

MINUTES OF THE MEETING  
TAXATION COMMITTEE  
MONTANA STATE SENATE

February 7, 1979

The twenty-first meeting of the committee was called to order on the above date in Room 415 of the State Capitol Building with Chairman Turnage president.

ROLL CALL: Roll Call found all the members present.

Witnesses giving testimony are listed on attached Register.

CONSIDERATION OF SENATE BILL 248: Senator Towe presented his bill by illustrating a hypothetical case where an individual might purchase 1,000 Acres of land at a cost of \$400,000. Then figuring acres in production, yield, gross income, he concluded that farmer could not make payment on his loan, computing interest at 11%, as payments would be \$44,000, interest alone. Thus, he concluded, he felt this bill would help get the young farmer or rancher into business and help him make payments by giving him lower interest rates for longer loan period, by using a portion of the income from the Coal Tax Trust to secure general obligation bonds. He further explained the mechanics of the bill and noted that a program would have to be created to acquire, lease, and sell the land and further, to operate the loan program to assist applicants in purchasing the homestead land. He then distributed a number of amendments to the bill, see Exh. #1. Senator Towe said it would not only help young farmers get a start, but he felt it would eliminate purchases of large tracts of land by foreign investors. He then introduced Mr. Wenstrom, former member of the Minnesota Legislature which adopted a similar program called the Minnesota Family Farm Security Program. He distributed several illustrations explaining the program, see Exh. #2, a and b, attached.

Mr. Wenstrom said the program was in operation and now there are over 100 people farming under the program. He said there have been no defaults and 6 to 8 loans are made every month. He further stated farm groups there support this program.

Sen. Towe called on other proponents who supported the bill and these included Jim Stephens of the Montana Farmers Union and Terry Murphy, representing the Montana NFO. Both expressed the wish that such a program could be begun in Montana in order to assist young people in getting a start on the farm or ranch, thus keeping the family farm a part of the state's economy. Ms. Sharon Peterson of WIFE also spoke as a proponent.

Zack Stevens with the Montana Farm Bureau stated he wanted to see young farmers get a start, however, he did not want to see the state get in the real estate business, thus withheld complete support of the bill. Mr. Frankino and Jan Brown testified for the bill as well, feeling it would contribute to solidity of the family through continued family farm-type of operation.

Next to speak as a proponent was Wally Edland, Director of the Farm Home Administration, who stated that such legislation could help FHA extend more loans and assist more young people to get started in the agricultural-ranching business. He said the FHA is ready to participate with the state in such loans and illustrated method by which they could do so. Mr. Gallagher also testified as a proponent of the bill.

Following this testimony Chairman Turnage asked for further proponents, and then, opponents. Barbara Rusmore stated her opinion saying she liked the idea of helping young people get started in agriculture-ranching, but asked the committee to carefully look at the prospect of the state getting into the real estate business. Brief comments were also heard from Ken Morrow and Pete Jackson. Mr. Teigen said the groups he represented also were in favor of keeping farmers on the land in the state, however, they felt the problem with the bill was the land bank concept. He said there are programs to assist with farm loans, mentioning the FHA as one of the avenues. Mr. Spilde spoke also on the bill, cautioning the committee on several points. He mentioned the fact that a number of Montanans had purchased land in other countries and felt this state could hardly exclude so-called foreign investors. The point was also made in foregoing testimony that the process of applying for such loans, and steps pointed out in the bill would lead to a great deal of red tape which one witness felt could strangle the program itself. Mr. Asher said his firm had opposed the bill as written, but since they had not had an opportunity to study the amendments, he withheld further opposing comments.

Senator Manley also spoke as an opponent of the bill and agreed with previous testimony in saying he felt the bill would put the state in the land business and disapproved of this. He said also that rather than create another agency he would like to see legislation that made it possible for an individual to leave his farm or ranch to his heirs without the burden of an unreasonable inheritance tax. He also said there are agencies to help beginning farmers borrow money for land purchase. He felt the state should not have the authority to divide land into smaller farms as the bill provides. He stated his concern for the large acreage the state now owns, the acreage in RARE II, acreage going into designated wilderness areas, and the large acreage owned by the federal.

