

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

January 24, 1979

The ninth meeting of the committee was held on the above date in Room 415 of the State Capitol Building, Chairman Turnage presiding.

ROLL CALL: Roll call found all members present.

Witnesses giving testimony are listed on attached Register.

CONSIDERATION OF SB177: Senator Turnage briefly mentioned this bill would make the task of the Motor Veh. Div. of the Dept. of Rev. easier, relating as it does to the posting of securities with reference to dealers. He introduced Mr. Nichols who spoke briefly and said the Department has been accepting C.D.'s in lieu of security bonds. Question arose about letters of credit and the Department wished this clarified.

Vice Chairman Goodover conducted the meeting to this point as Senator Turnage was testifying, and bill sponsor. The vice chairman permitted other proponents or opponents to testify and since there were none, called for questions from the committee. There were no questions and the bill was acted upon.

Sen. Watt Moved SB177 Do Pass. Motion carried unanimously.

CONSIDERATION OF SJR4: Senator Towe addressed the committee on his resolution and gave a short background on the 3 bills he will present, SJR4 and 5, and SB158. He said they came out of the Coal Tax Oversight Committee. He said that very little of the moneys that came out of the Coal Tax Trust was invested in Montana and the committee was concerned about this. He distributed copies of excerpts from the book compiled by the Oversight Committee, see Exh. #1, noting that perhaps only 16% to 29% is invested in Montana. He said one of the charges of that committee was to look into housing in the state and he said this program had been reviewed, and found that the present program is working very well. At present funds are authorized to housing authorities, and under that authority they sell bonds secured by the state. The bond proceeds are then used to loan through financial institutions providing for construction and purchase of houses. The first sale is at 5 7/8% interest, plus an additional 1% for cost of administering the program, resulting in a 7% cost for the homeowners. The housing authority is coming in for \$375 million, he stated and the committee felt the program was working well and helping alleviate the housing shortage.

The committee wanted a greater portion of the money invested in Montana, feeling this investment created additional financial activity and generated as much as 4 to 5 times as much money through varied use. Sen. Towe said he had talked with Wally Edland, Director of the Farm Home Administration in the

state. Mr. Edland had said new legislation permitted the FHA to grant loans up to \$200,000 for acquisition of farm real estate. They have 2,000 loans under this program totaling \$85 million and \$11 million in loans have been approved but there remains no funding for this amount. Also the individual applying must wait for a period of up to two years for an FHA loan. Sen. Towe said SJR4 could assist with this program, by working with the FHA. That institution could loan the first \$200,000 and funds available through SJR4 could then be used to finance the remainder of the loan. The first \$100,000 would become a first mortgage and the FHA would give the 2nd mortgage on the balance. The net effect, he said, would be a very secure loan at high rate of interest on the subordinated part.

He said also SJR4 does not mandate but urges the Board of Investors to assist with such loans. He said the Board at present reviews every single loan and makes an independent evaluation, and this too consumes more time before loan money becomes available.

Chairman Turnage asked for other proponents of the bill and opponents and permitted witnesses to speak. Mr. Albert, as the chairman of Board of Directors of B of I said the Board is not opposed to the bill. He said that Board has never been offered any FHA loans so they have never refused them. He said they also were in touch with FHA at Bozeman.

Committee members were permitted to question witnesses at this point and the FHA's acceptance of subordination was discussed, and it was determined it would. Sen. Towe said Mr. Edland was in hopes the Board could be interested in their type of loan.

Mr. Jackson gave brief testimony concerning the fact that his son was attempting to obtain a loan as outlined above, \$200,000 from the FHA and the balance from another source. He said the FHA could subordinate down to 3 or 4 positions. Sen. Towe then said the state is granting loans on a limited basis through other agricultural programs. The question was raised if it was the intent of the bill to participate in agricultural loans only. Following brief discussion, hearing on SJR4 closed.

