

House Bill 640

In The House

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| February 4, 1981 | Introduced and referred to Committee on Agriculture. |
| February 6, 1981 | Fiscal note requested. |
| February 11, 1981 | Fiscal note returned. |
| February 20, 1981 | Committee recommend bill do pass as amended. |
| February 21, 1981 | Bill printed and placed on members' desks. |
| February 23, 1981 | Second reading do pass. |
| February 25, 1981 | On motion rules suspended and bill placed on thrid reading this day. |
| | Third reading passed. |

In The Senate

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| March 3, 1981 | Introduced and referred to Committee on Taxation. |
| April 21, 1981 | On motion taken from Committee on Taxation and referred to second reading this legislative day. Motion adopted. |
| | Second reading pass consideration. |
| April 22, 1981 | On motion taken from second reading and referred to Committee on Taxation. Motion adopted. |
| April 23, 1981 | Died in Committee. |

1 HOUSE BILL NO. 640
2 INTRODUCED BY Frank Swentson James Conroy
3

4 A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING FOR
5 ASSISTANCE TO FARMERS, RANCHERS, AND BUSINESSMEN ENGAGED IN
6 AGRICULTURAL ACTIVITIES BY ESTABLISHING THE MONTANA
7 AGRICULTURAL DEVELOPMENT BOARD; AUTHORIZING THE ISSUANCE OF
8 REVENUE BONDS FOR ACQUISITION OF AGRICULTURAL LAND,
9 LIVESTOCK, BUILDINGS, OR IMPROVEMENTS; PROVIDING CERTAIN
10 INCOME TAX INCENTIVES TO INDIVIDUALS WHO SELL OR RENT
11 AGRICULTURAL LAND TO BEGINNING FARMERS; AMENDING SECTION
12 15-30-121, MCA."
13

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

15 NEW SECTION. Section 1. Short title. [Sections 1
16 through 21] may be cited as the "Montana Farm Preservation
17 Act of 1981".

18 NEW SECTION. Section 2. Purpose. The legislature
19 finds and declares that agriculture is and will continue to
20 be the leading industry in the state and that the long-term
21 future of the state is best served by promoting stable,
22 healthy economic conditions for agriculture. The Montana
23 constitution, in Article XII, section 1, charges the
24 legislature with protecting, enhancing, and developing
25 Montana agriculture. Because of the continuing increases in

1 costs of land and equipment and the need to operate
2 efficiently, the capital requirements for farming and
3 ranching in the state have increased substantially so that
4 there is a need to make financial assistance available to
5 young and beginning farmers and ranchers at lower than
6 conventional interest rates to enable them to acquire,
7 upgrade, and modernize their land, livestock, and equipment
8 and increase the use of irrigation systems to reduce the
9 risks of adverse weather conditions.

10 NEW SECTION. Section 3. Definitions. In [sections 1
11 through 21], unless the context requires otherwise, the
12 following definitions apply:

- 13 (1) "Agricultural land" means land suitable for use in
14 farming and ranching and includes improvements to land that
15 make it suitable for irrigation or cultivation.
- 16 (2) "Agricultural improvements" means any
17 improvements, buildings, structures, irrigation, farming, or
18 ranching equipment and livestock suitable for use in farming
19 and ranching that are located on or used in connection with
20 agricultural land.
- 21 (3) "Board" means the Montana agricultural development
22 board established in [section 4].
- 23 (4) "Bonds" means bonds or notes issued by the board
24 pursuant to [sections 1 through 21].
- 25 (5) "Loan" means a mortgage or secured loan for the

1 purchase, acquisition, improvement, or rehabilitation of
2 agricultural land or agricultural improvements.

3 (6) "Lending institution" means any public or private
4 entity or governmental agency approved by the board that
5 maintains an office in this state and is authorized by law
6 to make or participate in making mortgage loans in the
7 state.

8 (7) "Mortgage" means a mortgage deed, deed of trust,
9 or other instrument that constitutes a valid lien on real
10 property in fee simple or on a leasehold under a lease
11 having a remaining term at the time the mortgage is acquired
12 which does not expire for at least that number of years
13 beyond the maturity date of the obligation secured by the
14 mortgage established by the board as necessary to protect
15 its interest as mortgagee.

16 (8) "Mortgage loan" means an interest-bearing
17 obligation secured by a mortgage on land and improvements in
18 the state.

19 (9) "Secured loan" means a financial obligation
20 secured by a chattel mortgage, security agreement, or other
21 instrument creating a lien on an interest in depreciable
22 personal property.

23 (10) "State agency" means any board, commission,
24 department, public officer, or other agency or authority of
25 the state.

1 NEW SECTION. Section 4. Agricultural development
2 board -- allocation -- composition -- quasi-judicial. (1)
3 There is an agricultural development board.

4 (2) The board consists of seven members appointed by
5 the governor as provided in 2-15-124. The commissioner of
6 agriculture is an ex officio, voting member and the
7 remaining members shall be informed and experienced in
8 ranching, farming, economics, or finance.

9 (3) The board is designated a quasi-judicial board for
10 purposes of 2-15-124.

11 (4) The board is allocated to the department of
12 administration for administrative purposes only as provided
13 in 2-15-121.

14 (5) A member of the board may not be considered to
15 have a conflict of interest under the provisions of 2-2-201
16 merely because the member is a stockholder, officer, or
17 employee of a lending institution that may participate in
18 the board's programs.

19 (6) The administrator and staff of the board of
20 housing provided for in 2-15-1008(6) shall serve,
21 respectively, as administrator and staff to the board.

22 NEW SECTION. Section 5. General powers and duties of
23 the board. (1) The board shall exercise diligence and care
24 in selection of projects to receive its assistance and shall
25 apply customary and acceptable business and lending

1 standards in selection and subsequent implementation of the
2 projects.

3 (2) The board may:

4 (a) sue and be sued;

5 (b) have a seal;

6 (c) adopt all procedural and substantive rules
7 necessary for the administration of [sections 1 through 21],
8 including rules concerning its mortgage, construction, and
9 temporary lending programs and maximum net worth standards
10 for individuals eligible to participate in the programs
11 pursuant to [sections 1 through 21];

12 (d) make contracts, agreements, and other instruments
13 necessary or convenient for the exercise of its powers under
14 [sections 1 through 21];

15 (e) enter into agreements or other transactions with
16 any federal, state, or local governmental agency, any
17 persons, and any domestic or foreign partnership,
18 corporation, association, or organization in carrying out
19 [sections 1 through 21];

20 (f) enter into agreements or other transactions with
21 and accept grants and the cooperation of any governmental
22 agency in furtherance of [sections 1 through 21];

23 (g) delegate primary responsibility for determination
24 and implementation of its projects to any federal
25 governmental agency that assumes any obligation to repay the

1 loan, either directly or by insurance or guarantee;

2 (h) accept services, appropriations, gifts, grants,
3 bequests, and devise and utilize or dispose of them in
4 carrying out [sections 1 through 21];

5 (i) acquire real or personal property or any right,
6 interest, or easement therein by gift, purchase, transfer,
7 foreclosure, lease, or otherwise; hold, sell, assign, lease,
8 encumber, mortgage, or otherwise dispose thereof; hold,
9 sell, assign, or otherwise dispose of any mortgage or loan
10 owned by the board or in its control or custody; release or
11 relinquish any right, title, claim, interest, easement, or
12 demand, however acquired, including any equity or right of
13 redemption; do any of the foregoing by public or private
14 sale, with or without public bidding; commence any action to
15 protect or enforce any right conferred upon it by any law,
16 mortgage, contract, or other agreement; bid for and purchase
17 property at any foreclosure or other sale or acquire or take
18 possession of it in lieu of foreclosure; and operate,
19 manage, lease, dispose of, and otherwise deal with such
20 property in any manner necessary or desirable to protect the
21 board's interests and the holders of its bonds or notes and
22 consistent with any agreement with such holders;

23 (j) service, contract, and pay for the servicing of
24 loans;

25 (k) invest any funds not required for immediate use,

1 subject to any agreements with its bondholders and
 2 noteholders, as provided in Title 17, chapter 6, except that
 3 all investment income from funds of the board less the cost
 4 for investment as prescribed by law shall be deposited in
 5 the agricultural account established in [section 6];

6 (l) consent, whenever it considers it necessary, to
 7 the modification of the rate of interest, time, and payment
 8 of any installment of principal or interest, security, or
 9 any other term of any contract, mortgage, mortgage loan,
 10 mortgage loan commitment, equipment or livestock loan, or
 11 agreement of any kind, subject to any agreement with
 12 bondholders and noteholders;

13 (m) collect reasonable interest, fees, and charges in
 14 connection with making and servicing its loans, notes,
 15 bonds, commitments, and other evidences of indebtedness;

16 (n) procure insurance against any loss in connection
 17 with its loans, mortgages, mortgage loans and other assets
 18 or property in amounts and from insurers as the board
 19 considers desirable or necessary; and

20 (o) issue notes and bonds and replace lost, destroyed,
 21 or mutilated notes and bonds.

22 NEW SECTION. Section 6. Accounts of the board. (1)
 23 There is an agricultural account in the bonds proceeds and
 24 insurance clearance fund provided for in 17-2-102(6). All
 25 funds from the proceeds of bonds issued under the provisions

1 of [sections 1 through 21], fees, and other money received
 2 by the board, money appropriated by the legislature for the
 3 use of the board in carrying out the provisions of [sections
 4 1 through 21], and money made available from any other
 5 source for the use of the board shall be deposited in the
 6 agricultural account except where otherwise provided by law
 7 and except as necessary to maintain the capital reserve and
 8 revolving accounts. All funds deposited in the agricultural
 9 account are continuously appropriated to and may be expended
 10 by the board for the purposes authorized in [sections 1
 11 through 21].

12 (2) There is a capital reserve account in the sinking
 13 fund provided for in 17-2-102(3). The capital reserve
 14 account consists of the aggregate of money retained by the
 15 board under existing agreements with bondholders as the
 16 minimum capital reserve requirement as described in 90-6-119
 17 for each bond issue sold by the board.