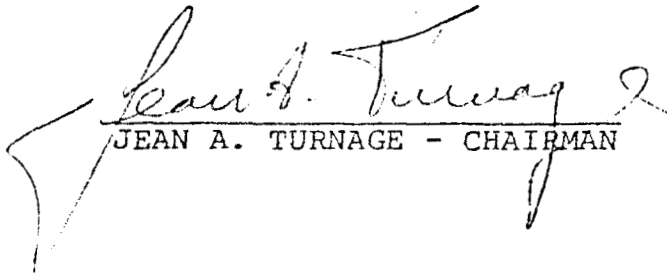
Following his testimony Sen. Towe made his closing remarks and distributed an article, see Exh. #3, to illustrate his earlier claims that much of Montana's land is being bought by foreigners and he made the distinction between aliens and foreign buyers who purchase the land here and continue to live in their own country.

Due to lengthy testimony the Chairman had to limit testimony of witnesses and informed the committee there was limited time for questioning.

Feb. 7, 1979

Senator Severson questioned Mr. Edland concerning the loan time of FHA and Mr. Edland responded. He also said the FHA had contacted the Board of Investments in regard to their 'subordinating' in the matter of state loans for housing and land. This was in relation to two bills heard January 24th, SJR 4 and 5, sponsored also by Senator Towe.

Following this brief questioning the meeting was adjourned and members will be permitted another opportunity to question Senator Towe in regard to SB248.



JEAN A. TURNAGE - CHAIRMAN

Date FEB 7, 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.

SEN. BILL 248

SENATE TAXATION COMMITTEE

VISITORS' REGISTER

DATE 2-7

NAME	REPRESENTING	BILL #	(check one)	
			SUPPORT	OPP
John L. Gallagher	Self	248	✓	
Jim Stephens	Mont Farmer Union	248	✓	
Donald C. Shannan	National Farmer's Org.	248	✓	
Tom Ryan	Mont. Senior Citizens	248	✓	
Arthur Jackson	Water Mont.	248		✓
Jack Stevens	Farm Bureau	248	✓	✓
LOUISE HENHE	Self	248		
BENE SPILDE	S.E.P.A.			X
Mons Teigen	Mont Stockgrowers & Poultrymen Assn.	248		X
BILL ASHER	AGRICULTURAL PRESERVATION ASSN.	248		
Tim Gill	MT. DEPT. OF AGRIC.	248	—	—
Long Murphy	Mont. N.F.O.	248	✓	
John Hankins	Mont Cath. Conf	248	✓	
Sharon Peterson	WQFF			
Barbara Rumore	Montana Land Reliance	248		?
Sandy Sargent	SE	248	✓	
Ken C. Morrow	self			
William D. Edmond	Int'l H.A.	248	✓	
John Hanley	Senator	248	✓	
Mike Doherty	A.S.U.M.	248	✓	
Gene Winston	Communication org.	248	✓	
Don L. Allen	Mont Petroleum Assn	248		

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY

*Ech - #1*

1. Title, line 9.  
Following: "FARMS;"  
Strike: "AND"

2. Title, line 10.  
Following: "MCA"  
Insert: "; AND PROVIDING FOR LEGISLATIVE REVIEW OF THE ACT"

3. Page 3, line 13.  
Following: line 13  
Insert: "(e) "Council" means the family farm advisory council,  
created in [section 6]."  
Renumber: subsequent subsections

4. Page 5, line.  
Following: line 1  
Insert: "Section 6. THERE IS A NEW MCA SECTION THAT READS:  
Family farm advisory council created. (1) There is a family  
farm advisory council.

(2) The council consists of seven members appointed by the  
board, as follows:

(a) one officer from commercial lending institution;

(b) one fruit or vegetable farmer;

(c) two livestock farmers;

(d) two grain farmers; and

(e) one officer from a farm credit association.

(3) Each member must be a resident of the state.

(4) Each member shall serve for a term of 6 years. The  
board shall appoint members to fill any vacancy that may occur.

(5) The council is allocated to the department of state lands  
for administrative purposes only as prescribed in 2-15-121.

Section 7. THERE IS A NEW MCA SECTION THAT READS:  
Duties of family farm advisory council. (1) The council shall:

(a) consider applications for homestead land and make  
recommendations to the board;

(b) review all applications for homestead loans and make  
recommendations to the board;

(c) evaluate proposed purchases of homestead land and advise  
the board on the fair market value of the land;

(d) assist the board in dividing homestead land into family size units; and

(e) advise and assist the board on other matters as the board may request."

