paying for itself and providing a living to the operator and his family, it takes at least \$400,000 to \$600,000 - unless a young farmer is lucky enough to inherit that kind of a farm or marry it. At 11% interest rates today, it's impossible to make enough money on the land in order to pay the interest, let alone the principal. We should help the young people who can and want to farm.

They still can't pay the interest at 11 1/2% on the average farm in Montana. The best thing we could do would be to try to work on agricultural prices. As a state we can't do too much about that, but we can help young farmers. The FHA helps a great deal, but they just don't have enough money available to do the job. They have \$13 million this year and this will only cover about half the loans approved. You may wait as much as three years for the money.

The first 17 pages of the bill have been almost entirely stricken. In Canada the state will own the land and lease it. SB 248 would take money from the fund that has not been used before. The entire program will be administered by the FHA who will service the loan and collect payments. The Department of Agriculture of State of Montana would make decisions - would be best to be funded by the state. The Family Farm Advisory Council would not come into existence unless the loan program would exceed \$5 million. Suggests a \$2 million family farm program for this year. A couple of loan officers explained who would be on the board.

On page 18, the duties of the department are described for administering this homestead loan act to eligible agricultural farmers of the land. Should include a repayment schedule that may not exceed 60 years. Average loan would be about 30-40 years.

If the interest is too high for the first year or to pay FHA, can make a loan for 3%. If he can't make the interest payments at the full 7%, he can come to the Department of Agriculture, and if the \$5 million came into existence, and if the advisory council is then set up, he could come in and get a second loan at 3 1/2%. This could not be done for more than 5 years and has to be repaid at municipal bond interest rates. If he decides to get out of farming, this must be paid immediately.

Requirements for obtaining such a loan are he must reside in the State of Montana at the time of application; must declare intention to remain in Montana during the term of the loan; must have been approved by the local committee of the FHA. Section 10, evaluation process: net worth could not exceed \$100,000; whether he had access to livestock or machinery; inability to secure financing in other areas; training and experience in agriculture; prospects for his succeeding in agriculture. If he can't figure it out on paper in order to make it go, he shouldn't be in farming.

Bonding authority - from the coal tax constitutional trust fund which is to be used for this program outright - has been set in this bill. If the loan program works and we like it, then two years from now we can pass a bonding authority up to \$200 million. If we don't like it in two years, that's all there is to it. It would be reviewed by the legislature.



This will require funding from the constitutional trust fund. There would be an amendment that would take \$2 million from the constitutional trust fund. There is \$ 4.5 million available this year. The question is how you determine the income which is available for the legislature for appropriation each year. There is \$6.9 million available and none of those figures have been considered in the general fund. They are included by the fiscal analyst. Other figures that have been used in connection with this fund are \$4.5 - \$4.9 million. This would not affect any appropriation figures that we have been dealing with now. We should recognize our family farms.

Senator Elmer Severson, District #46, Stevensville, supports this bill saying he has actually worked with Tom on this; for almost two years he was opposed until we got down to the bottom line. Now thinks it a very favorable type of bill. Do you want to encourage young farmers in this? Urges committee's concurrence with it.

Senator Paul Boylan, District #38, Bozeman, said he has always voted against these farm acts, but thinks this is a positive approach to get young people engaged in agriculture. He thinks it is high time that we are getting something started along this line. Everything is too high - money, interest, land and if we can inject them with some money and let them get started this way and when that balances out, someone else can take over. This is the most positive approach we have today - the average age of farmers is getting to be pretty old. There is no way loan agencies will lend money on long-term loans. This would give them something on long-term credit.

Ann Page, Montana Farmers Union, Simms, MT, said maintenance of the decentralized system is dependent on the ability of young farmers to get into farming today because land values are being increased by expanding farms and subdivision demands. The U.S. General Accounting Office says there is a definite trend in absentee ownership developing across the country and because we feel that is harmful the Montana Farmers Union supports this bill.