18 (3) There is a revolving account in the revolving fund
 19 provided for in 17-2-102(7). Funds appropriated by the
 20 legislature for use of the board in payment of expenses
 21 incurred in carrying out the provisions of [sections 1
 22 through 21] shall be deposited in the revolving account.
 23 Funds expended by the board under this subsection shall be
 24 repaid by the board into the revolving account from the fees
 25 and charges collected under the provisions of [sections 1

1 through 21] and from any other money available for such
2 repayment in accordance with [sections 1 through 21].

3 NEW SECTION. Section 7. Financing programs of the
4 board. The board may:

5 (1) make loans to lending institutions under terms and
6 conditions adopted by the board requiring the proceeds to be
7 used by the lending institution for the making of loans for
8 agricultural land and improvements in the state for persons
9 residing in the state;

10 (2) invest in, purchase or make commitments to
11 purchase, and take assignments from lending institutions of
12 notes, mortgages, and other securities for the acquisition,
13 construction, rehabilitation, or purchase of agricultural
14 land and improvements in this state, under terms and
15 conditions adopted by the board;

16 (3) make, undertake commitments to make, and
17 participate in the making of loans to persons residing in
18 the state for agricultural land and improvements when the
19 board determines that loans are not otherwise available,
20 wholly or in part, from private lenders upon reasonably
21 equivalent terms and conditions.

22 NEW SECTION. Section 8. Certain restrictions on
23 loans. The board may finance loans for agricultural land or
24 improvements under [sections 1 through 21] only when the
25 board finds that:

1 (1) private enterprise has not provided sufficient
2 financing for agricultural land and improvements on terms
3 sufficiently attractive to induce borrowers to proceed; and
4 (2) the purchase, acquisition, improvement, or
5 rehabilitation of the agricultural land or improvement will
6 be in the public interest.

7 NEW SECTION. Section 9. General provisions --
8 limitations -- bonds and notes. (1) The board may by
9 resolution, from time to time, issue negotiable notes and
10 bonds in a principal amount as the board determines
11 necessary to provide sufficient funds for achieving any of
12 its purposes, including the payment of interest on notes and
13 bonds of the board, establishment of reserves to secure the
14 notes and bonds, and all other expenditures of the board
15 incident to and necessary or convenient to carry out
16 [sections 1 through 21].

17 (2) The board may by resolution, from time to time,
18 issue notes to renew notes and bonds to pay notes, including
19 interest, and whenever it considers refunding expedient,
20 refund any bonds by the issuance of new bonds, whether the
21 bonds to be refunded have or have not matured, and issue
22 bonds partly to refund bonds outstanding and partly for any
23 of its other purposes.

24 (3) Except as otherwise expressly provided by
25 resolution of the board, every issue of its notes and bonds

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1 shall be obligations of the board payable out of any
2 revenues, assets, or money of the board, subject only to
3 agreements with the holders of particular notes or bonds
4 pledging particular revenues, assets, or money.

5 (4) The notes and bonds shall be authorized by
6 resolutions of the board, shall bear a date, and shall
7 mature at times as the resolutions provide. A note may not
8 mature more than 10 years and a bond may not mature more
9 than 40 years from the date of its issue. The bonds may be
10 issued as serial bonds payable in annual installments or as
11 term bonds or as a combination thereof. Notes and bonds
12 shall bear interest at a rate or rates, be in denominations,
13 be in a form, either coupon or registered, carry
14 registration privileges, be executed in a manner, be payable
15 in a medium of payment, at places within or without the
16 state, and be subject to terms of redemption as provided in
17 resolutions of the board. The notes and bonds of the board
18 may be sold at a public or private sale at prices that may
19 be above or below par.

20 (5) The total amount of notes and bonds outstanding at
21 any one time, except a note or bond as to which the board's
22 obligation has been satisfied and discharged by refunding or
23 for which reserve for payment or other means of payment have
24 been otherwise provided, may not exceed \$100 million.

25 NEW SECTION. Section 10. Provision of bond

1 resolutions. A resolution authorizing any notes or bonds or
2 any issue thereof may contain provisions that shall be a
3 part of the contract or contracts with the holders thereof
4 relating to:

5 (1) pledging all or any part of the revenues or
6 property of the board to secure the payment of the notes or
7 bonds or any issue thereof, subject to existing agreements
8 with noteholders or bondholders;

9 (2) pledging all or any part of the assets of the
10 board, including loans and mortgages, to secure the payment
11 of notes or bonds or any issue thereof, subject to existing
12 agreements with noteholders or bondholders;

13 (3) the use and disposition of the gross income from
14 loans and mortgages owned by the board and payment of
15 principal of mortgages owned by the board;

16 (4) the setting aside of reserves of sinking funds in
17 the hands of trustees, paying agents, and other depositories
18 and the regulation and disposition thereof;

19 (5) limitations on the purpose to which the proceeds
20 of sale of notes or bonds may be applied and the pledge of
21 the proceeds to secure the payment of the notes or bonds or
22 any issue thereof;

23 (6) limitations on the issuance of additional notes or
24 bonds, the terms upon which additional notes or bonds may be
25 issued and secured, and the refunding of outstanding notes

1 or bonds;

2 (7) the procedure, if any, by which the terms of any
3 contract with noteholders or bondholders may be amended or
4 abrogated, the amount of notes or bonds the holders of which
5 must consent thereto, and the manner in which such consent
6 may be given;

7 (8) a commitment to employ adequate and competent
8 personnel at reasonable compensation, salaries, fees, and
9 charges as determined by the board in conjunction with the
10 department of administration and to maintain suitable
11 facilities and services for the purpose of carrying out its
12 programs;

13 (9) vesting in a trustee property, rights, powers, and
14 duties in trust as the board determines;

15 (10) defining the acts or omissions to act that
16 constitute a default in the obligations and duties of the
17 board to the holders of the notes or bonds and providing for
18 the rights and remedies of the holders of the notes or bonds
19 in the event of such default, including as a matter of right
20 the appointment of a receiver. Rights and remedies may not
21 be inconsistent with the laws of the state and the other
22 provisions of [sections 1 through 21]; and

23 (11) any other matters of like or different character
24 that in any way affect the security or protection of the
25 holders of the notes or bonds.

1 NEW SECTION. Section 11. Validity of pledge. A pledge
2 made by the board is valid and binding from the time the
3 pledge is made. The revenues, money, or property pledged and
4 thereafter received by the board shall immediately be
5 subject to the lien of the pledge without any physical
6 delivery thereof or further act. The lien of any pledge
7 shall be valid and binding against all parties having claims
8 of any kind in tort, contract, or otherwise against the
9 board, irrespective of whether such parties have notice
10 thereof. Neither the resolution nor any other instrument by
11 which a pledge is created need be recorded.

12 NEW SECTION. Section 12. Personal liability. The
13 board members and employees of the state involved in the
14 administration of [sections 1 through 21] are not personally
15 liable or accountable by reason of the issuance of any bond
16 or note issued by the board.

17 NEW SECTION. Section 13. Purchase of notes and bonds
18 -- cancellation. The board, subject to existing agreements
19 with noteholders or bondholders, may, out of any funds
20 available for that reason, purchase notes or bonds of the
21 board, which shall thereupon be canceled, at a price not
22 exceeding:

23 (1) the current redemption price plus accrued interest
24 to the next interest payment thereon, if the notes or bonds
25 are then redeemable; or

1 (2) the redemption price applicable on the first date
2 after the purchase upon which the notes or bonds become
3 subject to redemption plus accrued interest to that date, if
4 the notes or bonds are not then redeemable.

5 NEW SECTION. Section 14. Trust indenture. (1) In the
6 discretion of the board, bonds may be secured by a trust
7 indenture between the board and a corporate trustee, which
8 may be a trust company or bank having the power of a trust
9 company within or without the state. A trust indenture may
10 contain provisions for protecting and enforcing the rights
11 and remedies of the bondholders that are reasonable and
12 proper and not in violation of law, including covenants
13 setting forth the duties of the board in relation to the
14 exercise of its powers and the custody, safeguarding, and
15 application of all money. The board may provide by a trust
16 indenture for the payment of the proceeds of the bonds and
17 the revenues to the trustee under the trust indenture of
18 another depository and for the method of disbursement, with
19 safeguards and restrictions it considers necessary.

20 (2) All expenditures incurred in carrying out a trust
21 indenture may be treated as part of the operating
22 expenditures of the board.

23 NEW SECTION. Section 15. Negotiability of bonds.
24 Notes and bonds issued by the board are negotiable
25 instruments under the Uniform Commercial Code, subject only

1 to the provisions for registration of notes and bonds.

2 NEW SECTION. Section 16. Signatures of board members.
3 In case any of the board members whose signatures appear on
4 notes or bonds or coupons cease to be members before the
5 delivery of the notes or bonds, their signatures shall,
6 nevertheless, be valid and sufficient for all purposes, the
7 same as if the members had remained in office until
8 delivery.

9 NEW SECTION. Section 17. Refunding obligations. (1)
10 The board may provide for the issuance of refunding
11 obligations for refunding any obligations then outstanding
12 that have been issued under [sections 1 through 21],
13 including the payment of any redemption premium and any
14 interest accrued or to accrue to the date of redemption of
15 the obligations. The issuance of obligations, the
16 maturities and other details, the rights of the holders, and
17 the rights, duties, and obligations of the board are
18 governed by the appropriate provisions of [sections 1
19 through 21] that relate to the issuance of obligations.

20 (2) Refunding obligations issued as provided in
21 subsection (1) may be sold or exchanged for outstanding
22 obligations issued under the provisions of [sections 1
23 through 21]. The proceeds may be applied to the purchase,
24 redemption, or payment of outstanding obligations. Pending
25 the application of the proceeds of refunding obligations,

1 with other available funds, to the payment of principal,
 2 accrued interest, and any redemption premium on the
 3 obligations being refunded and, if permitted in the
 4 resolution authorizing the issuance of the refunding
 5 obligations or in the trust agreement securing them, to the
 6 payment of interest on refunding obligations and expenses in
 7 connection with refunding, the proceeds may be invested as
 8 provided in Title 17, chapter 6.