Renumber: subsequent subsections

5. Page 5, line 2.

Following: "6."

Strike: "Offer"

Insert: "Notice"

6. Page 5, line 3.

Following: "for"

Insert: "certain"

Following: "(1)"

Strike: "Before"

Insert: "Except as provided in subsection (2), before"

7. Page 5, line 6.

Following: "shall"

Strike: "offer"

Insert: "allow"

8. Page 5, line 7.

Following: line 6

Strike: "land to the"

Following: "board"

Strike: "for the same price at which the owner has signed a contract for sale."

Insert: "to make an offer to purchase the land. No owner is required to sell his land to the board."

9. Page 5, line 8.

Following: line 8

Insert: "(2) Agricultural land sold to a spouse or children or sold in a family-sized unit to a natural person who is an American citizen or to a corporation having fewer than 10 American stockholders is not required to notify the board of the sale."

Renumber: subsequent subsections

10. Page 5, line 24.

Following: "to"

Strike: "purchase"

Insert: "make an offer for"

11. Page 6, line 2.

Following: "days"

Insert: "offer to"

Following: "land"

Strike: "at the same price at which the owner is prepared to sign a contract"

12. Page 6, line 9.

Following: "(c)"

Strike: subsection (c) in its entirety

Insert: "The board's proposed purchase price does not exceed the fair market price."

13. Page 6, line 25.

Following: "decides"

Insert: "to offer a matching bid"

Following: "purchase"

Strike: "offered"

14. Page 7, line 1.

Following: "improvements"

Insert: "and the bid is accepted"

15. Page 7, line 11.

Following: line 11

Insert: "(3) The board may purchase personal property only if:

(a) the land cannot be acquired separately from the personal property;

(b) the board unanimously approves the purchase of the personal property.

(4) Any personal property purchased by the board shall be offered for sale to applicants for homestead land and then, if unsold, to the public by auction."

16. Page 7, line 23.

Following: "citizens"

Insert: "of any age who agrees in writing to operate homestead land as a full-time occupation"

17. Page 7, line 24.

Following: "establish"

Insert: ": (a)"

18. Page 7, line 24.

Following: "soliciting"

Strike: "and evaluating"

19. Page 8, line 1.

Following: "land"

Strike: "."

Insert: "; and

(b) a point system for evaluating the applicants, considering the following criteria:

(i) the applicant's net worth, which may not exceed \$100,000;

(ii) the applicant's projected annual income from operating the homestead land, which shall range between \$10,000 and \$18,000 a year;

(iii) the applicant's access to livestock and machinery;

(iv) the applicant's inability to secure financing for purchase of agricultural land from other sources;

(v) the applicant's training and experience in agriculture;

(vi) the applicant's prospects for succeeding in an agricultural operation on the homestead land to be leased; and

(vii) any other factors it may prescribe."



20. Page 9, line 5.  
Following: "exceed"  
Strike: "7"  
Insert: "5"

21. Page 9, line 8.  
Following: "amount"  
Strike: "sufficient to pay the costs of the debt incurred"  
Insert: "to be determined by the board, upon the advice  
of the council, and not exceeding 20% of the annual  
estimated gross income generated by the operation of homestead  
land"

22. Page 10, line 24.  
Following: line 24  
Strike: "or a practice developed for that area under super-  
vision of any governmental agricultural service agency"

23. Page 13, line 22.  
Following: "a"  
Strike: "7"  
Insert: "5"

24. Page 15, line 13.  
Following: "within"  
Strike: "60"  
Insert: "40"

25. Page 15, line 18.  
Following: line 18  
Insert: "Section 25. THERE IS A NEW MCA SECTION THAT READS:  
Second loan program. (1) The board may, upon application by  
a borrower under its loan program and upon the advice of the  
council, enter into a second loan agreement with a borrower  
for an annual payment equal to 4% of the outstanding balance  
due each year for 5 years on a loan agreement signed under  
the provisions of [section 24]. The board may, upon the  
recommendation of the council, extend the second loan for another  
5 years, but it may not renew the second loan after this period.  
Interest on the amount of the loan shall be at the board's bond  
rate plus administrative expenses.

