

SELECT COMMITTEE ON ECONOMIC DEVELOPMENT

HOUSE OF REPRESENTATIVES

48TH LEGISLATURE

ATTENDANCE

DATE: March 15, 1983

ROOM: 224A

	PRESENT	ABSENT	OTHER
VINCENT, John - Chairman	X		
SCHYE, Ted - Vice-Chairman	X		
ASAY, Tom	X		
DARKO, Paula	X		
FABREGA, Jay	X		
FAGG, Harrison			EXCUSED
HANSEN, Stella Jean	X		
HARPER, Hal	X		
HARRINGTON, Dan	X		
METCALF, Jerry	X		
NEUMAN, Ted	X		
RAMIREZ, Jack	X		
VINGER, Orren	X		

MINUTES OF THE SELECT
COMMITTEE ON ECONOMIC DEVELOPMENT

March 15, 1983

The eleventh meeting of the Select Committee on Economic Development was called to order by Chairman, John Vincent at 10:24 p.m. in room 224A in the Capitol Building, Helena, Montana on March 15, 1983.

Roll call was taken and all members were present with the exception of Representative Fagg who was excused.

CHAIRMAN VINCENT stated he would like to welcome everyone to the hearing and apologized for the lateness of the meeting. He commented due to the lateness of the hour, he would like the sponsors to save their detailed explanations of the bill for Executive Session, and let those who came to testify have most of the time. The bills heard this evening will be in the following order: HB 709, SB 316, HB 865.

REPRESENTATIVE NORDTVEDT, Sponsor of HB 709, explained this bill is a mechanism that is more efficient than the venture capital corporation for bringing equity capital into Montana. This is a bill that if you sell a capital asset at a gain and within a certain period of time reinvest the capital in a Montana venture, your capital gain will be put off as long as it is invested in a Montana enterprise. He stated an example is demonstrated in Exhibit A.

CHAIRMAN VINCENT asked for any Proponents to speak for HB 709, there being no Proponents, he asked for any Opponents.

OPPONENTS

DAN BUCKS, Deputy Director of the Department of Revenue, explained while the bill seems straightforward, it leaves many technical questions unanswered. For purposes of Montana individual and corporate income taxation of gains, the federal laws are controlling. It is, therefore, necessary to have the provisions of this bill fit with the federal laws on taxation of gains. This proposed bill doesn't make a clean connection between federal and state law. He explained the six problems that the bill does not adequately address. See Exhibit B.

CHAIRMAN VINCENT asked if there were no further Opponents, would Representative Nordtvedt care to close.

REPRESENTATIVE NORDTVEDT stated he had intended to change the definition of the qualifying capital investments, because he believes 99% of the objections stated is to restrict this to equities. He felt this solves the difficulties with tracking with the dividend, etc. This is entirely different than an investment credit because this does not delay the payment of any taxes unless an act takes place. Unless a taxpayer moves an investment from out of state into the state, there is no benefit. He hoped to address some of the questions in more detail later.

CHAIRMAN VINCENT stated they would close the hearing on HB 709 and open the hearing on SB 316.

SENATOR TOWE, Sponsor, explained this bill is the beginning farmer's bill. He felt one of the areas that could have been more emphasized relating to the other bills before the committee is agriculture. He explained the mechanics of how SB 316 works. He commented this bill is patterned after the Iowa program that has been in operation for about 14 months. It is a bonding principal. There is an agriculture authority established and the agriculture authority then approves the sale of bonds. He stressed it works on a unique principal that is extremely simple. His example explained a young farmer who wanted to borrow \$31,000 to build a pole barn. He went to the local bank, and the bank approved the loan for credit. The risk is with the bank, the state is not involved. The bank after approving the loan sent it up to the Iowa Agriculture Authority for their approval. After their approval, the loan is then sold at a bond for \$31,000 to the same bank. The bank buys the bond for that amount, makes the money available which is then loaned to the farmer. He explained that the bank in effect, has taken the agriculture loan out of the agriculture loan portfolio, and moved it over to its municipal bond portfolio. When this happens two very important things happen. First the interest rate is substantially less. Secondly, not only is the interest lower, but the terms of the loan can be dealt with. He further explained the variable interest rate. He stated there are restrictions in the bill regarding who qualifies. He wanted to further explain the second provision to the bill that he felt was also very important.

This provision provides for a credit for retiring farmers who want to sell to a beginning farmer for less than 9%. All of the interest income or capital gains that would be received from that contract will be tax free from the Montana Individual Income Tax up to a maximum of \$50,000. He felt this incentive might be enough to sell to a Montana individual rather than an out of state corporation. He asked the committee to review Exhibit C, the Statement of Intent, and Exhibit D, a letter from Kenneth Siroky, Roy, Montana.

PROPOSERS

JACK GUNDERSON, Department of Agriculture, stated their support of SB 316. He stated since 1950 the number of young farms in Montana and the rest of the U.S. has declined significantly. In Montana alone, the number of farms has dropped by 35.5 percent from 37,200 to 24,000, but during this same thirty-year period, the size of the average farm has increased 48 percent. Obviously, farms are becoming larger, which is an indication that the opportunity for corporate expansion in agriculture is increasing. He asked the committee to review the testimony from Keith Kelly, Director of Montana Department of Agriculture for further comments. See Exhibit E. He asked the committee to turn to Exhibit E, page 3, regarding their one amendment to read nine members, appointed by the governor, and adding section 2(g) identifying the ninth member as the Director of the Department of Agriculture. He further stated he felt the last part of the bill was the most important.

TERRY MURPHY, President of Farmer's Union, stated they have worked for a number of years for this type of bill and SB 316 is the most straightforward. He noted there is no fiscal impact on the state, it involves no state appropriation and will be self-supporting administratively.

JO BRUNNER, Representing Women Involved in Farm Economics, stated their support of SB 316. She explained their organization supported the bill introduced by the '81 legislative session, and are very supportive of the simplification and updating of certain portions to this bill. They appreciate that these loans could be used for the purchase of machinery, to build facilities, or to purchase land. They are especially encouraged to see the applicant must declare his intention to live in Montana during the length of the loan. They believe that Section 23 allowing the tax relief for those selling land to the recipient could be increased, because they feel the \$50,000 tax break might not be enough. See Exhibit F for further comments.

ESTHER RUEL, Representing Montana Cattleman's Association, stated their support of SB 316. She noted she drove over 300 miles to testify for this bill tonight. She feels it is time that a bill such as this be supported.

STEVE MYER, Representing Montana Association of Conservation Districts, stated their support for SB 316.

KEN SHEPHERD, Representing Communicating for Agriculture, stated their support for SB 316. He asked the Committee to review his testimony, see Exhibit G. He summarized one of the most important items, is if we do not provide ways through which qualified beginning farmers and ranchers can successfully get started, we stand in danger of seeing our agricultural land acquired by large, nonagricultural corporations. These entities usually do not support local communities and businesses upon which the economy and vitality of the state depends, and they often abuse the land, rather than practice good conservation techniques. We urge you to approve SB 316 for the good of Montana, and for the good of its agriculture and the good of its young people.

JAY DOWNEN, Representing Montana Association of Utilities, feels this bill is exceptionally well drafted. They feel they could sell the same amount of kilowatt and telephone service to corporate interests, but they feel they owe a greater debt to the farmers of Montana, and they support this bill.

KEN KELLY, Montana Dairymen's Association, stated they fully support this bill and urge the Committee a DO PASS on it.

TOM DAUBERT, Representing Montana Environmental Information Center, rose in support of SB 316.

JIM TANDY, Red Lodge, stated he is currently ranching and his family goes back to 1864. He stated they are in trouble and something needs to be done right away about the little man. If the corporation comes in or the government gets involved the prices will be very high. He stated how difficult it was to compete with the outside interest from Egypt, etc. He stated they are willing to work with the \$226 that the average farmer made last year, but they are slowly running out of time.

LARRY LELIGO, Carbon County, stated in the area where he lives, in a 13 mile radius, there are 37 ranchers and only 7 of these are under 30. He feels this bill will help the young rancher get started.