9 NEW SECTION. Section 18. Credit of state not pledged.
 10 Obligations issued under the provisions of [sections 1
 11 through 21] do not constitute a debt or liability or
 12 obligation or a pledge of the faith and credit of the state
 13 but are payable solely from the revenues or assets of the
 14 board. An obligation issued under [sections 1 through 21]
 15 shall contain on the face thereof a statement to the effect
 16 that the state of Montana is not liable on the obligation
 17 and the obligation is not a debt of the state and neither
 18 the faith and credit nor the taxing power of the state is
 19 pledged to the payment of the principal of or the interest
 20 on the obligation.

21 NEW SECTION. Section 19. Annual audit. (1) The
 22 board's books and records must be audited at least once each
 23 fiscal year.

24 (2) The legislative auditor may at any time conduct an
 25 audit at the request of the legislative audit committee.

1 NEW SECTION. Section 20. Tax exemption of bonds.
 2 Bonds, notes, or other obligations issued by the board under
 3 the provisions of [sections 1 through 21], their transfer,
 4 and their income (including any profits made on their sale)
 5 are free from taxation by the state or any political
 6 subdivision or other instrumentality of the state, excepting
 7 inheritance, estate, and gift taxes. The board is not
 8 required to pay recording or transfer fees or taxes on
 9 instruments recorded by it.

10 NEW SECTION. Section 21. Pledge of the state. In
 11 accordance with the constitutions of the United States and
 12 the state of Montana, the state pledges that it will not in
 13 any way impair the obligations of any agreement between the
 14 board and the holders of notes and bonds issued by the
 15 board, including but not limited to an agreement to
 16 administer a loan program financed by the issuance of bonds
 17 and to employ a staff sufficient and competent for this
 18 purpose.

19 NEW SECTION. Section 22. Definitions. In [sections 23
 20 through 25], unless the context requires otherwise, the
 21 following definitions apply:

22 (1) "Agricultural purposes" means production of
 23 agricultural crops, livestock or livestock products, poultry
 24 or poultry products, and fruit or other horticultural crops.

25 (2) "Beginning farmer" means any person who:

1 (a) is a resident of this state;

2 (b) receives more than half his annual income from
3 farming and has not initially commenced farming during the
4 tax year for which a deduction will be claimed under
5 [sections 23 through 25];

6 (c) intends to use any farmland that he wishes to
7 purchase or rent for agricultural purposes;

8 (d) has had adequate training, by experience or
9 education, in the type of farming operation that he wishes
10 to begin on the purchased or rented land referred to in
11 subsection (c);

12 (e) has a net worth, including the net worth of his
13 dependents and spouse, if any, of less than \$50,000, not
14 including the value of their equity in their principal
15 residence, the value of one personal or family motor
16 vehicle, and the value of their household goods, including
17 furniture, appliances, musical instruments, clothing, and
18 other personal belongings.

19 (3) "Landowner" means an individual owning land in
20 Montana, except that an individual who acquires land for the
21 purpose of obtaining the income tax deduction provided for
22 in [sections 23 through 25] is not considered to be a
23 landowner.

24 **NEW SECTION.** Section 23. Income tax deduction for
25 land sale to beginning farmers. A landowner who sells land

1 consisting of 20 acres or more to a beginning farmer is
2 entitled to a deduction in his taxable income for the year
3 in which the sale occurred in an amount equal to 50% of any
4 income realized and otherwise subject to state income taxes
5 after consideration of any capital gains treatment, up to a
6 maximum of \$50,000.

7 **NEW SECTION.** Section 24. Rent from beginning farmers
8 deductible from income tax. Fifty percent of any income
9 received and otherwise subject to taxation for state income
10 tax purposes resulting from the rental of any land
11 consisting of 20 acres or more by a landowner to a beginning
12 farmer under any agreement providing for a lease for at
13 least 3 years is deductible from income taxes provided that
14 no landowner may deduct more than \$25,000 pursuant to this
15 section in any tax year, nor may any landlord claim this
16 deduction for agreements with more than one beginning farmer
17 for rentals on the same tract or parcel of land.

18 **NEW SECTION.** Section 25. Claim for income tax
19 deduction for land sale or rental to a beginning farmer. In
20 order for a taxpayer to qualify for the deductions provided
21 in [sections 23 and 24] the taxpayer must file with his
22 state income tax return a notarized statement from the
23 beginning farmer who purchased or rented land from him
24 containing a list of the assets, debts, and net worth of the
25 beginning farmer, together with such other information as

1 the department of revenue may require. The value placed on
 2 any real property located in Montana and owned by the buyer
 3 shall be the amount listed as the current market value on
 4 the most recent real estate tax statement for that
 5 particular piece of property. In order for a taxpayer to
 6 qualify for the deduction for rental income provided in
 7 [section 24], the taxpayer shall certify on his tax return
 8 that any rental arrangement with any other person was not
 9 canceled for the purpose of qualifying for this deduction.

10 Section 26. Section 15-30-121, MCA, is amended to
 11 read:

12 "15-30-121. Deductions allowed in computing net
 13 income. In computing net income, there are allowed as
 14 deductions:

15 (1) the items referred to in sections 161 and 211 of
 16 the Internal Revenue Code of 1954, or as sections 161 and
 17 211 shall be labeled or amended, subject to the following
 18 exceptions which are not deductible:

- 19 (a) items provided for in 15-30-123;
 20 (b) state income tax paid;
 21 (2) federal income tax paid within the taxable year;
 22 (3) child and dependent care expenses determined in
 23 accordance with the provisions of section 214 of the
 24 Internal Revenue Code of 1954 that were in effect for the
 25 taxable year that began January 1, 1974. However, the

1 limitation set forth in section 214(e)(4) of the Internal
 2 Revenue Code of 1954 as that section was in effect for the
 3 taxable year that began January 1, 1974, applies only to
 4 payments made to a child of the taxpayer who is under 19
 5 years of age at the close of the taxable year and to
 6 payments made to an individual with respect to whom a
 7 deduction is allowable under 15-30-112(5) to the taxpayer or
 8 the taxpayer's spouse.

9 (4) that portion of an energy-related investment
 10 allowed as a deduction under 15-32-103;

11 (5) in the case of an individual, political
 12 contributions determined in accordance with the provisions
 13 of section 218(a) and (b) of the Internal Revenue Code that
 14 were in effect for the taxable year ended December 31,
 15 1978;

16 ~~(6) items provided for in [sections 22 through 25]."~~

17 Section 27. Codification instruction. It is intended
 18 that sections 22 through 25 be codified in Title 15, chapter
 19 30, and the provisions of Title 15, chapter 30, apply to
 20 sections 22 through 25.

-End-

HB640

STATE OF MONTANA

REQUEST NO. 313-81

FISCAL NOTE

Form BD-15

In compliance with a written request received February 6, 19 81, there is hereby submitted a Fiscal Note for House Bill 640 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 640 creates the "Montana Farm Preservation Act of 1981", and the Montana Agricultural Development Board. The act authorizes the sale of revenue bonds to promote agriculture in Montana by making financial assistance available to beginning farmers and ranchers at lower than conventional interest rates. and provides an income tax reduction for certain land sales to beginning farmers.

Assumptions

1. Operating expenses for operation of the Montana Agricultural Development Board and related activities will be appropriated to the Board of Housing.
2. A Supreme Court test will be required and this will take one year.
3. No sale of bonds during FY 1982, sale of \$50 million in bonds, FY 1983.
4. Bonds sold will be revenue bonds.
5. One additional FTE will be required for Board of Housing staff.
6. Operating costs will approximate those of similar activity experienced by the Board of Housing.
7. No general fund money would be required to implement the program because Board of Housing surplus funds could be loaned for this purpose.
8. The effective date is July 1, 1981.

| <u>Fiscal Impact</u> | <u>FY 1982</u> | <u>FY 1983</u> | <u>Total Biennium</u> |
|--|----------------|----------------|---------------------------|
| Expenditures under proposed law | \$489,596 | \$570,381 | \$1,059,977 |
| Expenditures under current law | 470,496 | 490,281 | 960,777 |
| Increased expenditures under prop. law | 19,100 | 80,100 | 99,200 |

Funding: Revolving Fund, no General Fund

There are no data available to estimate the revenue impact of the tax benefits contained in this proposal.

Local Impact

50 million out-of-state dollars entered into the Montana economy each year of the biennium generates an unknown quantity of jobs and tax revenue and it gives a general boost to many Montana industries related directly or indirectly to agricultural development.

David M. Lewis
BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-11-81

1 STATEMENT OF INTENT

2 HOUSE BILL 640

3 House Agriculture Committee

4

5 A statement of intent is required for House Bill 640
6 because it delegates rulemaking authority to the Montana
7 agricultural development board in section 5.

8 The Legislature intends that the Board adopt all rules
9 necessary to establish a sound program that will accomplish
10 the purposes of the Montana Farm Preservation Act of 1981.
11 In adopting loan rules, the Board should assure that loans
12 granted will be large enough to provide necessary capital
13 yet not so large as to support economically sound practices.
14 The economic viability of the beginning farmer or rancher
15 under a loan should be of paramount importance.

Approved by Committee
on Agriculture Livestock
& Irrigation

1 HOUSE BILL NO. 640

2 INTRODUCED BY LUND, SIVERTSEN, MANUEL, CONROY

3
4 A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING FOR
5 ASSISTANCE TO FARMERS, RANCHERS, AND BUSINESSMEN ENGAGED IN
6 AGRICULTURAL ACTIVITIES BY ESTABLISHING THE MONTANA
7 AGRICULTURAL DEVELOPMENT BOARD; AUTHORIZING THE ISSUANCE OF
8 REVENUE BONDS FOR ACQUISITION OF AGRICULTURAL LAND,
9 LIVESTOCK, BUILDINGS, OR IMPROVEMENTS; PROVIDING CERTAIN
10 INCOME TAX INCENTIVES TO INDIVIDUALS WHO SELL OR RENT
11 AGRICULTURAL LAND TO BEGINNING FARMERS; CREATING AN
12 AGRICULTURAL ACCOUNT IN THE BOND PROCEEDS AND INSURANCE
13 CLEARANCE FUND AND APPROPRIATING MONEY DEPOSITED IN THE
14 ACCOUNT; AND AMENDING SECTION 15-30-121, MCA."
15

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

17 NEW SECTION. Section 1. Short title. [Sections 1
18 through 21] may be cited as the "Montana Farm Preservation
19 Act of 1981".