(2) The second loan becomes payable:

(a) in installments to commence 20 years after the initial  
purchase of homestead land; or

(b) immediately and in full upon the sale of homestead land.

Section 26. THERE IS A NEW MCA SECTION THAT READS:  
Prepayment penalties. (1) If an owner of homestead land who  
has secured a loan from the board under the program created  
in [section 24] sells his homestead land to any person, firm,  
or corporation other than his spouse or children, he is liable  
for a prepayment penalty, to be calculated as follows:

(a) divided by the total length of the loan agreement is multiplied by the capital gain realized from the sale of homestead land; and

(b) this product is multiplied by the number of years remaining in the loan agreement on the date of sale.

(2) If an owner of homestead land continues his ownership of the land but wishes to make a payment in any year in excess of his scheduled loan payment exceeding 10% of the total purchase price of the homestead land, he is liable for a prepayment penalty, calculated as follows:

(a) the interest on the entire amount of the loan agreement from the date the agreement was signed until its termination is recomputed at an interest rate 2% above the federal discount rate;

(b) any interest already paid on the loan is subtracted; and

(c) the difference is added to the balance due and is payable in regular installments."

Renumber: subsequent subsections

26. Page 25, line 3.

Following: line 3

Insert: "Section 45. THERE IS A NEW MCA SECTION WHICH READS:

Legislative review required. The homestead land program shall be reviewed by the legislature at the third legislative session following the first sale of bonds under the provision of [section 27] to determine whether the program should continue. However, any existing commitments incurred by the board are not affected by this review."

# 'When you own the land

By SHAUN HIGGINS  
and JEANNIE CROSS  
Gazette State Bureau

As the owner of The Shining Mountains land development near Ennis, Pann Mallas has seen buyers come and go. But there are some who remain firmly fixed in his memory.

"There was this one fellow," Mallas recalls. "He came in a trailer and was dressed in a dime-store cowboy outfit — if a rancher had seen him, he'd have laughed him out of state. He said he was buying ranches for some Germans."

Mallas couldn't help him; he sells only five to 30-acre parcels, designed for retirement and vacation homes.

Mallas also couldn't help the carload of West Germans — "They were, indeed, in a Mercedes Benz" — that showed up at his office on another day. Mallas explained to them, as he had to the rhinestone cowboy who preceded them, that he just didn't have the kind of acreage they were interested in.

But as they talked, he learned that the group had flown from Germany to San Francisco, then rented the luxury car to take a leisurely tour of the U.S. in search of land investments. They planned, they told Mallas, to end their trip some weeks later in Florida.

Mallas is only one of many Montanans approached in the last few years by aliens or their representatives seeking prime agricultural land in Big Sky Country.

## d, you own the country'

Many of those approached are strongly opposed to the idea of alien ownership.

One such person is Mrs. Joyce Robinson of Choteau. A Canadian came to her spread last July and offered to buy it without even looking it over. "He said he knew everything about it, down to the last blade of grass," she recalls. But she and her children wouldn't sell despite the "large offer" he made.

An active member of the American Agricultural Movement, Mrs. Robinson says she and her AAM colleagues are "trying to prevent this valuable land, this US of A from being sold to West Germans and Japanese." They want to preserve the family farm.

"When you own the land, you own the country," she

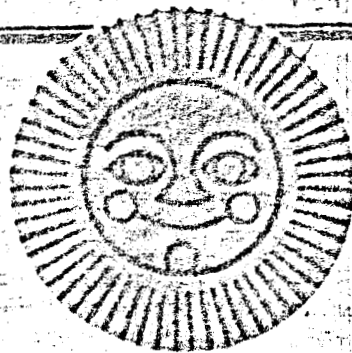
added.

Mrs. Robinson's sentiments are common among the state's ranchers and farmers although some, like John Morse of Beaverhead County, think foreign investment provides great benefits for local economies and will boost land values while keeping farms in production.

The Gazette State Bureau has learned in a six-month investigation that encounters with alien representatives have occurred in at least six Montana counties during the last year. In addition, some 100,000 acres of prime ranchland in Montana and Wyoming have been sold recently to predominantly foreign-controlled investment firms.