STEVE BROWN, Representing Montana Independent Bankers Association, stated they fully support SB 316.

SENATOR TOWE stated others in the house that supported this bill were SENATOR SEVERSON, REPRESENTATIVE TED NEUMAN, and Fred Brown, from N.F.O.

CHAIRMAN VINCENT stated since there were no further Proponents to SB 316, were there any Opponents. Being no Opponents, were there any questions from the committee.

SENATOR TOWE closed by stating the dedication of the witnesses show their dedication to this bill. He commented he would support the amendment proposed by Keith Kelley, and also he had no objection to restricting this to Montana residents. He wanted it noted that the banks of Iowa like this bill because it converts a loan from someone they know to a municipal bond loan, which is tax free for them. He explained this is not a panacea for beginning farmers, but is a small step to help them.

CHAIRMAN VINCENT stated they would close the hearing on SB 316, and open the hearing on HB 865.

REPRESENTATIVE FABREGA stated he was asked by Representative Fagg to introduce this bill, since he was not able to make it this evening. He explained that HB 865 is meant to encourage new jobs in Montana. He further explained the mechanics of the bill and the three incentives involved with the options of this bill.

PROPOSERS

DAVE GOSS, Representing Billings Chamber of Commerce, expressed support for HB 865. He feels this bill is important because jobs have to be created in the local community.

OPPONENTS


DAN BUCKS, Department of Revenue, stated they have several administrative problems with this bill and most problems arise from Section 1 and Section 3. One problem is when a business shuts down in one part of the state and starts up in another credit is still being claimed. Also there is no definition of what a permanent full time position is in Montana or a new or expanding business is not defined. He stated there is another wage credit bill, SB 241, and these same problems were discussed in the Senate Taxation committee and amendments were made to take care of some of these problems. His department would propose that SB 241 is relevant to discussion here to provide for a limit of credit for \$800 and be sunset after 2 years, so that data could be collected to determine what the fiscal effects are, and if these incentives really work or not to achieve the intended purpose.

LEO BERRY, Director of the Department of Natural Resources and Conservation. He stated the department is not opposed to the concept of HB 865, but are opposed to the provision that takes one-half of the funds from the Alternative Renewable Energy Sources Program and allocates them to the Department of Commerce for grants to businesses that create new jobs. See Exhibit H for further comments. He summarized that the impact of reducing our program funding by 50 percent would be not only the loss of approximately \$2.5 million in loanable funds to the renewable energy sector, but also the private sector funds that would be leveraged with our money. This reduction will come at a time when we cannot come close to meeting the demand for our loanable funds.

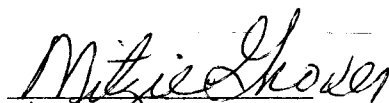
JAMES MCNAIRY, Aero Alternative Energy Resources Organization, stated they also do not like the source of funds for the grant portion of HB 865. They agree with Mr. Berry's reasons. They have problems concerning the tax credit portion of the bill. All businesses operating in Montana would be better off if markets existed to sell their products than tax credits existing for them to go into business. There is also no targeting set up for who gets the money. Also there is no carry over provision in the grant portion of this proposal. They find a problem with this, and a firm may not be able to take advantage of the grants.

REPRESENTATIVE FABREGA closed by stating maybe the committee would like to ask Representative Fagg questions regarding the testimony given by the Opponents.

The meeting adjourned at 11:18 p.m.



REPRESENTATIVE JOHN VINCENT
CHAIRMAN



Mitzie Grover
Secretary

VISITOR'S REGISTER

HOUSE SELECT _ ECONOMIC DEVELOPMENT COMMITTEE

BILL HB 865

DATE 3/15/83

SPONSOR _____

[illegible]

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

10

HOUSE SELECT - ECONOMIC DEVELOPMENT COMMITTEE

BILL SB 316

DATE 3/15/83

SPONSOR _____

[illegible]

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

1
2 INTRODUCED BY Wayne BILL NO. 709
3
4 A BILL FOR AN ACT ENTITLED: "AN ACT ALLOWING FOR THE
5 NONRECOGNITION OF CAPITAL GAIN WHEN PROCEEDS OF SALE OR
6 EXCHANGE ARE INVESTED IN A MONTANA ENTERPRISE; ALLOWING FOR
7 THE TAX ON THE GAIN AT A LATER DATE; AMENDING SECTIONS
8 15-30-111 AND 15-31-113, MCA; AND PROVIDING AN IMMEDIATE
9 EFFECTIVE DATE AND AN APPLICABILITY DATE."
10
11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:
12 Section 1. Section 15-30-111, MCA, is amended to read:
13 "15-30-111. Adjusted gross income. (1) Adjusted Except
14 as provided in subsection 131.1 adjusted gross income shall
15 be the taxpayer's federal income tax adjusted gross income
16 as defined in section 62 of the Internal Revenue Code of
17 1954 or as that section may be labeled or amended and in
18 addition shall include the following:
19 (a) interest received on obligations of another state
20 or territory or county, municipality, district, or other
21 political subdivision thereof;
22 (b) refunds received of federal income tax, to the
23 extent the deduction of such tax resulted in a reduction of
24 Montana income tax liability;
25 (c) the gain on the sale or exchange of a capital

1 asset excluded from adjusted gross income under subsection
2 131(a) when one of the events described in subsection 131(b)
3 occurs during the taxable year.
4 (2) Notwithstanding the provisions of the federal
5 Internal Revenue Code of 1954 as labeled or amended,
6 adjusted gross income does not include the following which
7 are exempt from taxation under this chapter:
8 (a) all interest income from obligations of the United
9 States government, the state of Montana, county,
10 municipality, district, or other political subdivision
11 thereof;
12 (b) interest income earned by a taxpayer age 65 or
13 older in a taxable year up to and including \$800 for a
14 taxpayer filing a separate return and \$1,600 for each joint
15 return;
16 (c) all benefits received under the Federal Employees'
17 Retirement Act not in excess of \$3,600;
18 (d) all benefits, not in excess of \$360, received as
19 an annuity, pension, or endowment under any private or
20 corporate retirement plan or system;
21 (e) all benefits paid under the teachers' retirement
22 law which are specified as exempt from taxation by 19-4-706;
23 (f) all benefits paid under The Public Employees'
24 Retirement System Act which are specified as exempt from
25 taxation by 19-3-105;

1 (g) all benefits paid under the highway patrol
 2 retirement law which are specified as exempt from taxation
 3 by 19-6-705;
 4 (h) all Montana income tax refunds or credits thereof;
 5 (i) all benefits paid under 19-11-602, 19-11-604, and
 6 19-11-605 to retired and disabled firefighters, their
 7 surviving spouses and orphans;
 8 (j) all benefits paid by first- or second-class cities
 9 for the policemen's retirement system provided for by Title
 10 19, chapter 9;
 11 (k) gain required to be recognized by a liquidating
 12 corporation under 15-31-113(1)(a)(ii).
 13 (31--1a) "Adjusted gross income" does not include the
 14 gain from the sale or exchange of a capital asset if, within
 15 12 months of the sale or exchange, the proceeds of the sale
 16 or exchange are reinvested in an enterprise withi
 17 11--50% or more of its payroll subject to Montana
 18 income tax; and
 19 111.50% or more of its taxable income subject to the
 20 tax imposed by either chapter 30 or 31.
 21 (b) The basis of the capital asset is carried forward
 22 as the basis of the reinvestment, and any gain shall be
 23 recognized;
 24 111--upon the sale or exchange of the reinvestment
 25 property;

1 111.1 if the taxpayer brings cash or other property out
 2 of the enterprise in which the investment is made;
 3 111.1 upon the sale or exchange of the taxpayer's
 4 interest in the enterprise in which the investment is made;
 5 or
 6 111.1 if the proceeds of the sale or exchange are
 7 invested directly or indirectly in real property.
 8 (31141 In the case of a shareholder of a corporation
 9 with respect to which the election provided for under
 10 subchapter S. of the Internal Revenue Code of 1954, as
 11 amended, is in effect but with respect to which the election
 12 provided for under 15-31-202, as amended, is not in effect,
 13 adjusted gross income does not include any part of the
 14 corporation's undistributed taxable income, net operating
 15 loss, capital gains or other gains, profits, or losses
 16 required to be included in the shareholder's federal income
 17 tax adjusted gross income by reason of the said election
 18 under subchapter S. However, the shareholder's adjusted
 19 gross income shall include actual distributions from the
 20 corporation to the extent they would be treated as taxable
 21 dividends if the subchapter S. election were not in effect.
 22 (47151 A shareholder of a DISC that is exempt from the
 23 corporation license tax under 15-31-102(1)(1) shall include
 24 in his adjusted gross income the earnings and profits of the
 25 DISC in the same manner as provided by federal law (section

1 995, Internal Revenue Code) for all periods for which the
2 DISC election is effective."