20 NEW SECTION. Section 2. Purpose. The legislature
21 finds and declares that agriculture is and will continue to
22 be the leading industry in the state and that the long-term
23 future of the state is best served by promoting stable,
24 healthy economic conditions for agriculture. The Montana
25 constitution, in Article XII, section 1, charges the

1 legislature with protecting, enhancing, and developing
2 Montana agriculture. Because of the continuing increases in
3 costs of land and equipment and the need to operate
4 efficiently, the capital requirements for farming and
5 ranching in the state have increased substantially so that
6 there is a need to make financial assistance available to
7 young and beginning farmers and ranchers at lower than
8 conventional interest rates to enable them to acquire,
9 upgrade, and modernize their land, livestock, and equipment
10 and increase the use of irrigation systems to reduce the
11 risks of adverse weather conditions.

12 NEW SECTION. Section 3. Definitions. In [sections 1
13 through 21], unless the context requires otherwise, the
14 following definitions apply:

15 (1) "Agricultural land" means land suitable for use in
16 farming and ranching and includes improvements to land that
17 make it suitable for irrigation or cultivation.

18 (2) "Agricultural improvements" means any
19 improvements, buildings, structures, irrigation, farming, or
20 ranching equipment and livestock suitable for use in farming
21 and ranching that are located on or used in connection with
22 agricultural land.

23 (3) "Board" means the Montana agricultural development
24 board established in [section 4].

25 (4) "Bonds" means bonds or notes issued by the board

1 pursuant to [sections 1 through 21].

2 (5) "Loan" means a mortgage or secured loan for the
3 purchase, acquisition, improvement, or rehabilitation of
4 agricultural land or agricultural improvements.

5 (6) "Lending institution" means any public or private
6 entity or governmental agency approved by the board that
7 maintains an office in this state and is authorized by law
8 to make or participate in making mortgage loans in the
9 state.

10 (7) "Mortgage" means a mortgage deed, deed of trust,
11 or other instrument that constitutes a valid lien on real
12 property in fee simple or on a leasehold under a lease
13 having a remaining term at the time the mortgage is acquired
14 which does not expire for at least that number of years
15 beyond the maturity date of the obligation secured by the
16 mortgage established by the board as necessary to protect
17 its interest as mortgagee.

18 (8) "Mortgage loan" means an interest-bearing
19 obligation secured by a mortgage on land and improvements in
20 the state.

21 (9) "Secured loan" means a financial obligation
22 secured by a chattel mortgage, security agreement, or other
23 instrument creating a lien on an interest in depreciable
24 personal property.

25 (10) "State agency" means any board, commission,

1 department, public officer, or other agency or authority of
2 the state.

3 NEW SECTION. Section 4. Agricultural development
4 board -- allocation -- composition -- quasi-judicial. (1)
5 There is an agricultural development board.

6 (2) The board consists of seven members appointed by
7 the governor as provided in 2-15-124. The commissioner
8 DIRECTOR of agriculture is an ex officio, voting member and
9 the remaining members shall be informed and experienced in
10 ranching, farming, economics, or finance.

11 (3) The board is designated a quasi-judicial board for
12 purposes of 2-15-124.

13 (4) The board is allocated to the department of
14 administration for administrative purposes only as provided
15 in 2-15-121.

16 (5) A member of the board may not be considered to
17 have a conflict of interest under the provisions of 2-2-201
18 merely because the member is a stockholder, officer, or
19 employee of a lending institution that may participate in
20 the board's programs.

21 (6) The administrator and staff of the board of
22 housing provided for in 2-15-1008(6) shall serve,
23 respectively, as administrator and staff to the board.

24 NEW SECTION. Section 5. General powers and duties of
25 the board. (1) The board shall exercise diligence and care

1 in selection of projects to receive its assistance and shall
 2 apply customary and acceptable business and lending
 3 standards in selection and subsequent implementation of the
 4 projects.

5 (2) The board may:

6 (a) sue and be sued;

7 (b) have a seal;

8 (c) adopt all procedural and substantive rules
 9 necessary for the administration of [sections 1 through 21],
 10 including rules concerning its mortgage, construction, and
 11 temporary lending programs and maximum net worth standards
 12 for individuals eligible to participate in the programs
 13 pursuant to [sections 1 through 21];

14 (d) make contracts, agreements, and other instruments
 15 necessary or convenient for the exercise of its powers under
 16 [sections 1 through 21];

17 (e) enter into agreements or other transactions with
 18 any federal, state, or local governmental agency, any
 19 persons, and any domestic or foreign partnership,
 20 corporation, association, or organization in carrying out
 21 [sections 1 through 21];

22 (f) enter into agreements or other transactions with
 23 and accept grants and the cooperation of any governmental
 24 agency in furtherance of [sections 1 through 21];

25 (g) delegate primary responsibility for determination

1 and implementation of its projects to any federal
 2 governmental agency that assumes any obligation to repay the
 3 loan, either directly or by insurance or guarantee;

4 (h) accept services, appropriations, gifts, grants,
 5 bequests, and devises and utilize or dispose of them in
 6 carrying out [sections 1 through 21];

7 (i) acquire real or personal property or any right,
 8 interest, or easement therein by gift, purchase, transfer,
 9 foreclosure, lease, or otherwise; hold, sell, assign, lease,
 10 encumber, mortgage, or otherwise dispose thereof; hold,
 11 sell, assign, or otherwise dispose of any mortgage or loan
 12 owned by the board or in its control or custody; release or
 13 relinquish any right, title, claim, interest, easement, or
 14 demand, however acquired, including any equity or right of
 15 redemption; do any of the foregoing by public or private
 16 sale, with or without public bidding; commence any action to
 17 protect or enforce any right conferred upon it by any law,
 18 mortgage, contract, or other agreement; bid for and purchase
 19 property at any foreclosure or other sale or acquire or take
 20 possession of it in lieu of foreclosure; and operate,
 21 manage, lease, dispose of, and otherwise deal with such
 22 property in any manner necessary or desirable to protect the
 23 board's interests and the holders of its bonds or notes and
 24 consistent with any agreement with such holders;

25 (j) service, contract, and pay for the servicing of

1 loans;

2 (k) invest any funds not required for immediate use,

3 subject to any agreements with its bondholders and

4 noteholders, as provided in Title 17, chapter 6, except that

5 all investment income from funds of the board less the cost

6 for investment as prescribed by law shall be deposited in

7 the agricultural account established in [section 6];

8 (l) consent, whenever it considers it necessary, to

9 the modification of the rate of interest, time, and payment

10 of any installment of principal or interest, security, or

11 any other term of any contract, mortgage, mortgage loan,

12 mortgage loan commitment, equipment or livestock loan, or

13 agreement of any kind, subject to any agreement with

14 bondholders and noteholders;

15 (m) collect reasonable interest, fees, and charges in

16 connection with making and servicing its loans, notes,

17 bonds, commitments, and other evidences of indebtedness;

18 (n) procure insurance against any loss in connection

19 with its loans, mortgages, mortgage loans and other assets

20 or property in amounts and from insurers as the board

21 considers desirable or necessary; and

22 (o) issue notes and bonds and replace lost, destroyed,

23 or mutilated notes and bonds.

24 NEW SECTION. Section 6. Accounts of the board. (1)

25 There is an agricultural account in the bonds BOND proceeds

1 and insurance clearance fund provided for in 17-2-102(6).

2 All funds from the proceeds of bonds issued under the

3 provisions of [sections 1 through 21], fees, and other money

4 received by the board, money appropriated by the legislature

5 for the use of the board in carrying out the provisions of

6 [sections 1 through 21], and money made available from any

7 other source for the use of the board shall be deposited in

8 the agricultural account except where otherwise provided by

9 law and except as necessary to maintain the capital reserve

10 and revolving accounts. All funds deposited in the

11 agricultural account are continuously appropriated to and

12 may be expended by the board for the purposes authorized in

13 [sections 1 through 21].

14 (2) There is a capital reserve account in the sinking

15 fund provided for in 17-2-102(3). The capital reserve

16 account consists of the aggregate of money retained by the

17 board under existing agreements with bondholders as the

18 minimum capital reserve requirement as described in 90-6-119

19 for each bond issue sold by the board.

20 (3) There is a revolving account in the revolving fund

21 provided for in 17-2-102(7). Funds appropriated by the

22 legislature for use of the board in payment of expenses

23 incurred in carrying out the provisions of [sections 1

24 through 21] shall be deposited in the revolving account.

25 Funds expended by the board under this subsection shall be

1 repaid by the board into the revolving account from the fees
 2 and charges collected under the provisions of [sections 1
 3 through 21] and from any other money available for such
 4 repayment in accordance with [sections 1 through 21].

5 NEW SECTION. Section 7. Financing programs of the
 6 board. The board may:

7 (1) make loans to lending institutions under terms and
 8 conditions adopted by the board requiring the proceeds to be
 9 used by the lending institution for the making of loans for
 10 agricultural land and improvements in the state for persons
 11 residing in the state;

12 (2) invest in, purchase or make commitments to
 13 purchase, and take assignments from lending institutions of
 14 notes, mortgages, and other securities for the acquisition,
 15 construction, rehabilitation, or purchase of agricultural
 16 land and improvements in this state, under terms and
 17 conditions adopted by the board;

18 (3) make, undertake commitments to make, and
 19 participate in the making of loans to persons residing in
 20 the state for agricultural land and improvements when the
 21 board determines that loans are not otherwise available,
 22 wholly or in part, from private lenders upon reasonably
 23 equivalent terms and conditions.

24 NEW SECTION. Section 8. Certain restrictions on
 25 loans. The board may finance loans for agricultural land or

1 improvements under [sections 1 through 21] only when the
 2 board finds that:

3 (1) private enterprise has not provided sufficient
 4 financing for agricultural land and improvements on terms
 5 sufficiently attractive to induce borrowers to proceed; and

6 (2) the purchase, acquisition, improvement, or
 7 rehabilitation of the agricultural land or improvement will
 8 be in the public interest.