(More on Lands, Page 12A)

# Billings Gazette



Monday

April 3, 1978  
Billings, Montana 59103  
93rd Year, No. 336  
Single Copy 25¢

# Leads

FROM PAGE 1

Although the acreage sold is only a minute percentage of Montana's 50,000,000 acres of privately owned land, aliens are eyeing the remainder as it becomes available. Furthermore they are willing to pay \$500 and more an acre to get it.

"If you want to sell foreign, you can sell all you can find," one Missoula real estate broker told The Gazette State Bureau.

One firm which wants to sell foreign is Hall and Hall Realty in Billings. They have advertised their services in the International Herald-Tribune, a Paris-based newspaper with circulation throughout Europe.

The agency has a special division that specializes in alien land investment and, according to one source close to the firm, has worked hand-in-glove with the Northern Trust Co. of Chicago — reputed by national media to be a major conduit through which foreign money acquires U.S. farms.

Hall and Hall is not the only Montana firm advertising in Europe. Morse Land Co. of Absarokee has been in the international market for 15 years and advertises its services in several European papers, including the Frankfurter Allgemeine of Ger-

many.

One Montana broker explained that other firms probably will follow these companies' leads.

"If (selling abroad) is necessary," he told the State Bureau. "An agency has an obligation to its clients to obtain the best possible price for land and if the client wants to keep the land in one piece, we have to look for a buyer that will keep it together."

Foreign buyers have the money to buy and pay the best price," he explained. "Most Montana ranchers can't pay as much — and wouldn't if they could."

"The alternative to large-scale corporation and foreign millionaire investment is subdivision," the broker said. "Most Americans want a quick return on their investment, and they're not going to be happy with the three or four percent from ranching. That's why they subdivide. But most of the foreign buyers are people whose wealth has been based in land and that's where they want to keep it. They don't care about high returns; they're comfortable just owning the land."

But another broker who specializes in international market, disagreed with his competitor: "I had an order for \$500 million in land from a Greek I spoke with in Geneva," he told The Gazette State Bureau. "He wanted to get into ranching but wanted a 27 percent return on his investment. Ranching can't do it. I told him he'd have to find something else."

There's no question that foreign investment is a sellers' market. Inquiries outnumber available properties by a 100-to-1 margin, according to a Big Timber broker who says he won't deal with aliens.

But in some cases, land purchases by aliens have not resulted in the hoped-for profits. A case in point: Fair View Ranches, Inc. near Harlowton. The ranch was put together from smaller ranches purchased from local owners about three years ago by a group with West German connections.

According to area residents, the investors pumped a lot of money into the operation and also lost a lot of it. One rancher, who bought a portion of Fair View when the alien owners sold out, said he wasn't surprised.

"They (non-resident aliens) can't compete with people who are willing to work 14 to 15 hours a day for peanuts. If this country would allow a family farmer to make an honest living on his farm, he would stay on his farm."

# Montana Senior Citizens Assn., Inc.

WITH AFFILIATED CHAPTERS THROUGHOUT THE STATE

P.O. BOX 423 - HELENA, MONTANA 59601



(406) 443-5341

Ballantine, Montana.  
Feb. 3, 1979

*Exh #4*

To: The Members of The Senate Taxation Committee:

Mr. Chairman, members of the Committee, I am Chas.A.Banderob of Ballantine, Montana, I am president of The Montana Senior Citizen's Association.

A greater number of The Senior Citizens through out Montana who are involved in agriculture, are becoming more and more concerned, about how they can sell their land to young farmers, or make it available to young farmers, under terms and conditions, where by the young farmers have a reasonable fair chance of being able to get in-to farming, will be able to aquire land to stay in farming, be able to meet all the high cost of opporating the farm, and make the prin-cipel and interest payments, and not be gobbled up by large corpora-tions.

We there fore feel that Senate Bill 248 is by far the best approa-ch to meet this need.

There fore The Montana Senior Citizens Association, and The Yellow-stone County Farmers Union, do strongly ask that The Senate Committee on Taxation, give SB 248 a strong DO PASS vote.

Signed: Yours Truly,

*Chas. A. Banderob*

Chas.A.Banderob. Pres.  
Montana Senior Citizens Association.

Legislative Chairman of Yellowstone County  
Farmers Union.

Feb, 4, 1929

#5

Dear Senator Tower,

I have just read your Senate Bill #248, the Homesteader act aimed at helping young farmers & Ranchers to get a start.