Terry Murphy, Montana Farmers Organization, supports SB 248 in its original form and supports it in this bill. Should use this Montana produced money to encourage Montana people to expand in other businesses. Staffs of Montana Farm Bureau support this bill as it is now. They would have some problems by putting the state in land competition, but as it is now written, Farm Bureau supports it.

Wally Edlund, director of the FHA, supports SB 248 the way it is written. The FHA would work with the Department of Agriculture in funding small farm loans. At the present time one of their programs is farm ownership loans where they cannot get money otherwise. They have \$13 million this year, and will be short approximately \$13 million of approved applications that they cannot fund, so any source of financing will be very desirable.

Unique situation on the funding that the FHA does and the way they wish it were. The \$13 million keeps the state in the first position, and they subordinate. They do all the paper work, all appraisal work and so keeps the state from duplicating their work. The only type of loan in which they can participate are those loans which encompass only those in which the total amount we would take, would be the second position, putting the state in the first position on that. Of those loans there would be roughly \$1 million in this quarter that we can't handle. See his information sheet attached regarding needs for loan applications approved.

A lot of applicants just can't wait for a year or longer. Interest rates are becoming higher and higher. He thinks the state should participate along with other lenders to help farmers get into agriculture, otherwise it will go only to large landowners and other out-of-state people.

The Department of Agriculture would incorporate all loans through the FHA. It would maybe take a one-half time full-time employee extra.

Jan Brown, Montana Association of Churches, said their position is to support legislation to help family farms. They support SB 248.

Tom Ryan, Montana senior citizen, is very happy to support what is left of the bill. The concept is there. Putting more capital out in the field for young people to develop farms is fine. He was a teacher in rural economics and is quite knowledgeable along this line. The only other way is to marry a farmer's daughter!!

#### Opponents:

Rep. Burnett thinks this looks at the situation through rose colored glasses. When you look at the little amount of money available. You could give them the land and they couldn't make a go of it. Congress has put so many restrictions on farming and now you are putting the state in the landlords position. Who is going to take it away if a young farmer can't make a go of it? Who is going to make this decision? Executive action has hurt agriculture; they have tried to regiment them and not give them a free hand. The federal programs today, and he has gone out as a federal land appraiser, oppose running a farm loan program; we are not sure the state belongs in agriculture or the loan business.

John Cadby, Montana Bankers Association, is neither an opponent or proponent. They were originally opposed to the bill, but since it has been so drastically changed, they would suggest a couple of amendments that might make it more workable and more in compliance. Page 22, line 10, following "council", insert "if in existence"; line 13, so the department may seek the advise of the FHA and cordinate the work, change the word "may" to "shall" and thereby limit bureaucracy; page 31, delete section 24 which exempts the bonds from taxation. This section should be deleted. Don't wish to recommend any position either for or against the bill.

Senator Towe had no objections to the suggestions of John Cadby. They took care of some technical suggestions he had. On page 17, line 22, the council should not be politically biased. Page 23, line 8, strike: "lease agreements and sales" and insert "loans". Senator Towe said the FHA has good loans and are making them every day.

Rep. Dassinger asked what the state would get out of the \$2 million. Would they collect any interest at all? Senator Towe advised the constitutional trust fund accrual amounted to about \$600,000. There has been no appropriation or suggestion of use of that money. SB 300 would put half of the income into the highway trust fund.

Rep. Dassinger would like to have a fiscal note showing the amount of money that is income that has been actually received, that has been about \$600,000.

Rep. Huennekens asked what rate of return is on that? There has never been an investment at less than 8% - 8 1/2% would be a very conservative projection for the next biennium.

Rep. Bertelsen stated that all loans should be made through the local FHA. In the event there was a failure on the part of the owner, what would happen? The FHA as the second lien holder would pick up any loss that might happen. He thinks \$100,000 is too little to accomplish much. Sen. Towe would have no objection to increasing the amount.

Tom Gill, Department of Agriculture, said they are prepared to do this internally. The council would assist us after the program got beyond \$5 million.