3 Section 2. Section 15-31-113, MCA, is amended to read:

4 "15-31-113. Gross income and net income. (1) The term
5 "gross income" means all income recognized in determining
6 the corporation's gross income for federal income tax
7 purposes and:

8 (a) including:

9 (i) interest exempt from federal income tax;

10 (ii) the portion of gain from a liquidation of the
11 reporting corporation not recognized for federal corporate
12 income tax purposes pursuant to sections 331 through 337 of
13 the Internal Revenue Code (as those sections may be amended
14 or renumbered) attributable to stockholders, either
15 individual or corporate, not subject to Montana income or
16 license tax under Title 15, chapter 30 or chapter 31, as
17 appropriate, on the gain passing through to the stockholders
18 pursuant to federal law; and

19 (iii) the gain on the sale or exchange of a capital
20 asset, excluded from gross income under subsection
21 (iii)(i)(A) when one of the events described in subsection
22 (iii)(i)(B) occurs during the taxable year; and

23 (b) excluding gain:

24 (i) recognized for federal tax purposes as a
25 shareholder of a liquidating corporation pursuant to

1 sections 331 through 337 of the Internal Revenue Code (as
2 those sections may be amended or renumbered) when the gain
3 is required to be recognized by the liquidating corporation
4 pursuant to subsection (1)(a)(ii) of this section; and
5 (iii) from the sale or exchange of a capital asset
6 if, within 12 months of the sale or exchange, the proceeds
7 of the sale or exchange are reinvested in an enterprise
8 with:

9 (i) 50% or more of its payroll subject to Montana
10 income tax; and

11 (ii) 50% or more of its taxable income subject to the
12 tax imposed by either chapter 30 or 31;

13 (B) the basis of the capital asset is carried forward
14 as the basis of the reinvestment; and any gain shall be
15 recognized;

16 (i) upon the sale or exchange of the reinvestment
17 property;

18 (iii) if the taxpayer brings cash or other property out
19 of the enterprise in which the investment is made;

20 (iii) upon the sale or exchange of the taxpayer's
21 interest in the enterprise in which the investment is made;
22 or

23 (iv) if the proceeds of the sale or exchange are
24 invested directly or indirectly in real property.

25 (2) The term "net income" means the gross income of

1 the corporation less the deductions set forth in 15-31-114.
2 (3) No corporation is exempt from the corporation
3 license tax unless specifically provided for under
4 15-31-101(3) or 15-31-102. Any corporation not subject to or
5 liable for federal income tax but not exempt from the
6 corporation license tax under 15-31-101(3) or 15-31-102
7 shall compute gross income for corporation license tax
8 purposes in the same manner as a corporation that is subject
9 to or liable for federal income tax according to the
10 provisions for determining gross income in the federal
11 Internal Revenue Code in effect for the taxable year."

12 ~~NEW-SECTION~~ Section 3. Effective date --
13 applicability date. This act is effective on passage and
14 approval and applies to taxable years beginning after
15 December 31, 1982.

-End-

STATE OF MONTANA

REQUEST NO. 410-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 15, , 19 83 , there is hereby submitted a Fiscal Note for House Bill 709 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

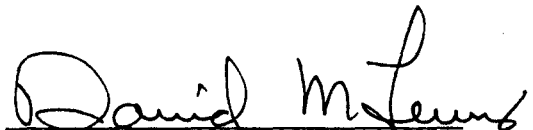
House Bill 709 allows for the nonrecognition of capital gain when proceeds of sale or exchange are invested in a Montana enterprise; allows for the tax on the gain at a later date; and provides an immediate effective date and an applicability date.

ASSUMPTIONS:

- 1) Individual income tax collection projections are as stated by the Office of Budget and Program Planning for FY84 and FY85.
- 2) Capital gains income is as indicated in the Montana income tax analysis for calendar year 1981 - \$392,094,189. However, \$180,509,639 is associated with filers who pay no tax.
- 3) Capital gains income will remain constant in FY84 and FY85.
- 4) The effective tax rate for Montana taxpayers that have capital gains income is 6.25% (1981 Montana actual) for FY84 and FY85.
- 5) At most, 20% of the net capital gains income is reinvested according to the criteria of this proposal.

FISCAL IMPACT:

	<u>FY84</u>	<u>FY85</u>
Total Revenue from Individual		
Income Tax Collections		
Under Current Law	\$166.427M	\$175.459M
Under Proposed Law	163.782M	172.814M
Estimated Decrease	<u>(2.645M)</u>	<u>(2.645M)</u>
General Fund		
Under Current Law	106.513M	112.294M
Under Proposed Law	104.820M	110.601M
Estimated Decrease	<u>(1.693M)</u>	<u>(1.693M)</u>

Continued

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-18-83

	<u>FY84</u>	<u>FY85</u>
School Equalization		
Under Current Law	\$41.607M	\$43.865M
Under Proposed Law	<u>40.946M</u>	<u>43.204M</u>
Estimated Decrease	<u>(.661M)</u>	<u>(.661M)</u>
Sinking Fund		
Under Current Law	18.307M	19.300M
Under Proposed Law	<u>18.016M</u>	<u>19.010M</u>
Estimated Decrease	<u>(.291M)</u>	<u>(.290M)</u>

House BILL NO. *865*
 INTRODUCED BY *FAAG*

1 A BILL FOR AN ACT ENTITLED: "AN ACT TO STIMULATE ECONOMIC
 2 DEVELOPMENT IN MONTANA BY PROVIDING ECONOMIC INCENTIVES FOR
 3 NEW OR EXPANDING BUSINESSES CREATING NEW JOBS IN MONTANA;
 4 AMENDING SECTION 15-35-108, MCA; AND PROVIDING AN
 5 APPLICABILITY DATE."

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

7 NEW-SECTION. Section 1. Purpose -- new job defined.
 8 (1) The purpose of [sections 1 through 7] is to encourage
 9 the creation of new jobs in Montana without adversely
 10 affecting the state's revenues.

11 (2) For purposes of [sections 1 through 7], "new job"
 12 means a permanent full-time position in Montana that was not
 13 in existence on [the effective date of this act] and that is
 14 created because of a new or expanded business.

15 NEW-SECTION. Section 2. Financial incentives for job
 16 creation. An individual, corporation, partnership, or small
 17 business corporation, as defined in 15-31-201, that starts a
 18 new business or expands an existing business may choose from
 19 the following financial incentives for creating new jobs:

20 (1) a tax credit as provided in [section 3];

21 (2) a grant as provided in [section 6]; or

22 (3) an interest payment offset as provided in [section
 23 7].

24 NEW-SECTION. Section 3. New job credit. (1) Subject
 25 to [section 2], an individual, corporation, partnership, or
 small business corporation, as defined in 15-31-201, that
 starts a new business or expands an existing business,
 thereby creating new jobs, as defined in [section 1], is
 entitled to a tax credit against the tax imposed by
 15-30-103 or 15-31-121, in an amount equal to 25% of the
 total salaries of the new jobs for the first year, to be
 taken as a credit only against taxes due as a consequence of
 taxable or net income directly attributable to the new
 business or business expansion.