CONSIDERATION OF SJR5: Sen. Towe said this program was for small businesses and they hoped they could assist this group by utilizing existing programs, such as the Small Business Administration. Mr. Ott Tscache of the SBA had appeared before the Oversight Committee and spoke to them about the SBA program in the state saying they had at present \$47 million in loans. After the individual has received approval by a lending institution, the SBA will then guarantee 90% of the loan. That bank, or other lending institution lends the other 10% with the understanding the 90% will be furnished by the federal government in the event of loan default. Mr. Tscache had stated he thought funds available through SJR5 could be used to purchase the 90% portion of the banks' existing SBA loans. This then would free up loans so they could make additional loans. An amendment had

been suggested for the bill also.

The Chairman called for other proponents or opponents and too for witnesses with pertinent testimony. Mr. Albert again spoke, saying the Board again does not necessarily oppose the legislation, but it has endeavored to restrict their loans to loans secured by real estate. He also said the 5 to 7 year SBA loans do not fit into the Board's portfolios of short-term or long-term loans. He further stated that many out-of-state companies purchase much of the states' lending institutions' loans, thus bringing in additional moneys into the state, and further, that many of these companies are purchasing the available loans, leaving little for purchase by the Board. Sen. Towe said he believed that funds should be invested here for the benefit of the people of the state.

Mr. Cadby gave testimony which he had given before the Oversight Committee, and said he thought the problem was a philisophical one. He agreed that the funds should not all go out of state and thought that as much of this money as possible should go to Montana people by investing it through Montana institutions. This concluded hearing on SJR5.

CONSIDERATION OF SB158: This bill too was presented by Sen. Towe, part of the package of 3 bills which came out of the Oversight Committee. This bill gives the Board of Investment authority to invest in the state, even at a smaller interest rate, of up to 1%, as stated in the bill.

The hearing was open at this point for both proponents and opponents and Mr. Albert again addressed the committee, saying the Board is concerned with this bill. He said they are directed by law to get the most return for the state's money. He also said most of the funds invested are short-term funds and do not lend themselves well to real estate mortgages. Testifying also for the Board in opposition were Mr. McMillan, Mr. Hauf and Mr. Howeth, also Mr. Fitzpatrick of the Budget Office, who quoted a possible \$3 to \$6 million dollar loss to the state. Mr. Lewis of the Dept. of Admin., also spoke saying such assistance should be done by another institution, feeling that this type of aid might lead to a social program.

Sen. Towe closed saying he would like to see a Fiscal Note on the bills and said he does not agree with the figures proffered by Mr. Fitzpatrick who, he said, took a 10% figure for a loss when this was by far excessive.

Following his closing statements the hearing concluded on SB158.

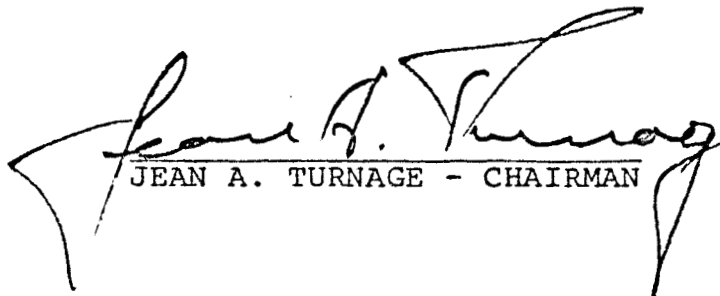
CONSIDERATION OF SB173: Sen. Rasmussen said the bill would allow tax credits for installation of renewable energy systems for buildings used commercially. He presented testimony indicating the program would end in 1982 at which time he felt private industry would come up with improved systems and businesses could install such systems at less cost. He distributed Exh. #2, an amendment he wished to add to the bill should the committee review it favorably.

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Other proponents included Mr. Pogue, representing the Alternative Energy Research Org., also Ms. Fallan, Miss Port of the Environmental Information Center.