Rep. Huennekens - Edland: The average loan is about \$85,000 per loan. So you apparently are operating on a relatively small scale. The maximum they can participate is \$200,000. There are 27 county offices. Each county has a three-man committee that screens all applications. They have to have a complete financial worksheet and if it is not favorable and they can not rationally loan, it is turned down. To make a farm a more workable unit, they allow farmers to buy close land. The loss has been 1/2 of 1% - very little in agriculture. They have to keep a very good set of books.

Rep. Huennekens asked what the loss of principal and interest has been. Mr. Edland said the loss of funds or interest loss experience has been excellent.

Rep. Nordtvedt - Senator Towe: Why was it necessary to add this backup to taxing powers? They were just putting in a mechanism for the statutes. It is for more security. If we can use the state to float housing issues for bonding, should be able to use the state and bonding authority to help young farmers to get started in agriculture at the same interest rate. It may mean a difference in the selling of bonds. He thinks land is solid security. This is coal tax money and has the full faith of the state.

Rep. Nordtvedt said he was trying to find out what the bottom line to the state would be. Municipal bond rate of interest - if the bonds were sold at the municipal bond interest rate, there would be no loss to this fund - revolving fund would return back to the principal so no loss to the fund.

Bonds won't be issued this time. This time are asking for a direct loan. In two years would approve a bond program and the income from the constitutional trust fund was contemplated to be used as security. Wouldn't use income, but it is there to secure bonds.

Rep. Nordtvedt can't understand the logic of approving such a program for farming but not for a business. What is the double standard about?

Senator Towe said this is an equity capital bill.

Rep. Sivertsen is somewhat confused at the present time. Some of the statements made have confused him. Investments in our ag lands are being those of a negative approach to the situation that our young people are faced with. He thinks we are misleading this committee and the people of the State of Montana that just by pumping more money into the system is going to save the family farm.

Senator Towe said he voted for all legislation that prohibited foreign ownership. He thinks we should favor those who want to stay in farming and those we should help.

Rep. Sivertsen remembered back in 1974 with the agricultural conditions the way they were, you could give young people a ranch and they could never have paid the interest, let alone pay the principal. The FHA was going to close out many small loans. It was a fluke put on by President Nixon, and put these people in a bankruptcy position, but they were able to cover for another year. Quite a few did hold on. If we do not get this economic situation straightened out somehow and get a handle on ownership by foreign ownerships and large corporations, no matter how much money is pumped into the system, you have a problem.

Mr. Edland said the FHA could fund 8 loans immediately with the additional loan money. We are not foreclosing on any FHA loans unless there is poor management and there is no recourse whatever. We are extending the time to 7 years where they just pay the interest. If they just have enough time, it will pay off.

Rep. Hirsch agrees that you simply cannot pump enough money into the farm situation to make a very great impression. Senator Towe asked if consideration of an approach to a loan system where you use the equity in the land and initiate a loan program to a young farmer and the present land owner was able or willing to provide the land and then pick up the interest difference with a loan program that when the borrower gets into different position, he could pay the interest himself. Senator Towe said the second loan program is to do exactly that, as shown on page 20, lines 3-14. Rep. Hirsch asked if you have to take advantage of the first loan before you take advantage of the second one? Yes. Senator Towe said there are no freebies. They have to pay the principal and interest at municipal bond rates. The \$2 million won't be available all at once. He doesn't think a limit would be too important with only \$2 million available - the FHA will try to help as many people as they can.

Rep. Fabrega commented the \$2 million will be borrowed or taken from the income that has been generated from the permanent trust fund. That will be loaned at 7-8% interest. If the program is successful and the next legislature approves, bonding will be initiated, and will repay the original revolving fund with the \$2 million. It could be paid back during the use of the revolving fund and it could be returned. Rep. Fabrega asked if all we are sacrificing from the fund is the difference between 3% and 8% and it earns the same as it would otherwise.