14 NEW-SECTION. Section 4. Carryover of credit. The tax
 credit allowed under [section 3] is to be deducted from the
 taxpayer's tax liability for the taxable year in which the
 new business or the existing business as expanded begins
 operation. If the amount of the tax credit exceeds the
 taxpayer's tax liability for the taxable year, the amount
 that exceeds the tax liability may be carried over for
 credit against the taxpayer's tax liability in the next
 succeeding taxable year or years until the total amount of
 the tax credit has been deducted from the tax liability.
 However, no credit may be carried beyond the seventh taxable
 year succeeding the taxable year in which the jobs were

1 created.

2 **NEW_SECTION.** Section 5. Exclusion of other tax
3 incentives. If a tax credit is claimed under [section 3], no
4 other tax credit may be claimed in relation to the same
5 job-creating business.

6 **NEW_SECTION.** Section 6. Grants for job creation. (1)
7 Subject to [section 2], an individual, corporation,
8 partnership, or small business corporation, as defined in
9 15-31-201, that starts a new business or expands an existing
10 business is entitled to a \$1,000 grant for each new job
11 created.

12 (2) The grant may not be claimed for more than 100 new
13 jobs, and the total grant may not exceed the amount of
14 taxable income directly attributable to the new business or
15 business expansion.

16 (3) The grants must be administered by the department
17 of commerce and are payable from coal severance tax funds
18 allocated to the department for that purpose.

19 **NEW_SECTION.** Section 7. Interest offset. Subject to
20 [section 2], an individual, corporation, partnership, or
21 small business corporation that starts a new business or
22 expands an existing business is entitled to an offset of
23 one-fourth interest point for every 10 new jobs created, up
24 to a maximum of 4 interest points, against any financing
25 obtained from the state for projects qualifying and financed

1 under [LC 1148].

2 Section 8. Section 15-35-108, MCA, is amended to read:
3 15-35-108. (Effective July 1, 1983) Disposal of
4 severance taxes. Severance taxes collected under the
5 provisions of this chapter are allocated as follows:

6 (1) To the trust fund created by Article IX, section
7 5, of the Montana constitution, 25% of total collections a
8 year. After December 31, 1979, 50% of coal severance tax
9 collections are allocated to this trust fund. The trust fund
10 moneys shall be deposited in the fund established under
11 17-6-203(5) and invested by the board of investments as
12 provided by law.

13 (2) Coal severance tax collections remaining after
14 allocation to the trust fund under subsection (1) are
15 allocated in the following percentages of the remaining
16 balance:

17 (a) to the county in which coal is mined, 2% of the
18 severance tax paid on the coal mined in that county until
19 January 1, 1980, for such purposes as the governing body of
20 the county may determine;

21 (b) 2 1/2% until December 31, 1979, and thereafter
22 4-3/4% 2.1/4% to the earmarked revenue fund to the credit of
23 the alternative energy research development and
24 demonstration account;

25 (c) 26 1/2% until July 1, 1979, and thereafter 37 1/2%

1 to the earmarked revenue fund to the credit of the local
 2 impact and education trust fund account;
 3 (d) for each of the 2 fiscal years following June 30,
 4 1977, 13% to the earmarked revenue fund to the credit of the
 5 coal area highway improvement account;
 6 (e) 10% to the earmarked revenue fund for state
 7 equalization aid to public schools of the state;
 8 (f) 1% to the earmarked revenue fund to the credit of
 9 the county land planning account;
 10 (g) 1 1/4% to the sinking fund to the credit of the
 11 renewable resource development bond account;
 12 (h) 5% to the earmarked revenue fund to the credit of
 13 a trust fund for the purpose of parks acquisition or
 14 management, protection of works of art in the state capital,
 15 and other cultural and aesthetic projects. Income from this
 16 trust fund shall be appropriated as follows:
 17 (i) 1/3 for protection of works of art in the state
 18 capitol and other cultural and aesthetic projects; and
 19 (ii) 2/3 for the acquisition of sites and areas
 20 described in 23-1-102 and the operation and maintenance of
 21 sites so acquired;
 22 (j) 1% to the earmarked revenue fund to the credit of
 23 the state library commission for the purposes of providing
 24 basic library services for the residents of all counties
 25 through library federations and for payment of the costs of

1 participating in regional and national networking;
 2 (j) 1/2 of 1% to the earmarked revenue fund for
 3 conservation districts;
 4 (k) 1 1/4% to the sinking fund to the credit of the
 5 water development sinking account;
 6 (l) 2.1/4% to the earmarked revenue fund to the credit
 7 of the department of commerce for purposes of making new
 8 jobs grants as provided in section 61;
 9 (m) all other revenues from severance taxes
 10 collected under the provisions of this chapter to the credit
 11 of the general fund of the state."
 12 ~~NEW SECTION.~~ Section 9. Coordination instruction. If
 13 ~~---~~ Bill No. ~~---~~ [LC 1148] is not passed by the 48th
 14 legislature and approved by the governor, section 7 and
 15 subsection 3 of section 2 are void.
 16 ~~NEW SECTION.~~ Section 10. Applicability. This act is
 17 applicable for tax years beginning after December 31, 1983.

-End-

STATE OF MONTANA

REQUEST NO. 486-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 20, , 19 83 , there is hereby submitted a Fiscal Note for House Bill 865 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly.

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

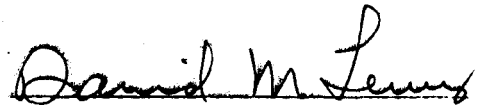
House Bill 865 stimulates economic development in Montana by providing economic incentives for new or expanding businesses creating new jobs in Montana; and provides an applicability date.

FISCAL IMPACT:

The fiscal impact of the new job tax credit cannot be estimated for the biennium, although it could significantly decrease corporation license and individual income tax revenues. The tax credit of 25% of the total salaries would take several years of tax payments by the new job holder before the tax credit would be offset.

The grant program would receive 1.125% of coal severance tax revenues. This would amount to \$1.110 million in FY 84 and \$1.384 million in FY 85. The alternative energy research development and demonstration account would be decreased by the same amounts.

FISCAL NOTE 15:EE/1



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-22-83

STATE OF MONTANA

REQUEST NO. 288-83

FISCAL NOTE

Form BD-15

In compliance with a written request received January 31, 19 83, there is hereby submitted a Fiscal Note for Senate Bill 316 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly.

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

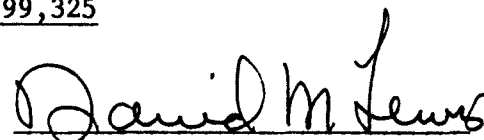
Senate Bill 316 helps farmers and ranchers obtain credit at lower interest rates for agricultural purposes; creates the Montana Agricultural Loan Authority; and provides for legislative review.

ASSUMPTIONS:

- 1) There will be 115 beginning farmers, each of which will purchase agricultural land in parcels of no less than 80 acres at 9% or less interest on a long-term contract. Each of these transactions will be approved by the Montana Agricultural Loan Authority.
- 2) The average taxable income of each of the land sellers of assumption 1 without the proposed income tax deduction is \$9,000, which is less than or equal to the realized annual gain from the sale of the land.
- 3) The effective tax rate for Montana taxable income of the land sellers is 6.28%.
- 4) The Office of Budget and Program Planning projection of income tax receipts for the 1984-1985 biennium is the basis for comparison.
- 5) Agriculture loan authority members (8 persons) would hold a minimum of 4 meetings annually, with average total distance each meeting of 400 miles per member.
- 6) Agriculture loan authority members hold meetings in Helena.
- 7) Mechanics of bond issue and sale operations be contracted out.
- 8) 2 FTE required to assist in administration of act as directed by "authority".
- 9) Administrative costs based on percent of personal services.
- 10) Act become effective October, 1983.