9 NEW SECTION. Section 9. General provisions --
 10 limitations -- bonds and notes. (1) The board may by
 11 resolution, from time to time, issue negotiable notes and
 12 bonds in a principal amount as the board determines
 13 necessary to provide sufficient funds for achieving any of
 14 its purposes, including the payment of interest on notes and
 15 bonds of the board, establishment of reserves to secure the
 16 notes and bonds, and all other expenditures of the board
 17 incident to and necessary or convenient to carry out
 18 [sections 1 through 21].

19 (2) The board may by resolution, from time to time,
 20 issue notes to renew notes and bonds to pay notes, including
 21 interest, and whenever it considers refunding expedient,
 22 refund any bonds by the issuance of new bonds, whether the
 23 bonds to be refunded have or have not matured, and issue
 24 bonds partly to refund bonds outstanding and partly for any
 25 of its other purposes.

1 (3) Except as otherwise expressly provided by
 2 resolution of the board, every issue of its notes and bonds
 3 shall be obligations of the board payable out of any
 4 revenues, assets, or money of the board, subject only to
 5 agreements with the holders of particular notes or bonds
 6 pledging particular revenues, assets, or money.

7 (4) The notes and bonds shall be authorized by
 8 resolutions of the board, shall bear a date, and shall
 9 mature at times as the resolutions provide. A note may not
 10 mature more than 10 years and a bond may not mature more
 11 than 40 years from the date of its issue. The bonds may be
 12 issued as serial bonds payable in annual installments or as
 13 term bonds or as a combination thereof. Notes and bonds
 14 shall bear interest at a rate or rates, be in denominations,
 15 be in a form, either coupon or registered, carry
 16 registration privileges, be executed in a manner, be payable
 17 in a medium of payment, at places within or without the
 18 state, and be subject to terms of redemption as provided in
 19 resolutions of the board. The notes and bonds of the board
 20 may be sold at a public or private sale at prices that may
 21 be above or below par.

22 (5) The total amount of notes and bonds outstanding at
 23 any one time, except a note or bond as to which the board's
 24 obligation has been satisfied and discharged by refunding or
 25 for which reserve for payment or other means of payment have

1 been otherwise provided, may not exceed \$100 million.

2 NEW SECTION. Section 10. Provision of bond
 3 resolutions. A resolution authorizing any notes or bonds or
 4 any issue thereof may contain provisions that shall be a
 5 part of the contract or contracts with the holders thereof
 6 relating to:

7 (1) pledging all or any part of the revenues or
 8 property of the board to secure the payment of the notes or
 9 bonds or any issue thereof, subject to existing agreements
 10 with noteholders or bondholders;

11 (2) pledging all or any part of the assets of the
 12 board, including loans and mortgages, to secure the payment
 13 of notes or bonds or any issue thereof, subject to existing
 14 agreements with noteholders or bondholders;

15 (3) the use and disposition of the gross income from
 16 loans and mortgages owned by the board and payment of
 17 principal of mortgages owned by the board;

18 (4) the setting aside of reserves of sinking funds in
 19 the hands of trustees, paying agents, and other depositories
 20 and the regulation and disposition thereof;

21 (5) limitations on the purpose to which the proceeds
 22 of sale of notes or bonds may be applied and the pledge of
 23 the proceeds to secure the payment of the notes or bonds or
 24 any issue thereof;

25 (6) limitations on the issuance of additional notes or

1 bonds, the terms upon which additional notes or bonds may be
2 issued and secured, and the refunding of outstanding notes
3 or bonds;

4 (7) the procedure, if any, by which the terms of any
5 contract with noteholders or bondholders may be amended or
6 abrogated, the amount of notes or bonds the holders of which
7 must consent thereto, and the manner in which such consent
8 may be given;

9 (8) a commitment to employ adequate and competent
10 personnel at reasonable compensation, salaries, fees, and
11 charges as determined by the board in conjunction with the
12 department of administration and to maintain suitable
13 facilities and services for the purpose of carrying out its
14 programs;

15 (9) vesting in a trustee property, rights, powers, and
16 duties in trust as the board determines;

17 (10) defining the acts or omissions to act that
18 constitute a default in the obligations and duties of the
19 board to the holders of the notes or bonds and providing for
20 the rights and remedies of the holders of the notes or bonds
21 in the event of such default, including as a matter of right
22 the appointment of a receiver. Rights and remedies may not
23 be inconsistent with the laws of the state and the other
24 provisions of [sections 1 through 21]; and

25 (11) any other matters of like or different character

1 that in any way affect the security or protection of the
2 holders of the notes or bonds.

3 NEW SECTION. Section 11. Validity of pledge. A pledge
4 made by the board is valid and binding from the time the
5 pledge is made. The revenues, money, or property pledged and
6 thereafter received by the board shall immediately be
7 subject to the lien of the pledge without any physical
8 delivery thereof or further act. The lien of any pledge
9 shall be valid and binding against all parties having claims
10 of any kind in tort, contract, or otherwise against the
11 board, irrespective of whether such parties have notice
12 thereof. Neither the resolution nor any other instrument by
13 which a pledge is created need be recorded.

14 NEW SECTION. Section 12. Personal liability. The
15 board members and employees of the state involved in the
16 administration of [sections 1 through 21] are not personally
17 liable or accountable by reason of the issuance of any bond
18 or note issued by the board.

19 NEW SECTION. Section 13. Purchase of notes and bonds
20 -- cancellation. The board, subject to existing agreements
21 with noteholders or bondholders, may, out of any funds
22 available for that reason, purchase notes or bonds of the
23 board, which shall thereupon be canceled, at a price not
24 exceeding:

25 (1) the current redemption price plus accrued interest

1 to the next interest payment thereon, if the notes or bonds
2 are then redeemable; or

3 (2) the redemption price applicable on the first date
4 after the purchase upon which the notes or bonds become
5 subject to redemption plus accrued interest to that date, if
6 the notes or bonds are not then redeemable.

7 NEW SECTION. Section 14. Trust indenture. (1) In the
8 discretion of the board, bonds may be secured by a trust
9 indenture between the board and a corporate trustee, which
10 may be a trust company or bank having the power of a trust
11 company within or without the state. A trust indenture may
12 contain provisions for protecting and enforcing the rights
13 and remedies of the bondholders that are reasonable and
14 proper and not in violation of law, including covenants
15 setting forth the duties of the board in relation to the
16 exercise of its powers and the custody, safeguarding, and
17 application of all money. The board may provide by a trust
18 indenture for the payment of the proceeds of the bonds and
19 the revenues to the trustee under the trust indenture of
20 another depository and for the method of disbursement, with
21 safeguards and restrictions it considers necessary.

22 (2) All expenditures incurred in carrying out a trust
23 indenture may be treated as part of the operating
24 expenditures of the board.

25 NEW SECTION. Section 15. Negotiability of bonds.

1 Notes and bonds issued by the board are negotiable
2 instruments under the Uniform Commercial Code, subject only
3 to the provisions for registration of notes and bonds.

4 NEW SECTION. Section 16. Signatures of board members.
5 In case any of the board members whose signatures appear on
6 notes or bonds or coupons cease to be members before the
7 delivery of the notes or bonds, their signatures shall,
8 nevertheless, be valid and sufficient for all purposes, the
9 same as if the members had remained in office until
10 delivery.

11 NEW SECTION. Section 17. Refunding obligations. (1)
12 The board may provide for the issuance of refunding
13 obligations for refunding any obligations then outstanding
14 that have been issued under [sections 1 through 21],
15 including the payment of any redemption premium and any
16 interest accrued or to accrue to the date of redemption of
17 the obligations. The issuance of obligations, the
18 maturities and other details, the rights of the holders, and
19 the rights, duties, and obligations of the board are
20 governed by the appropriate provisions of [sections 1
21 through 21] that relate to the issuance of obligations.

22 (2) Refunding obligations issued as provided in
23 subsection (1) may be sold or exchanged for outstanding
24 obligations issued under the provisions of [sections 1
25 through 21]. The proceeds may be applied to the purchase,

1 redemption, or payment of outstanding obligations. Pending
 2 the application of the proceeds of refunding obligations,
 3 with other available funds, to the payment of principal,
 4 accrued interest, and any redemption premium on the
 5 obligations being refunded and, if permitted in the
 6 resolution authorizing the issuance of the refunding
 7 obligations or in the trust agreement securing them, to the
 8 payment of interest on refunding obligations and expenses in
 9 connection with refunding, the proceeds may be invested as
 10 provided in Title 17, chapter 6.

11 NEW SECTION. Section 18. Credit of state not pledged.
 12 Obligations issued under the provisions of [sections 1
 13 through 21] do not constitute a debt or liability or
 14 obligation or a pledge of the faith and credit of the state
 15 but are payable solely from the revenues or assets of the
 16 board. An obligation issued under [sections 1 through 21]
 17 shall contain on the face thereof a statement to the effect
 18 that the state of Montana is not liable on the obligation
 19 and the obligation is not a debt of the state and neither
 20 the faith and credit nor the taxing power of the state is
 21 pledged to the payment of the principal of or the interest
 22 on the obligation.

23 NEW SECTION. Section 19. Annual audit. (1) The
 24 board's books and records must be audited at least once each
 25 fiscal year.

1 (2) The legislative auditor may at any time conduct an
 2 audit at the request of the legislative audit committee.

3 NEW SECTION. Section 20. Tax exemption of bonds.
 4 Bonds, notes, or other obligations issued by the board under
 5 the provisions of [sections 1 through 21], their transfer,
 6 and their income (including any profits made on their sale)
 7 are free from taxation by the state or any political
 8 subdivision or other instrumentality of the state, excepting
 9 inheritance, estate, and gift taxes. The board is not
 10 required to pay recording or transfer fees or taxes on
 11 instruments recorded by it.

12 NEW SECTION. Section 21. Pledge of the state. In
 13 accordance with the constitutions of the United States and
 14 the state of Montana, the state pledges that it will not in
 15 any way impair the obligations of any agreement between the
 16 board and the holders of notes and bonds issued by the
 17 board, including but not limited to an agreement to
 18 administer a loan program financed by the issuance of bonds
 19 and to employ a staff sufficient and competent for this
 20 purpose.