Rep. Towe said it is not clear that the income would be put right back into the trust fund. It is put into the short-term loan program. It is fair to project 9% over the next biennium.

Rep. Dassinger asked who would repossess the farm? Mr. Edland said they would come in the second position. They have the first chance and normally will buy them out and absorb the whole loan process. The state retains itself in the first position - if anyone loses, the FHA loses.

Rep. Dassinger asked Senator Towe if he would mind taking a different \$2 million starter out of the general fund. There is \$4.85 million in this fund. Many budget people are including that money in their figures. It is not separately applied to the general fund and should come out of there and be treated as general fund money.

Senator Towe said the \$4.9 million covered bonds for \$2 million, so wouldn't affect any projects floating around here. Take it out of any fund, but he feels it is appropriate to take it out of the coal fund.

Rep. Fabrega said on the original loan - is it a deferral? It is a second loan that is used to pay off the interest on the first loan. A borrower would have to realize he has two loans to pay off. Rep. Fabrega asked if the second loan takes precedence or does this take a third loan.

Mr. Edland said he didn't care where the money comes from - the FHA would be in the second position to collect and they do the servicing.

Rep. Huennekens asked if that is a matter of rule, or policy, or regulation. Mr. Edland said the government feels that they will be a big brother and take it as it comes. Rep. Huennekens said have to really accept that on faith.

Rep. Hirsch asked if your second loan program can stand on its own? Mr. Edland said they would administer that in the sense that the person who had the loan would be obligated to pay 4% interest on the loan and the state would be obligated for the difference in interest. Senator Towe said you could have both programs and come in for the second loan program.

Senator Towe suggested striking the word "borrower" and inserting "qualified applicant" in several places.

Rep. Underdal asked why do you think it is necessary to keep on using the FHA? Rep. Fabrega asked how will this shorten or expedite if the FHA is going to cut down the 1 1/2 year they have to wait. Mr. Edland said if they had \$13 million, they could fund approved applications immediately. The fiscal year runs from October 1 to September 30. Rep. Fabrega doesn't see how there can be a second loan program.

Senator Towe as one of the sponsors of Senate Joint Resolution 4, explained he thinks the board of investments should look at the FHA with a view towards participating with them in farm ownership loans. The FHA can make loans as a subordinate lender - the board of investments would invest the first \$100,000 loan and then the FHA would come in. The FHA loan rate is at a maximum of 9% and shouldn't ask the board of investments to invest at less than 10-11%.

SENATE JOINT      If interest rates come down, he thinks the board of invest-  
RESOLUTION 4      ments should be encouraged to invest in farm ownership loans.

Wally Edland supports this. He feels funding by the board of investments in communities of less than 50,000 is a good place to make loans.

John Cadby feels the board of investments money should stay at home. 80% of \$800 million goes out of state - you are missing a good bet. It would do the state much more good in employment and tax -- would have a multiplier effect of five or six times more than the state gets out of the 8-9% you are getting from New York bankers. He supports the resolution.

There were no opponents.

Senator Towe did not feel the necessity of a closing statement.

Rep. Dassinger asked if loans by the SBA or the FHA on farm loans would be a maximum of 9%? Mr. Edland said the SBA is locked in at 12% maximum. Our interest rate is negotiated between bankers and lenders. The return is 13.75%. If they bought those guaranteed notes, they would be getting a 13.75% investment rather than a 8 1/2-9% return. We should take advantage of these board of investment loans by buying them and keeping them right here and, hopefully, some of that could be used in high risk areas.

Senator Towe said this refers to Senate Joint Resolution No. 5.

Rep. Dassinger asked what would be the difference if invested in Montana rather than out-of-state. Mr. Cadby said the average yield on common stock is 5-6%, and can get 8-9% on loans and CDs. Senator Towe feels a secondary loan could increase the board of investment's income. Probably wouldn't use this bill very much until interest rates drop.

The hearing adjourned at 11:45 a.m.



REP. HERB HUENNEKENS, Chairman



Secretary