To be quite frank it is a faint glimmer of hope for young farmers. I've been working the last couple of years trying to find a way to get back in Ranching. (I was brought up on a Ranch near Luther Montana)

My agricultural interests now are with a sheep operation. We (my wife & daughter & I) tried unsuccessfully to buy 2 ranches so far - Both were working with the F.H.A., and both times we were basically told the same thing; even tho we have the ambition and back ground we don't have enough of our own to throw into the pot. I was under the impression that the F.H.A. was an organization that was supposed to help a guy get a foot in the door. Your bill sounds like it might be directed more at that goal.

FARMER PROGRAMS FUNDING AND INTEREST RATES FOR FY 1979

FARM OWNERSHIP

Montana's allocation is \$13 million

*Eld-#6*

FmHA Loan Limit is \$200,000

Total Indebtedness limit - none, only limited by  
market value of security and debt repayment.

Interest rate - Regular FO:  $8\frac{1}{2}$  percent

Interest rate - Limited Resource Borrowers:

First 3 years, 3%. . . then interest goes up to 5%  
and at end of 5th year and every two years thereafter,  
loan is reviewed and interest will continue at least  
at 5% and if borrower is able up to his ability to  
pay but no greater than the current interest rate. The  
current rate can be no greater than the cost of money  
to the government + 1%.

Maximum repayment term - 40 years

so far this fiscal year, 13 FO loans totaling \$1,650,000 have been approved  
for limited resource applicants. Nearly all of these loans involved young  
beginning farmers.

OPERATING LOANS

Montana's allocation is \$8,500,000

FmHA loan limit - \$100,000

Interest rate on regular is  $8\frac{1}{2}\%$

Interest rate for limited resource borrowers:

5% for 3 years from the date of the initial loan. The  
interest rate will be reviewed at the end of this period  
and every two years thereafter to determine the rate to  
be charged. The rate may increase in increments of whole  
numbers to the current rate for non-limited resource  
borrowers.

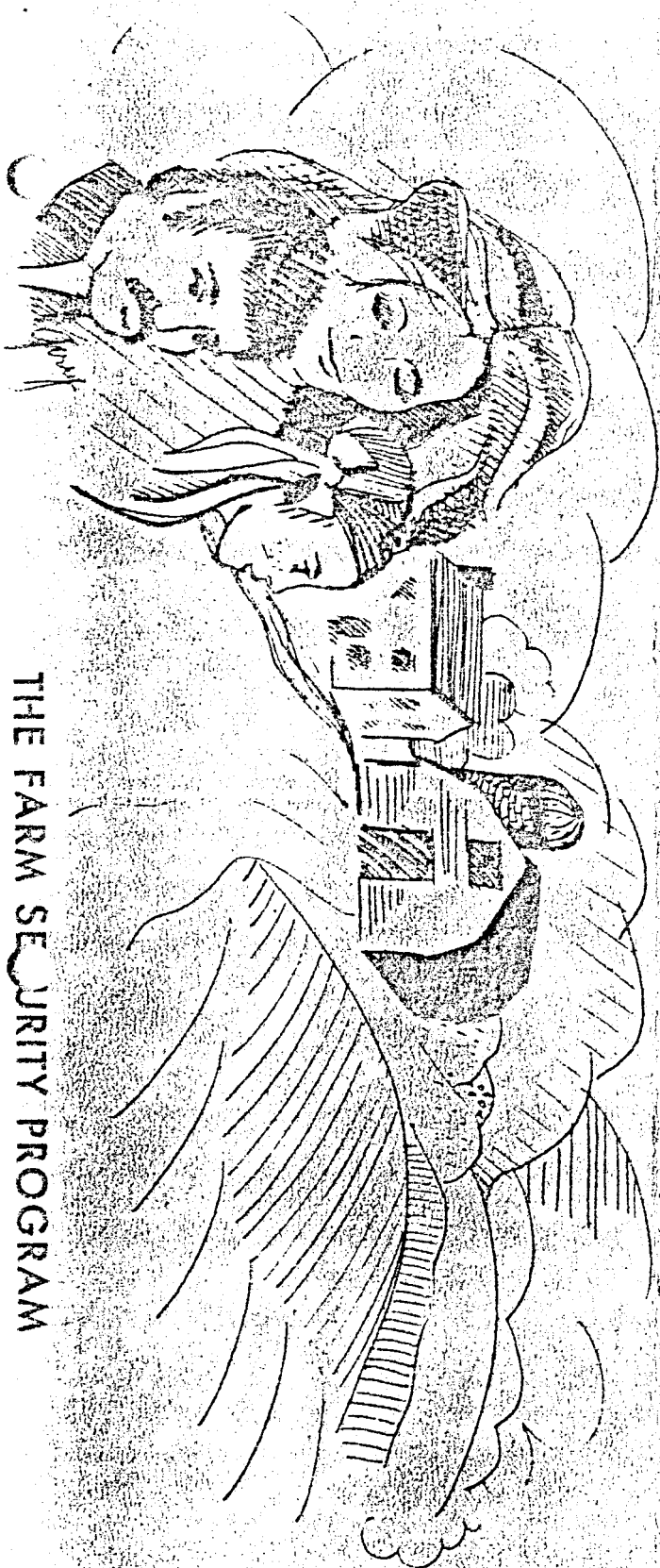
Maximum repayment terms - generally 7 years