FISCAL IMPACT:

	<u>FY 84</u>	<u>FY 85</u>
<u>Expenditures:</u>		
Personal Services	\$ 53,195	\$ 53,195
Operations	32,994	37,600
Equipment	3,500	250
Administrative Costs	8,280	8,280
	<u>\$ 97,969</u>	<u>\$ 99,325</u>

Continued

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-5-83

Revenue:

Individual Income Tax Collections

Under Proposed Law	\$166.427M	\$175.459M
Under Current Law	166.362M	175.394M
Estimated Decrease	<u>\$ (.065M)</u>	<u>\$ (.065M)</u>

General Fund

Under Proposed Law	\$106.513M	\$112.294M
Under Current Law	106.471M	112.252M
Estimated Decrease	<u>\$ (.042M)</u>	<u>\$ (.042M)</u>

School Foundation Program

Under Proposed Law	\$ 41.607M	\$ 43.865M
Under Current Law	41.591M	43.849M
Estimated Decrease	<u>\$ (.016M)</u>	<u>\$ (.016M)</u>

Sinking Fund

Under Proposed Law	\$ 18.307M	\$ 19.300M
Under Current Law	18.300M	19.293M
Estimated Decrease	<u>\$ (.007M)</u>	<u>\$ (.007M)</u>

COMMENT:

Section 23 of this bill affects the income tax as follows:

"A landowner who sells land consisting of 80 acres or more to a beginning farmer at 9% or less interest on a long-term contract is entitled to a reduction in his taxable income in an amount equal to 100% of any income or capital gain, or both, realized and otherwise subject to state income taxes from the sale, up to a maximum of \$50,000, provided the transaction is first approved by the authority for this purpose."

#B 709 examples

buy Texaco \$ 20,000

sell Texaco \$ 25,000

buy MT Corp. A \$ 25,000

sell MT Corp. A \$ 30,000

Taxed Capital Gain \$ 10,000

buy DuPont \$ 10,000

sell DuPont \$ 20,000

buy MT Corp B \$ 20,000

sell MT Corp B \$ 15,000

Taxed Capital Gain \$ 5,000

HB 709

examples

buy Exxon \$ 30,000

sell Exxon \$ 40,000

buy MT Corp C \$ 40,000

sell MT Corp C \$ 45,000

buy MT Corp D \$ 22,500

Taxed Gain \$ 7500

sell MT Corp D \$ 30,000

Taxed Gain \$ 15,000

House Bill 709

This bill provides for postponing the income tax on gains from the sale of property. The gain would not be taxed if the monies received from the sale are placed in an enterprise with its principal business activities in Montana. When the taxpayer sells or removes his investment in the enterprise the gain is then taxed.

Final note is incomplete
While the bill seems straightforward, it leaves many technical questions unanswered. For purposes of Montana individual and corporate income taxation of gains, the Federal laws are controlling. It is, therefore, necessary to have the provisions of this bill fit with the federal laws on taxation of gains. As proposed this bill doesn't make a clean connection between federal and state law.

The following are problem areas the bill doesn't adequately address:

1. The bill allows for postponement of taxation on gains from the sale of capital assets, but doesn't define capital assets. For federal tax purposes capital assets are non-depreciable property such as personal residents and cars, good will, securities, etc.
2. More than one reinvestment to postpone a gain is not specifically prohibited by the bill. It is possible to have more than one gain tax for federal purposes that will not be taxed at the same time by the state.
3. When the taxpayer does sell or remove his investment from the qualified enterprise is the gain long term or short term? In making the determination the state may not be able to follow the federal treatment of the gain since the

6. The term enterprise is not defined - Is that an entire corporation - or could it be interpreted as a Montana subsidiary

Summary -

1. A number of points where the bill is unclear - & we are not certain how to administer it -
 2. Would require the tracking of transactions - & we would not be able it.
-

Economic effects -

1. Not targeted to growth-producing
2. Equivalent in effect to ~~in~~ a credit for investment -

The evidence from empirical studies indicates that state credits do not work well.

state would be using a different procedure for recognizing the gain.

4. On page 4, lines 687 ~~a~~ ~~ap~~ state that none of the gain ~~is~~ ~~not~~ ~~to~~ ~~qualify~~, to qualify for tax exempt status, can be invested directly or indirectly in real estate ~~Commendable~~ in ^{its intent in} avoiding tax incentive for land development, but it is unclear ~~from~~ ^{to} both ~~a~~ ~~the~~ taxpayer & to a department ^{direct or indirect} what one has to do to avoid ^{direct or indirect} investments in real property. Presumably, the intent is to increase investments in Montana businesses - One ~~typical~~ method is to purchase stock in a Montana business, but by purchasing stock one can be ~~not~~ judged as investing in real estate. ~~It~~ It is not clear how a taxpayer can make normal business inv. & meet that requirement. Are we to disallow this or not? Will taxpayer's be limited to pure commodity type investments - Cannot track administratively whether or not indirect investment is occurring.

- ⑤. ~~Tracking problem with respect to~~
5. Lack of clarity with respect to the terms "bring cash out"
~~Reduce principal~~
or receive dividends -

Require tracking of a lot of transd.

STATEMENT OF INTENT RE: SB316

Section 1. It is the specific intent of the Legislature that the Montana Agricultural Loan Authority should operate in the same manner that the Iowa Loan Authority has operated for the last 13 months in the state of Iowa. Each loan is processed individually by a bank or other financial institution. The loans can be for farmland acquisition or for purchase or construction of depreciable property (farm equipment or farm buildings). The bank or other financial institution initially approves the loan and agrees to accept the credit risk. It then sends an application to the Montana Agricultural Loan Authority for approval. If the loan is approved, a bond is issued by the Montana Agricultural Loan Authority in the exact amount and the money is made available to fund the loan.

Thus, the entire transaction is treated identical with any other bank loan to a farmer except that the bank or other financial institution is able to obtain municipal bond tax exemption for the interest income. The bank or other financial institution loan is, in effect, converted to a municipal bond and held in the bank's municipal bond tax exempt portfolio.

Section 2. It is the intent of the Legislature that the Montana Agricultural Loan Authority created by this bill will not make direct loans. They will acquire existing loans already made and approved by a local financial only. It is also the specific intent of the Legislature that the State of Montana would have no financial risk on any of these loans. Whoever purchases the bonds will take the full risk that the loan that secures payment of each bond will be repaid.

Section 3. It is the specific intent of the Legislature that the Montana Agricultural Loan Authority would charge a one time fee for issuing the bonds which fee shall not exceed the maximum amount authorized by the federal internal revenue code with regard to tax exempt bond issues. It is the intent of the Legislature that the fee would be sufficient to pay the cost of bond counsel to review and approve each bond issue and all other administrative costs of the Montana Agricultural Loan Authority.

Section 4. This Statement of Intent is required by the rule making authority granted to the Montana Agricultural Loan Authority in Section 4 and Section 8. Further, rules are contemplated for determining the procedure for granting approval by the Montana Agricultural Loan Authority and the procedure for verification by the Department of Revenue under Section 23.

Section 5. It is the intent of the Legislature that the Montana Agricultural Loan Authority adopt rules for the orderly handling and processing of applications under the authority granted in this Act to issue bonds secured by farm loans. The rules under Section 8 are intended to be sufficiently specific to allow for an objective determination by the Montana Agricultural Loan Authority of which applicants should receive approval of farm acquisition bonds from the authority. The same criteria should be established by rule for depreciable property loans with special emphasis on the need of the applicant and the applicant's possible prospects for success.

Section 6. The criteria for determining a bonafide beginning farmer in connection with the approval of the tax credit application by retiring farmers as provided in Section 23 shall be established by rule. The same requirements for establishing eligibility under Section 8 should be used under Section 23.

Kenneth Siroky
Boz, Montana 59401

To: House Select Committee on Economic Development
Pertaining to SB 316

I urge the committee to support SB 316 because the necessity of this type of program, always obvious, is even moreso in these difficult times for agriculture.

To support this bill in the short view is to recognize that the opportunity to own and operate a farm or ranch should not be restricted to those who are fortunate heirs or those with the right in-laws.

This particular opportunity should also be available to those with ability and desire, the ultimate measure of success.

~~But~~ In the long view this is the first step towards correcting a long term inequity of transferring agricultural land from generations to generations. An inequity that is steadily leading to an overwhelming concentration of our nations food production resource

into the hands of a few operators with a foreign set of values.

I believe it is a situation crucial to our nation's survival as a democracy. Our system of government is based on the division of power both economic and political. A very large part of that power is land and its ability to produce food.