21 NEW SECTION. Section 22. Definitions. In [sections 23
 22 22 through 25], unless the context requires otherwise, the
 23 following definitions apply:

24 (1) "Agricultural purposes" means production of
 25 agricultural crops, livestock or livestock products, poultry

1 or poultry products, and fruit or other horticultural crops.

2 (2) "Beginning farmer" means any person who:

3 (a) is a resident of this state;

4 (b) receives more than half his annual income from
5 farming and has not initially commenced farming during the
6 tax year for which a deduction will be claimed under
7 [sections 23 through 25];

8 (c) intends to use any farmland that he wishes to
9 purchase or rent for agricultural purposes;

10 (d) has had adequate training, by experience or
11 education, in the type of farming operation that he wishes
12 to begin on the purchased or rented land referred to in
13 subsection (c);

14 (e) has a net worth, including the net worth of his
15 dependents and spouse, if any, of less than \$50,000
16 \$100,000, not including the value of their equity in their
17 principal residence, the value of one personal or family
18 motor vehicle, and the value of their household goods,
19 including furniture, appliances, musical instruments,
20 clothing, and other personal belongings.

21 (3) "Landowner" means an individual owning land in
22 Montana, except that an individual who acquires land for the
23 purpose of obtaining the income tax deduction provided for
24 in [sections 23 through 25] is not considered to be a
25 landowner.

1 NEW SECTION. Section 23. Income tax deduction for
2 land sale to beginning farmers. A landowner who sells land
3 consisting of 20 acres or more to a beginning farmer is
4 entitled to a deduction in his taxable income for the year
5 in which the sale occurred in an amount equal to 50% of any
6 income realized and otherwise subject to state income taxes
7 after consideration of any capital gains treatment, up to a
8 maximum of \$50,000.

9 NEW SECTION. Section 24. Rent from beginning farmers
10 deductible from income tax. Fifty percent of any income
11 received and otherwise subject to taxation for state income
12 tax purposes resulting from the rental of any land
13 consisting of 20 acres or more by a landowner to a beginning
14 farmer under any agreement providing for a lease for at
15 least 3 years is deductible from income taxes provided that
16 no landowner may deduct more than \$25,000 pursuant to this
17 section in any tax year, nor may any landlord claim this
18 deduction for agreements with more than one beginning farmer
19 for rentals on the same tract or parcel of land.

20 NEW SECTION. Section 25. Claim for income tax
21 deduction for land sale or rental to a beginning farmer. In
22 order for a taxpayer to qualify for the deductions provided
23 in [sections 23 and 24] the taxpayer must file with his
24 state income tax return a notarized statement from the
25 beginning farmer who purchased or rented land from him

1 containing a list of the assets, debts, and net worth of the
 2 beginning farmer, together with such other information as
 3 the department of revenue may require. The value placed on
 4 any real property located in Montana and owned by the buyer
 5 shall be the amount listed as the current market value on
 6 the most recent real estate tax statement for that
 7 particular piece of property. In order for a taxpayer to
 8 qualify for the deduction for rental income provided in
 9 [section 24], the taxpayer shall certify on his tax return
 10 that any rental arrangement with any other person was not
 11 canceled for the purpose of qualifying for this deduction.

12 Section 26. Section 15-30-121, MCA, is amended to
 13 read:

14 "15-30-121. Deductions allowed in computing net
 15 income. In computing net income, there are allowed as
 16 deductions:

17 (1) the items referred to in sections 161 and 211 of
 18 the Internal Revenue Code of 1954, or as sections 161 and
 19 211 shall be labeled or amended, subject to the following
 20 exceptions which are not deductible:

- 21 (a) items provided for in 15-30-123;
- 22 (b) state income tax paid;
- 23 (2) federal income tax paid within the taxable year;
- 24 (3) child and dependent care expenses determined in
 25 accordance with the provisions of section 214 of the

1 Internal Revenue Code of 1954 that were in effect for the
 2 taxable year that began January 1, 1974. However, the
 3 limitation set forth in section 214(e)(4) of the Internal
 4 Revenue Code of 1954 as that section was in effect for the
 5 taxable year that began January 1, 1974, applies only to
 6 payments made to a child of the taxpayer who is under 19
 7 years of age at the close of the taxable year and to
 8 payments made to an individual with respect to whom a
 9 deduction is allowable under 15-30-112(5) to the taxpayer or
 10 the taxpayer's spouse.

11 (4) that portion of an energy-related investment
 12 allowed as a deduction under 15-32-103;

13 (5) in the case of an individual, political
 14 contributions determined in accordance with the provisions
 15 of section 218(a) and (b) of the Internal Revenue Code that
 16 were in effect for the taxable year ended December 31,
 17 1978;

18 (6) items provided for in [sections 22 through 25]."

19 Section 27. Codification instruction. It is intended
 20 that sections 22 through 25 be codified in Title 15, chapter
 21 30, and the provisions of Title 15, chapter 30, apply to
 22 sections 22 through 25.

-End-

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2 HOUSE BILL 640

3 House Agriculture Committee

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

17 NEW SECTION. Section 1. Short title. [Sections 1
18 through 21] may be cited as the "Montana Farm Preservation
19 Act of 1981".

20 NEW SECTION. Section 2. Purpose. The legislature
21 finds and declares that agriculture is and will continue to
22 be the leading industry in the state and that the long-term
23 future of the state is best served by promoting stable,
24 healthy economic conditions for agriculture. The Montana
25 constitution, in Article XII, section 1, charges the

1 legislature with protecting, enhancing, and developing
2 Montana agriculture. Because of the continuing increases in
3 costs of land and equipment and the need to operate
4 efficiently, the capital requirements for farming and
5 ranching in the state have increased substantially so that
6 there is a need to make financial assistance available to
7 young and beginning farmers and ranchers at lower than
8 conventional interest rates to enable them to acquire,
9 upgrade, and modernize their land, livestock, and equipment
10 and increase the use of irrigation systems to reduce the
11 risks of adverse weather conditions.

12 NEW SECTION. Section 3. Definitions. In [sections 1
13 through 21], unless the context requires otherwise, the
14 following definitions apply:

15 (1) "Agricultural land" means land suitable for use in
16 farming and ranching and includes improvements to land that
17 make it suitable for irrigation or cultivation.

18 (2) "Agricultural improvements" means any
19 improvements, buildings, structures, irrigation, farming, or
20 ranching equipment and livestock suitable for use in farming
21 and ranching that are located on or used in connection with
22 agricultural land.

23 (3) "Board" means the Montana agricultural development
24 board established in [section 4].

25 (4) "Bonds" means bonds or notes issued by the board

1 pursuant to [sections 1 through 21].
 2 (5) "Loan" means a mortgage or secured loan for the
 3 purchase, acquisition, improvement, or rehabilitation of
 4 agricultural land or agricultural improvements.
 5 (6) "Lending institution" means any public or private
 6 entity or governmental agency approved by the board that
 7 maintains an office in this state and is authorized by law
 8 to make or participate in making mortgage loans in the
 9 state.
 10 (7) "Mortgage" means a mortgage deed, deed of trust,
 11 or other instrument that constitutes a valid lien on real
 12 property in fee simple or on a leasehold under a lease
 13 having a remaining term at the time the mortgage is acquired
 14 which does not expire for at least that number of years
 15 beyond the maturity date of the obligation secured by the
 16 mortgage established by the board as necessary to protect
 17 its interest as mortgagee.
 18 (8) "Mortgage loan" means an interest-bearing
 19 obligation secured by a mortgage on land and improvements in
 20 the state.
 21 (9) "Secured loan" means a financial obligation
 22 secured by a chattel mortgage, security agreement, or other
 23 instrument creating a lien on an interest in depreciable
 24 personal property.
 25 (10) "State agency" means any board, commission,

1 department, public officer, or other agency or authority of
 2 the state.
 3 NEW SECTION. Section 4. Agricultural development
 4 board -- allocation -- composition -- quasi-judicial. (1)
 5 There is an agricultural development board.
 6 (2) The board consists of seven members appointed by
 7 the governor as provided in 2-15-124. The commissioner
 8 DIRECTOR of agriculture is an ex officio, voting member and
 9 the remaining members shall be informed and experienced in
 10 ranching, farming, economics, or finance.
 11 (3) The board is designated a quasi-judicial board for
 12 purposes of 2-15-124.
 13 (4) The board is allocated to the department of
 14 administration for administrative purposes only as provided
 15 in 2-15-121.
 16 (5) A member of the board may not be considered to
 17 have a conflict of interest under the provisions of 2-2-201
 18 merely because the member is a stockholder, officer, or
 19 employee of a lending institution that may participate in
 20 the board's programs.
 21 (6) The administrator and staff of the board of
 22 housing provided for in 2-15-1008(6) shall serve,
 23 respectively, as administrator and staff to the board.
 24 NEW SECTION. Section 5. General powers and duties of
 25 the board. (1) The board shall exercise diligence and care

1 in selection of projects to receive its assistance and shall
 2 apply customary and acceptable business and lending
 3 standards in selection and subsequent implementation of the
 4 projects.