So far this fiscal year 9 OL's totaling \$520,000 have been approved for  
limited resource applicants. Most of these have been to young beginning  
farmers.

#### DEFINITION OF A LIMITED RESOURCE APPLICANT:

An applicant who is a farmer or rancher and is an operator of a small or family farm (a small farm is a marginal family farm) including a new operator, with a low income who demonstrates a need to maximize farm or ranch income. A limited resource applicant must meet the eligibility requirements for a farm ownership or operating loan but, due to low income, cannot pay the regular interest rate on such loans. Due to the complex nature of the problems facing this applicant, special help will be needed and more supervisory assistance will be required to assure reasonable prospects for success. The applicant may face such problems as underdeveloped managerial ability, limited education, low producing farm due to lack of development or improved production practices and other related factors. The applicant will not have nor expect to obtain, without the special help and low interest loan, the income needed to have a reasonable standard of living when compared to other residents of the community.





THE FARM SECURITY PROGRAM

MINNESOTA DEPARTMENT OF AGRICULTURE  
FARM SECURITY PROGRAM  
510B State Office Building  
St. Paul, Minnesota 55155

*Exp # 2-a*

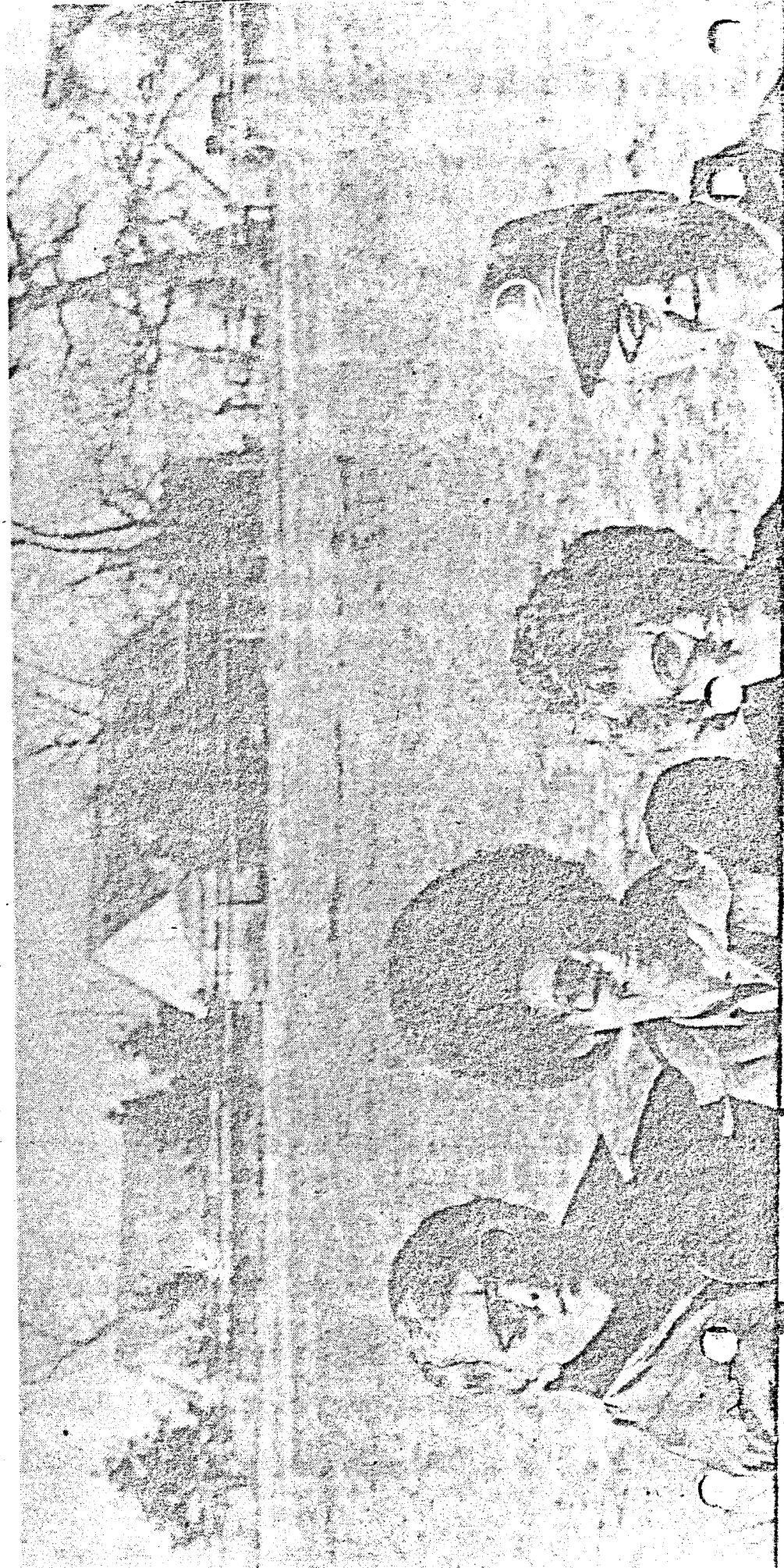


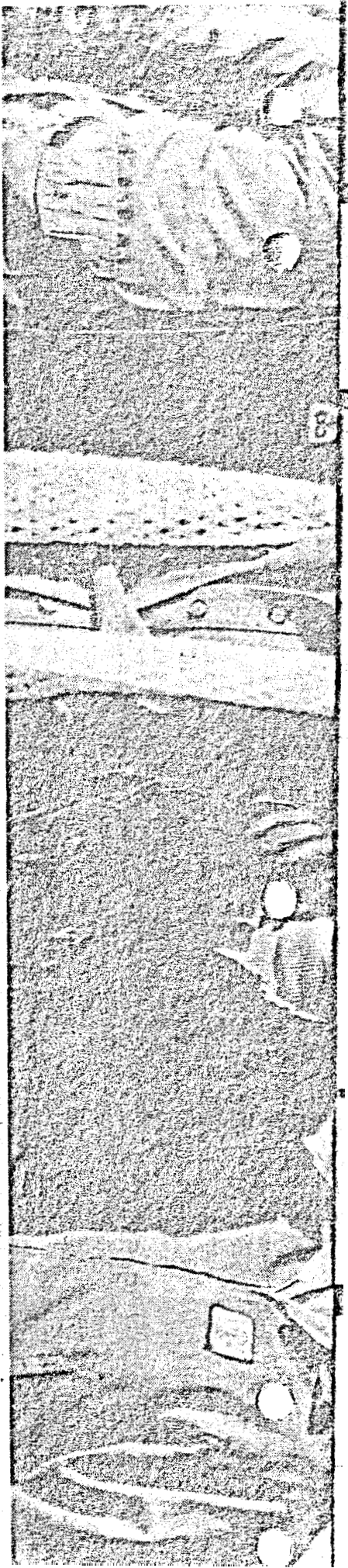
Vol. 3 No. 1

February 1979

Continued from People in Agriculture and Agribusiness

Call #2-6





# For love of the land . . . pages

## This month

### Legislative report

CA working for passage  
of family farm security program  
at state, national level

### '78 scholarship winners

p. 4

### Blue Shield investigation

Doctor dominated boards  
may lead to higher medical costs

p. 7

## Opinion

Farm security program  
in agriculture's best interest

p. 2

### Country wife

Pat Leimbach's rural humor column

p. 7

### Rural recipes

p. 8

### Estate Tax planning

p. 6

### Consumer tips

Buying Medicare supplements

p. 6