To concentrate land ownership is to concentrate power and in the end lose liberty.

Our government through its lawmakers is obligated to address both of these issues and can do so by making SB 316 a law.

It is significant that this bill is good for each citizen and is good for all citizens. Furthermore, this concept has been proven in other states as a workable concept and it deserves a trial in Montana.

Kenneth Siroky

March 15, 1983

Testimony presented by

Keith Kelly
Director, Montana Department of Agriculture

on Senate Bill 316

Beginning Farmers Loan Bill

before the

House Select Committee on Economic Development

For the record my name is Keith Kelly. I am the Director of the Montana Department of Agriculture. I maintain offices in the Agriculture/Livestock Building at 6th and Roberts Streets in Helena.

The family-owned farm has been a way of life in Montana since Territorial days.

An extremely productive unit, it now produces sufficient food to feed the farmer and 77 other people in the United States and around the world.

Since 1950 the number of farms in Montana and the rest of the U.S. had declined significantly. In Montana alone the number of farms has dropped by 35.5 percent from 37,200 to 24,000. But, during this same thirty-year period, the size of the average farm has increased 48 percent. Obviously, farms are becoming larger, which is an indication that the opportunity for corporate expansion in agriculture is increasing.

The top 20 percent of all farms by sales, accounted for four out of every five dollars of food and fiber produced in 1978. Many of the smallest farms are homesites for families living reasonably well on a combination of farm and non-farm income. But the problem develops as we put more and more pressure on the "disappearing middle," the group of medium-sized places between the big operations and the part-time farm.

What is more, about 70 percent of those who owned farm land in 1978 were over 50 years old. Land will be changing hands in the next few years, so now is the time when we should be thinking hard about the direction we want to go.

In the Initiative 95 process, agriculture was not fully addressed. This bill complements that process, not only enhancing agriculture but creating jobs and preserving rural communities. It is a proven fact that several smaller farms contribute more to the local community than one large corporate farm.

What better way to Build Montana than through its basic resource, agriculture? Family-owned and operated farms have given us the most abundant, efficiently-produced supply of food in recorded history.

We've all heard of, had friends who have experienced, or experienced ourselves, the following situation:

A grandfather homesteaded and spent his life building an economically-viable operational unit. Better known as a family farm. When grandfather passed away the farm was divided five ways among his heirs. One-fifth of the farm is not a viable unit unless combined with the other four-fifths. However, even if four family members were interested in selling the farm to one member, the potential family purchaser could not meet the land payment and interest expense, on a fair market price, out of the likely cash receipts. The result - one neighbor with a larger operational unit is seeking land for his two sons, wants to buy, and can pay the price. A few miles down the road, a foreign industrialist owns almost 17,000 farm acres, wants to buy, and the pressure is on family members to sell to outside interests.

Or what about the dad who wants to retire but can't afford to sell to his son because:

- a. Dad needs sufficient land payment income to pay his capital gains taxes while providing for retirement living expenses; and
- b. Son can't purchase land, meet interest expenses, and still produce sufficient income to live on.

Again, the only viable economic solution is to sell to outside interests.

We all see the need for financial assistance to the beginning farmer. Acknowledging this need I support Senate Bill 316.

Administratively, from the Department of Agriculture's perspective, we request that page 2, line 12, be amended to read nine members, appointed by the governor, and adding section 2(g) after line 22, identifying the ninth member as the Director of the Department of Agriculture. I believe the Director should be a member of the loan authority to provide for proper administration of the program in the Department.



WIFE Women Involved In Farm Economics

NAME JO BRUNNER BILL NO. SB 316

ADDRESS 563 3rd ST HELENA DATE March 15, 1983

REPRESENT WOMEN INVOLVED IN FARM ECONOMICS

SUPPORT X OPPOSE AMEND

COMMENTS:

Mr. Chairman, members of the committee, my name is Jo Brunner and I represent the members of the Women Involved in FarmEconomics Organization. Although our organization supported the bill introduced and then killed in the 1981 Legislative session concerning this matter, we are very supportive of the simplification and the updating of certain portions of this legislation that would enable agriculture families, willing to work, and to go into debt to obtain financial backing for their agriculture endeavors.

We appreciate that these loans could be used for the purchase of machinery, probably our single most costly expenditure, or to build facilities necessary to the individual operation, or to purchase land.

We are appreciative that the procedure to obtain this financial backing has been simplified, but has not weakened either the structure producing the monies, or the evaluation of the applicants.

We are especially encouraged to see that the applicant must declare his intention to live in Montana during the length of the loan, and should the recipient decide to cease the operation, the loan must be paid in full.

We believe that Section 23 allowing the tax relief for those selling land to the recipient could be increased to some extent. We can see that the seller with land valued for sale at \$800 or \$1,000 per acre might not get all that excited about a \$50,000 tax break if it were offered.

Thank you.

EXHIBIT F

"Hell has no fury like a woman scorned"

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I APPRECIATE THE OPPORTUNITY OF BEING ABLE TO TESTIFY ON BEHALF OF SENATE BILL 316, WHICH WOULD HELP MONTANA FARMERS AND RANCHERS OBTAIN CREDIT AT LOWER INTEREST RATES, PROVIDE FOR INCOME TAX DEDUCTION ^{ON} ~~AND~~ CERTAIN LAND SALES TO BEGINNING FARMERS, AND CREATE THE MONTANA AGRICULTURAL LOAN AUTHORITY.

I REPRESENT COMMUNICATING FOR AGRICULTURE, A NATIONAL, NONPARTISIAN, NONPROFIT, RURAL ADVOCACY ORGANIZATION WITH MEMBERS IN 46 STATES. IN THE PAST YEAR, MONTANA HAS BECOME ONE OF OUR FASTEST-GROWING STATES.

CA'S GOALS ARE DETERMINED BY ITS MEMBERS THROUGH RESOLUTIONS AND SURVEYS, AND ONE OF OUR MAIN MEMBER-DIRECTED ACTIVITIES INVOLVES THE SUPPORT OF STATE PROGRAMS WHICH COULD HELP BEGINNING FARMERS AND RANCHERS GET STARTED.

SINCE 1980, LEGISLATURES HAVE CREATED SUCH PROGRAMS IN MORE THAN A DOZEN STATES. ALTHOUGH IMPLEMENTATION OF MANY OF THESE PROGRAMS WAS DELAYED FOR A TIME BECAUSE OF UNCERTAINTY ABOUT POTENTIAL FEDERAL RESTRICTIONS, THAT UNCERTAINTY HAS NOW BEEN CLEARED, AND MOST OF THE PROGRAMS ARE NOW EITHER UNDERWAY OR GETTING UNDERWAY.

THE MONTANA AGRICULTURAL LOAN AUTHORITY, WHICH WOULD BE CREATED BY THE PASSAGE OF SENATE BILL 316, WOULD BE MODELED AFTER THE IOWA FAMILY FARM DEVELOPMENT AUTHORITY, WHICH IS ONE OF THE MOST SUCCESSFUL BEGINNING FARMER PROGRAMS IN THE NATION.

ORIGINALLY CREATED IN 1980, THE IOWA AUTHORITY WAS FOR A TIME STALLED,

BUT THEN WAS REDESIGNED TO ALLOW PARTICIPATING FINANCIAL INSTITUTIONS TO MAKE LOANS TO BEGINNING FARMERS ON A ONE-TO-ONE BASIS WITH FUNDS GENERATED FROM THE SALE OF TAX-EXEMPT INDUSTRIAL REVENUE BONDS.

THE REVISION ALLOWED THE IOWA PROGRAM TO BECOME OPERATIONAL WELL IN ADVANCE OF ANY OF THE OTHER BOND-BASED PROGRAMS, AND TODAY, THE IOWA FAMILY FARM DEVELOPMENT AUTHORITY HAS AN OUTSTANDING TRACK RECORD OF SUCCESS AND IS SEEN AS A MODEL FOR OTHER STATES TO FOLLOW.