5 (2) The board may:

6 (a) sue and be sued;

7 (b) have a seal;

8 (c) adopt all procedural and substantive rules
 9 necessary for the administration of [sections 1 through 21],
 10 including rules concerning its mortgage, construction, and
 11 temporary lending programs and maximum net worth standards
 12 for individuals eligible to participate in the programs
 13 pursuant to [sections 1 through 21];

14 (d) make contracts, agreements, and other instruments
 15 necessary or convenient for the exercise of its powers under
 16 [sections 1 through 21];

17 (e) enter into agreements or other transactions with
 18 any federal, state, or local governmental agency, any
 19 persons, and any domestic or foreign partnership,
 20 corporation, association, or organization in carrying out
 21 [sections 1 through 21];

22 (f) enter into agreements or other transactions with
 23 and accept grants and the cooperation of any governmental
 24 agency in furtherance of [sections 1 through 21];

25 (g) delegate primary responsibility for determination

1 and implementation of its projects to any federal
 2 governmental agency that assumes any obligation to repay the
 3 loan, either directly or by insurance or guarantee;

4 (h) accept services, appropriations, gifts, grants,
 5 bequests, and devise and utilize or dispose of them in
 6 carrying out [sections 1 through 21];

7 (i) acquire real or personal property or any right,
 8 interest, or easement therein by gift, purchase, transfer,
 9 foreclosure, lease, or otherwise; hold, sell, assign, lease,
 10 encumber, mortgage, or otherwise dispose thereof; hold,
 11 sell, assign, or otherwise dispose of any mortgage or loan
 12 owned by the board or in its control or custody; release or
 13 relinquish any right, title, claim, interest, easement, or
 14 demand, however acquired, including any equity or right of
 15 redemption; do any of the foregoing by public or private
 16 sale, with or without public bidding; commence any action to
 17 protect or enforce any right conferred upon it by any law,
 18 mortgage, contract, or other agreement; bid for and purchase
 19 property at any foreclosure or other sale or acquire or take
 20 possession of it in lieu of foreclosure; and operate,
 21 manage, lease, dispose of, and otherwise deal with such
 22 property in any manner necessary or desirable to protect the
 23 board's interests and the holders of its bonds or notes and
 24 consistent with any agreement with such holders;

25 (j) service, contract, and pay for the servicing of

1 loans;

2 (k) invest any funds not required for immediate use,
 3 subject to any agreements with its bondholders and
 4 noteholders, as provided in Title 17, chapter 6, except that
 5 all investment income from funds of the board less the cost
 6 for investment as prescribed by law shall be deposited in
 7 the agricultural account established in [section 6];

8 (l) consent, whenever it considers it necessary, to
 9 the modification of the rate of interest, time, and payment
 10 of any installment of principal or interest, security, or
 11 any other term of any contract, mortgage, mortgage loan,
 12 mortgage loan commitment, equipment or livestock loan, or
 13 agreement of any kind, subject to any agreement with
 14 bondholders and noteholders;

15 (m) collect reasonable interest, fees, and charges in
 16 connection with making and servicing its loans, notes,
 17 bonds, commitments, and other evidences of indebtedness;

18 (n) procure insurance against any loss in connection
 19 with its loans, mortgages, mortgage loans and other assets
 20 or property in amounts and from insurers as the board
 21 considers desirable or necessary; and

22 (o) issue notes and bonds and replace lost, destroyed,
 23 or mutilated notes and bonds.

24 NEW SECTION. Section 6. Accounts of the board. (1)
 25 There is an agricultural account in the bonds BOND proceeds

1 and insurance clearance fund provided for in 17-2-102(6).

2 All funds from the proceeds of bonds issued under the
 3 provisions of [sections 1 through 21], fees, and other money
 4 received by the board, money appropriated by the legislature
 5 for the use of the board in carrying out the provisions of
 6 [sections 1 through 21], and money made available from any
 7 other source for the use of the board shall be deposited in
 8 the agricultural account except where otherwise provided by
 9 law and except as necessary to maintain the capital reserve
 10 and revolving accounts. All funds deposited in the
 11 agricultural account are continuously appropriated to and
 12 may be expended by the board for the purposes authorized in
 13 [sections 1 through 21].

14 (2) There is a capital reserve account in the sinking
 15 fund provided for in 17-2-102(3). The capital reserve
 16 account consists of the aggregate of money retained by the
 17 board under existing agreements with bondholders as the
 18 minimum capital reserve requirement as described in 90-6-119
 19 for each bond issue sold by the board.

20 (3) There is a revolving account in the revolving fund
 21 provided for in 17-2-102(7). Funds appropriated by the
 22 legislature for use of the board in payment of expenses
 23 incurred in carrying out the provisions of [sections 1
 24 through 21] shall be deposited in the revolving account.
 25 Funds expended by the board under this subsection shall be

1 repaid by the board into the revolving account from the fees
2 and charges collected under the provisions of [sections 1
3 through 21] and from any other money available for such
4 repayment in accordance with [sections 1 through 21].

5 NEW SECTION. Section 7. Financing programs of the
6 board. The board may:

7 (1) make loans to lending institutions under terms and
8 conditions adopted by the board requiring the proceeds to be
9 used by the lending institution for the making of loans for
10 agricultural land and improvements in the state for persons
11 residing in the state;

12 (2) invest in, purchase or make commitments to
13 purchase, and take assignments from lending institutions of
14 notes, mortgages, and other securities for the acquisition,
15 construction, rehabilitation, or purchase of agricultural
16 land and improvements in this state, under terms and
17 conditions adopted by the board;

18 (3) make, undertake commitments to make, and
19 participate in the making of loans to persons residing in
20 the state for agricultural land and improvements when the
21 board determines that loans are not otherwise available,
22 wholly or in part, from private lenders upon reasonably
23 equivalent terms and conditions.

24 NEW SECTION. Section 8. Certain restrictions on
25 loans. The board may finance loans for agricultural land or

1 improvements under [sections 1 through 21] only when the
2 board finds that:

3 (1) private enterprise has not provided sufficient
4 financing for agricultural land and improvements on terms
5 sufficiently attractive to induce borrowers to proceed; and

6 (2) the purchase, acquisition, improvement, or
7 rehabilitation of the agricultural land or improvement will
8 be in the public interest.

9 NEW SECTION. Section 9. General provisions —
10 limitations — bonds and notes. (1) The board may by
11 resolution, from time to time, issue negotiable notes and
12 bonds in a principal amount as the board determines
13 necessary to provide sufficient funds for achieving any of
14 its purposes, including the payment of interest on notes and
15 bonds of the board, establishment of reserves to secure the
16 notes and bonds, and all other expenditures of the board
17 incident to and necessary or convenient to carry out
18 [sections 1 through 21].

19 (2) The board may by resolution, from time to time,
20 issue notes to renew notes and bonds to pay notes, including
21 interest, and whenever it considers refunding expedient,
22 refund any bonds by the issuance of new bonds, whether the
23 bonds to be refunded have or have not matured, and issue
24 bonds partly to refund bonds outstanding and partly for any
25 of its other purposes.

1 (3) Except as otherwise expressly provided by
 2 resolution of the board, every issue of its notes and bonds
 3 shall be obligations of the board payable out of any
 4 revenues, assets, or money of the board, subject only to
 5 agreements with the holders of particular notes or bonds
 6 pledging particular revenues, assets, or money.

7 (4) The notes and bonds shall be authorized by
 8 resolutions of the board, shall bear a date, and shall
 9 mature at times as the resolutions provide. A note may not
 10 mature more than 10 years and a bond may not mature more
 11 than 40 years from the date of its issue. The bonds may be
 12 issued as serial bonds payable in annual installments or as
 13 term bonds or as a combination thereof. Notes and bonds
 14 shall bear interest at a rate or rates, be in denominations,
 15 be in a form, either coupon or registered, carry
 16 registration privileges, be executed in a manner, be payable
 17 in a medium of payment, at places within or without the
 18 state, and be subject to terms of redemption as provided in
 19 resolutions of the board. The notes and bonds of the board
 20 may be sold at a public or private sale at prices that may
 21 be above or below par.

22 (5) The total amount of notes and bonds outstanding at
 23 any one time, except a note or bond as to which the board's
 24 obligation has been satisfied and discharged by refunding or
 25 for which reserve for payment or other means of payment have

1 been otherwise provided, may not exceed \$100 million.

2 NEW SECTION. Section 10. Provision of bond
 3 resolutions. A resolution authorizing any notes or bonds or
 4 any issue thereof may contain provisions that shall be a
 5 part of the contract or contracts with the holders thereof
 6 relating to:

7 (1) pledging all or any part of the revenues or
 8 property of the board to secure the payment of the notes or
 9 bonds or any issue thereof, subject to existing agreements
 10 with noteholders or bondholders;

11 (2) pledging all or any part of the assets of the
 12 board, including loans and mortgages, to secure the payment
 13 of notes or bonds or any issue thereof, subject to existing
 14 agreements with noteholders or bondholders;

15 (3) the use and disposition of the gross income from
 16 loans and mortgages owned by the board and payment of
 17 principal of mortgages owned by the board;

18 (4) the setting aside of reserves of sinking funds in
 19 the hands of trustees, paying agents, and other depositories
 20 and the regulation and disposition thereof;

21 (5) limitations on the purpose to which the proceeds
 22 of sale of notes or bonds may be applied and the pledge of
 23 the proceeds to secure the payment of the notes or bonds or
 24 any issue thereof;

25 (6) limitations on the issuance of additional notes or

1 bonds, the terms upon which additional notes or bonds may be
 2 issued and secured, and the refunding of outstanding notes
 3 or bonds;

4 (7) the procedure, if any, by which the terms of any
 5 contract with noteholders or bondholders may be amended or
 6 abrogated, the amount of notes or bonds the holders of which
 7 must consent thereto, and the manner in which such consent
 8 may be given;

9 (8) a commitment to employ adequate and competent
 10 personnel at reasonable compensation, salaries, fees, and
 11 charges as determined by the board in conjunction with the
 12 department of administration and to maintain suitable
 13 facilities and services for the purpose of carrying out its
 14 programs;

15 (9) vesting in a trustee property, rights, powers, and
 16 duties in trust as the board determines;

17 (10) defining the acts or omissions to act that
 18 constitute a default in the obligations and duties of the
 19 board to the holders of the notes or bonds and providing for
 20 the rights and remedies of the holders of the notes or bonds
 21 in the event of such default, including as a matter of right
 22 the appointment of a receiver. Rights and remedies may not
 23 be inconsistent with the laws of the state and the other
 24 provisions of [sections 1 through 21]; and

25 (11) any other matters of like or different character

1 that in any way affect the security or protection of the
 2 holders of the notes or bonds.

3 NEW SECTION. Section 11. Validity of pledge. A pledge
 4 made by the board is valid and binding from the time the
 5 pledge is made. The revenues, money, or property pledged and
 6 thereafter received by the board shall immediately be
 7 subject to the lien of the pledge without any physical
 8 delivery thereof or further act. The lien of any pledge
 9 shall be valid and binding against all parties having claims
 10 of any kind in tort, contract, or otherwise against the
 11 board, irrespective of whether such parties have notice
 12 thereof. Neither the resolution nor any other instrument by
 13 which a pledge is created need be recorded.