The Chairman called for further proponents or opponents and there being none, permitted Sen. Rasmussen to close. Following, committee members asked a number of questions. It was brought out many residences had installed such solar systems and found them not practical and therefore had used other heating systems. The members questioned the practicability of present systems.

Following this discussion the meeting was adjourned.



JEAN A. TURNAGE - CHAIRMAN

Date JAN. 24, 1979

ROLL CALL

SENATE TAXATION COMMITTEE

46th LEGISLATIVE SESSION - 1979

NAME	PRESENT	ABSENT	EXCUSED
SEN. GOODOVER (Vice Chairman)	✓		
SEN. BROWN	✓		
SEN. HAGER	✓		
SEN. MANLEY	✓		
SEN. MANNING	✓		
SEN. McCOLLUM	✓		
SEN. NORMAN	✓		
SEN. ROSKIE	✓		
SEN. SEVERSON	✓		
SEN. TOWE	✓		
SEN. WATT	✓		
CHAIRMAN TURNAGE	✓		

Each Day Attach to Minutes.

STANDING COMMITTEE REPORT

..... January 24 19 79

MR. President

We, your committee on Taxation

having had under consideration Senate Bill No. 177

Respectfully report as follows: That Senate Bill No. 177

DO PASS

Jean A. Turnage
.....
JEAN A. TURNAGE,

Chairman
177

E.H. #2

Amendment to SB 173

1. Title, line 9.

Following: "INCOME"

Insert: "AND TO ELIMINATE PROVISIONS RELATED TO SIMILAR FEDERAL
TAX CREDITS"

2. Page 1, line 25 through line 5, page 2.

Following: "received"

Strike: the remainder of line 25 through "received" on line 5,
page 2

3. Page 2, line 22 through line 3, page 3.

Following: "received"

Strike: the remainder of line 22 through "received," on line 3,
page 3.

COMMITTEE PROPOSALS

After considering the discussion with the Board of Investments and theories of economic investment, the Committee decided to pursue four options designed to aid young farmers and businessmen.

1) Farm loan programs. SUR4

The Committee expressed interest in a program, patterned after the Housing Act of 1975, to sell revenue bonds to finance young farmers' purchase of farmland. To assess the need and potentials for this program, the Committee reviewed recent studies completed at Montana State University on the cost of beginning a farm or ranching operation and the difficulties young farmers experience in repaying loans under current market prices for farm produce. The Committee also asked representatives of both the state and federal farm ownership loan programs to testify.

The Montana Department of Agriculture has a small farm/ranch ownership loan program, funded through the former Federal Rural Rehabilitation Corporation's assets. Through careful management, the department has built this fund to \$1,388,000 which is loaned to farmers, ranchers, and rural youth through five programs. Currently the department has \$717,000 invested in farm/ranch ownership loans. Because of its limited funding, the department often participates with the Federal Farmers Home Administration Program in making ownership loans. Department staff testified that the demand for farm real estate loans far exceeds the resources of either the state or the federal programs presently available and supported the use of the coal tax funds for this purpose.⁶

The State Director of the Farmers Home Administration echoed these sentiments. While FmHA will make 146 farm ownership loans totalling \$9.5 million in 1978, over 225 qualified borrowers desiring \$15.5 million in loans will have to be turned away until additional funding is received. At present, applicants must wait 18 to 24 months for a loan. He said that FmHA would welcome state participation in the program.

FmHA regulations allow a participating agency to take a first mortgage on the property. The state's funds would thus be guaranteed by a first lien on all the property. FmHA would take a junior lien for the security on its part of the loan. FmHA staff said the state could set its own interest rate on these loans; current rates set by FmHA participators range from 8%-11%. FmHA would also provide most of the necessary loan servicing. The staff also emphasized the safety of the investment: less than 1% of the farm ownership borrowers a year fail to meet scheduled payments and only once in the past 25 years has a loan default resulted in a write-off.⁷