IN ITS FIFTEENTH MONTH OF OPERATION, THE AUTHORITY HAS TO DATE APPROVED 212 LOANS AND HAS CLOSED BOND DOCUMENTS FOR 133 OF THEM. IN CASH TOTALS, ALMOST \$14 MILLION WORTH OF LOAN APPLICATIONS HAVE BEEN APPROVED, AND BOND DOCUMENTS HAVE BEEN APPROVED FOR OVER \$7 MILLION OF THEM.

RECENTLY, THE NEBRASKA AND ILLINOIS AGRICULTURAL LOAN PROGRAMS HAVE BEEN REVISED ALONG THE LINES OF THE IOWA PROGRAM AND HAVE GOTTEN SUCCESSFULLY UNDERWAY.

IN ADDITION TO UTILIZATION OF A PROVEN METHOD OF BONDING FOR LOANS, THE MONTANA AGRICULTURAL LOAN AUTHORITY WOULD ALSO INCORPORATE ANOTHER FEATURE WHICH HAS BEEN SUCCESSFUL IN OTHER STATES: IT WOULD PROVIDE TAX CREDITS TO PERSONS WHO SELL AGRICULTURAL LAND TO BEGINNING FARMERS OR RANCHERS.

SIMILAR TAX CREDIT SYSTEMS HAVE BEEN IN EFFECT IN MINNESOTA AND NORTH DAKOTA SINCE THE MID-SEVENTIES, AND HAVE WORKED WELL IN PROVIDING INCENTIVES FOR THE SALE OF LAND TO QUALIFIED BEGINNING FARMERS, IN AN ERA IN WHICH THE ECONOMY OTHERWISE PROVIDES DISINCENTIVES TO SUCH SALES.

THE TAX CREDIT SYSTEM HAS BEEN A KEY PART OF THE SUCCESS OF THE MINNESOTA FAMILY FARM SECURITY PROGRAM, WHICH HAS HELPED 365 FAMILY FARMERS GET ESTABLISHED SINCE 1977. NINETY PERCENT OF THE TRANSACTIONS MADE THROUGH THE PROGRAMS ARE CONTRACT-FOR-DEED ARRANGEMENTS, THROUGH WHICH SELLERS ARE ABLE TO REALIZE TAX ADVANTAGES.

"THE TAX IMPLICATION TO SELLERS HAS BEEN A KEY ITEM" IN MAKING THE PROGRAM WORK, ACCORDING TO MINNESOTA FAMILY FARM SECURITY DIRECTOR WAYNE MARZOLF. SELLERS HAVE "HELD THEIR INTEREST RATES AND PURCHASE PRICES DOWN BECAUSE OF THE TAX BREAKS," HE SAID, AND ADDED THAT TAX CREDITS CAN OFTEN INFLUENCE LANDOWNERS TO SELL THEIR FARMS TO BEGINNING FARMERS, RATHER THAN TO LARGE, ESTABLISHED FARMERS.

A SIMILAR ASSESSMENT COMES FROM NORTH DAKOTA: "LANDOWNERS HAVE AN INDUCEMENT TO SELL TO YOUNG FARMERS, SAID DEPUTY COMMISSIONER OF AGRICULTURE BOB AMSTROP. "I KNOW IT HAS BEEN EFFECTIVE, ESPECIALLY FOR PEOPLE WHO ARE GOING OUT OF THE BUSINESS OF FARMING AND HAVE NO SONS OR SONS-IN-LAW" TO TAKE OVER THEIR FARMS.

SO, THE MONTANA AGRICULTURAL LOAN AUTHORITY WOULD INCORPORATE TWO MUTUALLY-COMPLEMENTARY TECHNIQUES FOR HELPING BEGINNING FARMERS AND RANCHERS TO GET STARTED, BOTH OF WHICH HAVE PROVEN SUCCESSFUL IN OTHER STATES.

QUALIFIED BEGINNING FARMERS AND RANCHERS -- THOSE WHO HAVE THE PROPER BACKGROUND AND TRAINING -- ARE THE PEOPLE ON WHOM THE FUTURE OF MONTANA'S AGRICULTURE DEPENDS. WHEN THE CURRENT AGRICULTURAL DEPRESSION ENDS, IT WILL

BE THE YOUNG PEOPLE WITH THE FORESIGHT TO HAVE BUILT VIABLE FARM AND RANCH OPERATIONS WHO WILL BE THE PRODUCTIVE GENERATION WHEN THE STATE'S CURRENTLY-ESTABLISHED FARMERS RETIRE.

IF WE DO NOT PROVIDE WAYS THOROUGH WHICH QUALIFIED BEGINNING FARMERS AND RANCHERS CAN SUCCESSFULLY GET STARTED, WE STAND IN DANGER OF SEEING OUR AGRICULTURAL LAND ACQUIRED BY LARGE, NONAGRICULTURAL CORPORATIONS. THESE ENTITIES USUALLY DO NOT SUPPORT LOCAL COMMUNITIES AND BUSINESSES UPON WHICH THE ECONOMY AND VITALITY OF THE STATE DEPENDS, AND THEY OFTEN ABUSE THE LAND, RATHER THAN PRACTICING GOOD CONSERVATION TECHNIQUES.

WITH TODAY'S TREMENDOUS STARTUP COSTS AND HIGH INTEREST RATES, IT IS VERY DIFFICULT FOR YOUNG PEOPLE TO GET STARTED IN AGRICULTURE WITHOUT ASSISTANCE FROM PROGRAMS SUCH AS THAT WHICH WOULD BE CREATED BY SENATE BILL 316.

IN THE PAST TWO SESSIONS OF THE MONTANA LEGISLATURE, SENATOR TOWE HAS INTRODUCED GOOD BILLS TO HELP BEGINNING FARMERS AND RANCHERS GET STARTED. THEY FAILED TO PASS, BUT BY VERY NARROW MARGINS.

THIS YEAR, SENATOR TOWE HAS COME UP WITH AN EVEN BETTER BILL. IT IS BASED ON PROGRAMS THAT HAVE WORKED IN OTHER STATES, AND IT WILL WORK IN MONTANA.

WE URGE YOU TO APPROVE SENATE BILL 316 FOR THE GOOD OF MONTANA, FOR THE GOOD OF ITS AGRICULTURE AND THE GOOD OF ITS YOUNG PEOPLE.

IF MEMBERS OF THE COMMITTEE WOULD LIKE ADDITIONAL INFORMATION ABOUT

COMMUNICATING FOR AGRICULTURE, IT CAN BE FOUND IN THE BOOKLET, WORKING FOR
RURAL AMERICA, A COPY OF WHICH ACCOMPANIES EACH OF THE WRITTEN TESTIMONIES.

THANK YOU FOR THIS OPPORTUNITY.

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION
ENERGY DIVISION



TED SCHWINDEN, GOVERNOR

32 SOUTH EWING

STATE OF MONTANA

(406) 449-3780 ADMINISTRATOR & PLANNING AND ANALYSIS BUREAU
(406) 449-3940 CONSERVATION & RENEWABLE ENERGY BUREAU
(406) 449-4600 FACILITY SITING BUREAU

HELENA, MONTANA 59620

Testimony on House Bill 865

My name is Leo Berry, Director of the Department of Natural Resources and Conservation. The Department is not opposed to the concept of House Bill 865, but we are opposed to the provision that takes one-half of the funds from the Alternative Renewable Energy Sources Program and allocates them to the Department of Commerce for grants to businesses that create new jobs. The revenue loss to our program is estimated to be \$2.494 million for the next biennium.

Taking funds from the Alternative Renewable Energy Sources Program to promote economic development is ironic because our program is one of the few existing programs in state government that actually promotes economic development and creates new jobs in Montana. This development is specifically directed to the renewable energy sector.

Last session the Legislature granted the Department the authority to make loans through financial institutions in Montana for the commercialization of renewable energy. The result of this change is a loan program that is a rather innovative partnership between state government, financial institutions, and the renewable energy industry.

The Department reviews loan applications for technical and engineering feasibility. Financial institutions must not only perform the financial feasibility and credit assessment of a project, but must agree to participate in the loan by providing at least 10 percent of the loanable funds. Financial institutions must also agree to service the loans. Our program relies on private sector innovation and entrepreneurship, public sector engineering and energy knowledge, and private sector financial expertise. Further, public funds are not only

channelled through private financial institutions, but also leverage private sector funds to make financing available for new and expanding businesses in the renewable energy sector.