14 NEW SECTION. Section 12. Personal liability. The
 15 board members and employees of the state involved in the
 16 administration of [sections 1 through 21] are not personally
 17 liable or accountable by reason of the issuance of any bond
 18 or note issued by the board.

19 NEW SECTION. Section 13. Purchase of notes and bonds
 20 -- cancellation. The board, subject to existing agreements
 21 with noteholders or bondholders, may, out of any funds
 22 available for that reason, purchase notes or bonds of the
 23 board, which shall thereupon be canceled, at a price not
 24 exceeding:

25 (1) the current redemption price plus accrued interest

1 to the next interest payment thereon, if the notes or bonds
2 are then redeemable; or

3 (2) the redemption price applicable on the first date
4 after the purchase upon which the notes or bonds become
5 subject to redemption plus accrued interest to that date, if
6 the notes or bonds are not then redeemable.

7 NEW SECTION. Section 14. Trust indenture. (1) In the
8 discretion of the board, bonds may be secured by a trust
9 indenture between the board and a corporate trustee, which
10 may be a trust company or bank having the power of a trust
11 company within or without the state. A trust indenture may
12 contain provisions for protecting and enforcing the rights
13 and remedies of the bondholders that are reasonable and
14 proper and not in violation of law, including covenants
15 setting forth the duties of the board in relation to the
16 exercise of its powers and the custody, safeguarding, and
17 application of all money. The board may provide by a trust
18 indenture for the payment of the proceeds of the bonds and
19 the revenues to the trustee under the trust indenture of
20 another depository and for the method of disbursement, with
21 safeguards and restrictions it considers necessary.

22 (2) All expenditures incurred in carrying out a trust
23 indenture may be treated as part of the operating
24 expenditures of the board.

25 NEW SECTION. Section 15. Negotiability of bonds.

1 Notes and bonds issued by the board are negotiable
2 instruments under the Uniform Commercial Code, subject only
3 to the provisions for registration of notes and bonds.

4 NEW SECTION. Section 16. Signatures of board members.
5 In case any of the board members whose signatures appear on
6 notes or bonds or coupons cease to be members before the
7 delivery of the notes or bonds, their signatures shall,
8 nevertheless, be valid and sufficient for all purposes, the
9 same as if the members had remained in office until
10 delivery.

11 NEW SECTION. Section 17. Refunding obligations. (1)
12 The board may provide for the issuance of refunding
13 obligations for refunding any obligations then outstanding
14 that have been issued under [sections 1 through 21],
15 including the payment of any redemption premium and any
16 interest accrued or to accrue to the date of redemption of
17 the obligations. The issuance of obligations, the
18 maturities and other details, the rights of the holders, and
19 the rights, duties, and obligations of the board are
20 governed by the appropriate provisions of [sections 1
21 through 21] that relate to the issuance of obligations.

22 (2) Refunding obligations issued as provided in
23 subsection (1) may be sold or exchanged for outstanding
24 obligations issued under the provisions of [sections 1
25 through 21]. The proceeds may be applied to the purchase,

1 redemption, or payment of outstanding obligations. Pending
 2 the application of the proceeds of refunding obligations,
 3 with other available funds, to the payment of principal,
 4 accrued interest, and any redemption premium on the
 5 obligations being refunded and, if permitted in the
 6 resolution authorizing the issuance of the refunding
 7 obligations or in the trust agreement securing them, to the
 8 payment of interest on refunding obligations and expenses in
 9 connection with refunding, the proceeds may be invested as
 10 provided in Title 17, chapter 6.

11 NEW SECTION. Section 18. Credit of state not pledged.
 12 Obligations issued under the provisions of [sections 1
 13 through 21] do not constitute a debt or liability or
 14 obligation or a pledge of the faith and credit of the state
 15 but are payable solely from the revenues or assets of the
 16 board. An obligation issued under [sections 1 through 21]
 17 shall contain on the face thereof a statement to the effect
 18 that the state of Montana is not liable on the obligation
 19 and the obligation is not a debt of the state and neither
 20 the faith and credit nor the taxing power of the state is
 21 pledged to the payment of the principal of or the interest
 22 on the obligation.

23 NEW SECTION. Section 19. Annual audit. (1) The
 24 board's books and records must be audited at least once each
 25 fiscal year.

1 (2) The legislative auditor may at any time conduct an
 2 audit at the request of the legislative audit committee.

3 NEW SECTION. Section 20. Tax exemption of bonds.
 4 Bonds, notes, or other obligations issued by the board under
 5 the provisions of [sections 1 through 21], their transfers,
 6 and their income (including any profits made on their sale)
 7 are free from taxation by the state or any political
 8 subdivision or other instrumentality of the state, excepting
 9 inheritance, estate, and gift taxes. The board is not
 10 required to pay recording or transfer fees or taxes on
 11 instruments recorded by it.

12 NEW SECTION. Section 21. Pledge of the state. In
 13 accordance with the constitutions of the United States and
 14 the state of Montana, the state pledges that it will not in
 15 any way impair the obligations of any agreement between the
 16 board and the holders of notes and bonds issued by the
 17 board, including but not limited to an agreement to
 18 administer a loan program financed by the issuance of bonds
 19 and to employ a staff sufficient and competent for this
 20 purpose.

21 NEW SECTION. Section 22. Definitions. In [sections 23
 22 22 through 25], unless the context requires otherwise, the
 23 following definitions apply:

24 (1) "Agricultural purposes" means production of
 25 agricultural crops, livestock or livestock products, poultry

1 or poultry products, and fruit or other horticultural crops.

2 (2) "Beginning farmer" means any person who:

3 (a) is a resident of this state;

4 (b) receives more than half his annual income from
5 farming and has not initially commenced farming during the
6 tax year for which a deduction will be claimed under
7 [sections 23 through 25];

8 (c) intends to use any farmland that he wishes to
9 purchase or rent for agricultural purposes;

10 (d) has had adequate training, by experience or
11 education, in the type of farming operation that he wishes
12 to begin on the purchased or rented land referred to in
13 subsection (c);

14 (e) has a net worth, including the net worth of his
15 dependents and spouse, if any, of less than \$50,000
16 \$100,000, not including the value of their equity in their
17 principal residence, the value of one personal or family
18 motor vehicle, and the value of their household goods,
19 including furniture, appliances, musical instruments,
20 clothing, and other personal belongings.

21 (3) "Landowner" means an individual owning land in
22 Montana, except that an individual who acquires land for the
23 purpose of obtaining the income tax deduction provided for
24 in [sections 23 through 25] is not considered to be a
25 landowner.

1 NEW SECTION. Section 23. Income tax deduction for
2 land sale to beginning farmers. A landowner who sells land
3 consisting of 20 acres or more to a beginning farmer is
4 entitled to a deduction in his taxable income for the year
5 in which the sale occurred in an amount equal to 50% of any
6 income realized and otherwise subject to state income taxes
7 after consideration of any capital gains treatment, up to a
8 maximum of \$50,000.

9 NEW SECTION. Section 24. Rent from beginning farmers
10 deductible from income tax. Fifty percent of any income
11 received and otherwise subject to taxation for state income
12 tax purposes resulting from the rental of any land
13 consisting of 20 acres or more by a landowner to a beginning
14 farmer under any agreement providing for a lease for at
15 least 3 years is deductible from income taxes provided that
16 no landowner may deduct more than \$25,000 pursuant to this
17 section in any tax year, nor may any landlord claim this
18 deduction for agreements with more than one beginning farmer
19 for rentals on the same tract or parcel of land.

20 NEW SECTION. Section 25. Claim for income tax
21 deduction for land sale or rental to a beginning farmer. In
22 order for a taxpayer to qualify for the deductions provided
23 in [sections 23 and 24] the taxpayer must file with his
24 state income tax return a notarized statement from the
25 beginning farmer who purchased or rented land from him

1 containing a list of the assets, debts, and net worth of the
 2 beginning farmer, together with such other information as
 3 the department of revenue may require. The value placed on
 4 any real property located in Montana and owned by the buyer
 5 shall be the amount listed as the current market value on
 6 the most recent real estate tax statement for that
 7 particular piece of property. In order for a taxpayer to
 8 qualify for the deduction for rental income provided in
 9 [section 24], the taxpayer shall certify on his tax return
 10 that any rental arrangement with any other person was not
 11 canceled for the purpose of qualifying for this deduction.

12 Section 26. Section 15-30-121, MCA, is amended to
 13 read:

14 "15-30-121. Deductions allowed in computing net
 15 income. In computing net income, there are allowed as
 16 deductions:

17 (1) the items referred to in sections 161 and 211 of
 18 the Internal Revenue Code of 1954, or as sections 161 and
 19 211 shall be labeled or amended, subject to the following
 20 exceptions which are not deductible:

- 21 (a) items provided for in 15-30-123;
- 22 (b) state income tax paid;
- 23 (2) federal income tax paid within the taxable year;
- 24 (3) child and dependent care expenses determined in
 25 accordance with the provisions of section 214 of the

1 Internal Revenue Code of 1954 that were in effect for the
 2 taxable year that began January 1, 1974. However, the
 3 limitation set forth in section 214(e)(4) of the Internal
 4 Revenue Code of 1954 as that section was in effect for the
 5 taxable year that began January 1, 1974, applies only to
 6 payments made to a child of the taxpayer who is under 19
 7 years of age at the close of the taxable year and to
 8 payments made to an individual with respect to whom a
 9 deduction is allowable under 15-30-112(5) to the taxpayer or
 10 the taxpayer's spouse.

11 (4) that portion of an energy-related investment
 12 allowed as a deduction under 15-32-103;

13 (5) in the case of an individual, political
 14 contributions determined in accordance with the provisions
 15 of section 218(a) and (b) of the Internal Revenue Code that
 16 were in effect for the taxable year ended December 31,
 17 1978;

18 (6) items provided for in [sections 22 through 25]."

19 Section 27. Codification instruction. It is intended
 20 that sections 22 through 25 be codified in Title 15, chapter
 21 30, and the provisions of Title 15, chapter 30, apply to
 22 sections 22 through 25.

-End-