Promoting the renewable energy industry is important to the future of Montana and embodies the original purpose of the Alternative Renewable Energy Sources Program -- to use revenues from nonrenewable coal to develop other sources of energy that are renewable. The renewable energy industry is not only important to economic development in Montana because it directly employs Montanans, but it also can provide sustainable energy to power new commercial and industrial growth.

The demand that has been placed on program funds that are available for loans to commercialize renewable energy attest to the potential growth of this sector. In FY 1982, the first year loans could be made, we received 18 loan applications. The Department authorized nine applicants to pursue Renewable Energy Program loan financing through their private financial institutions. Seven applicants successfully arranged financing, for a total state investment of \$767,700 and a matching investment of \$85,300 on the part of the financial institutions. Loan activities financed in FY 1982 include commercial development of a solar domestic water heating system, commercial hogfuel chip production from forest thinnings, and operating expenses for expansion of a commercial alcohol fuel plant. All these projects created new jobs for Montanans.

This fiscal year we have invested an additional \$292,500 in renewable businesses and have just reviewed 17 loan applications requesting \$2,908,086. The Department has authorized eight applicants to pursue Renewable Energy Program loan financing through the financial they choose. \$700,00 was allocated to fund these projects. Additional loan applications have been received during the spring loan cycle. Approximately \$300,000 in program funds is available to fill these loan requests.

How can I join CA, Inc.?

Put this membership application. Annual membership for farmers, ranchers or agribusinessmen only \$30.00 first year, \$15.00 annually thereafter.

1000 accidental death benefit is included with all individual and AgriBusiness Memberships.

FOR OFFICE USE ONLY Please bill: <input type="checkbox"/> Individual <input type="checkbox"/> Agribusiness <input type="checkbox"/> Membership Only <input type="checkbox"/> With Other Benefits (A portion of the second year dues are required to be collected - depending on mode of payment) Amount Paid: \$ _____		Regional Chairman (GA) No. _____ CA Rep. No. _____ Applicant _____ Date _____
--	--	--

CA, Inc., Communicating for Agriculture, Law Office Building, P.O. Box 677, Fergus Falls, Minnesota 56537

Name _____
 Spouse _____
 Social Security No. _____
 Date of Birth _____
 Marital Status: ☐ Single ☐ Married ☐ No. of Children _____
 Occupation _____
 Percent of income derived from agriculture or agribusiness _____
 Address _____
 City _____
 County _____
 State _____
 Zip Code _____
 Phone _____
 # _____

out membership enrollment, tear off and mail to:

How will my voice be heard?

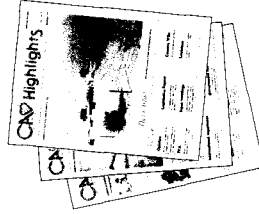
The CA membership is constantly polled and surveyed on topics you and CA feel are pertinent to rural America's goals and objectives.

This system is very effective in determining the need of rural America. CA takes your voice to the local, state and federal government. CA works with your elected officials to promote the rights, needs, freedoms and desires of rural America.

Phone 587-9336

How does CA communicate its continuing progress to you?

CA Highlights monthly newspaper



Your membership includes the monthly CA newspaper keeping you informed of the current CA activities.

By word of mouth

Farm neighbors discussing CA.



Agribusinessmen telling the CA story.



Help influence the kind of rural legislation you want at the local, state and federal level...

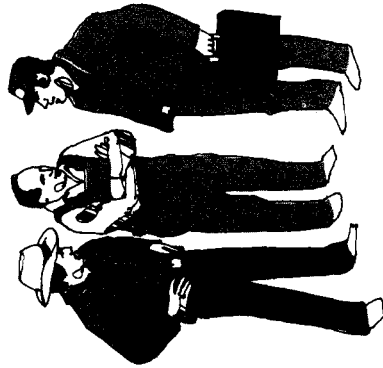
Join CA!



INC.
COMMUNICATING
FOR AGRICULTURE

What is CA?

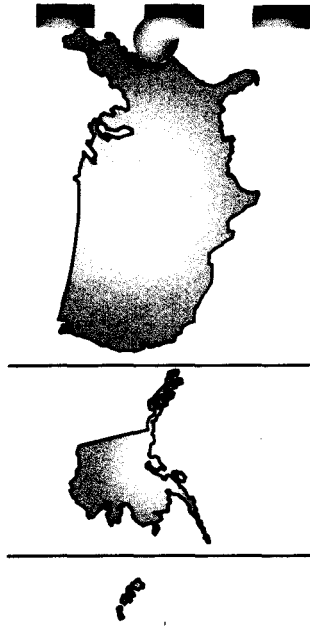
CA is a Rural Advocacy organization with members in agriculture and small agribusiness people like you and me. CA is working and communicating with our elected officials to promote better, more beneficial legislation for rural America.



- CA is 100% non-partisan.
- CA is not involved in farm commodities products or the pricing of same.
- CA is an addition to, NOT IN PLACE OF any other farm organization.
- CA is your opportunity to help unite all of rural America as one strong voice.

HOLD UP YOUR HEADS IN PRIDE! You are the strength of America. Help keep it that way through CA.

CA, Inc. is growing larger every day!



What is CA working toward?

Beginning Farmer Programs*

Any qualified farmer, rancher and rural small business person with a net worth under \$100,000 should have opportunity to make application for a 90% state guaranteed loan through private, commercial lenders or contract for deeds. This would allow a 4% interest deferral on the loan. Also interest received by the seller on a contract for deed to a qualified farmer should be exempt from state income tax.

No Farmland Sales to Non-United States Residents or Non-Agricultural Corporations*

State legislation to prevent the sale of farmland to anyone not a permanent resident of the United States of America or corporations whose interests are not directly related to production of agricultural commodities.

Rural Education*

Make every endeavor to promote and preserve our rural education system as a vital asset to our country.

Estate Tax Reform*

Preserve and protect the assets of the family farm and small family business from oppressive inheritance and estate taxes.

Private Health Care and Insurance Systems*

Health care and health insurance should be administered by the private sector. Legislation to be enacted only to set a minimum standard and insure that all Americans are guaranteed the right to health care and health insurance.

Rural Transportation*

Maintain and strengthen transportation systems which efficiently serve the total agricultural needs of rural America.

Land and Soil Conservation*

Soil is paramount to rural America — CA members must make greater efforts to conserve America's soil and agricultural land.

What benefits and advancements will I enjoy as a CA member?

CA's monthly publication — CA Highlights — to keep you informed issues and activities.

Scholarship Program for Advanced Education to the youth of rural America.

Membership Surveys — direct link for membership opinions & input to State and National Legislation.

Endorsed group health program with cash deductible concept allowing the option to control health costs

\$1000 Accidental Death Benefit included in Membership

Promote International Agricultural experience for young people through International Agricultural Exchange Programs.

Most of us think we are too busy to write to our elected government officials. CA thinks you would agree it's worth \$1.25 per month to make sure your voice is heard.

Rural America needs one voice which will work the health, well-being and advancement of rural people. An organized group that Congressmen and United States will listen to. Don't you agree?

*Approved by Board of Directors and members at CA's annual meeting.

We will continue to award grants for the research, development and demonstration of renewable energy, as these are very important aspects of our program. However, the majority of these funds will be directed to loans for new and expanding renewable energy businesses. In FY82 we awarded approximately 70 percent of our funds as loans.

The impact of reducing our program funding by 50 percent would be not only the loss of approximately \$2.5 million in loanable funds to the renewable energy sector, but also the private sector funds that would be leveraged with our money. This reduction will come at a time when we cannot come close to meeting the demand for our loanable funds.

It makes no sense to take money from a program that provides loanable funds to new and expanding businesses in one sector and award these funds as grants to new and expanding businesses in different sectors. I would urge the committee, if it decides to keep the new job grant provisions in this bill, to find another funding source, one that does not already promote economic development in Montana.