

HB 575 INTRODUCED BY KADAS
CLARIFY PROVISIONS OF INITIATIVE NO. 105 APPROVED BY
THE ELECTORS OF MONTANA

2/02 INTRODUCED
2/02 REFERRED TO TAXATION
2/03 FISCAL NOTE REQUESTED
2/10 FISCAL NOTE RECEIVED
2/12 HEARING
3/20 COMMITTEE REPORT--BILL PASSED AS AMENDED
3/24 2ND READING PASSED AS AMENDED 73 24
3/26 3RD READING PASSED 90 9

TRANSMITTED TO SENATE
3/27 REREFERRED TO TAXATION

DIED IN PROCESS

1 House BILL NO. 575
 2 INTRODUCED BY Kadua

3
 4 A BILL FOR AN ACT ENTITLED: "AN ACT TO CLARIFY PROVISIONS
 5 OF INITIATIVE NO. 105 APPROVED BY THE ELECTORS OF MONTANA;
 6 TO EXTEND THE PROVISIONS OF INITIATIVE NO. 105 TO ALL
 7 CLASSES OF PROPERTY; AND PROVIDING AN IMMEDIATE EFFECTIVE
 8 DATE, A RETROACTIVE APPLICABILITY DATE, AND A TERMINATION
 9 DATE."

10
 11 WHEREAS, the electors of Montana approved Initiative
 12 No. 105, limiting certain property taxes to 1986 levels
 13 unless the Legislature reduces property taxes prior to July
 14 1, 1987, and establishes alternative revenue sources; and

15 WHEREAS, Initiative No. 105 was not intended by its
 16 drafters and proponents to encompass the numerous
 17 interconnecting statutory provisions that would require
 18 amendment to facilitate implementation of the measure; and

19 WHEREAS, it is the intent of the Legislature to enact
 20 provisions compatible with the will of the electors in
 21 limiting certain property taxes to 1986 levels while
 22 providing procedures to enable the Department of Revenue and
 23 local government units to function smoothly under such
 24 limits.

25

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

2 Section 1. Declaration of policy -- clarification --
 3 extension to all property classes. [Section 1 of Initiative
 4 No. 105] is interpreted, clarified, and extended as follows:

5 (1) In order to avoid constitutional challenges based
 6 on discriminatory treatment of taxpayers in tax classes not
 7 enumerated in [Initiative No. 105], the limitation to 1986
 8 levels is extended to apply to all classes of property
 9 described in Title 15, chapter 6, part 1.

10 (2) The policy declaration in [subsection (5) of
 11 section 1 of Initiative No. 105] that no further property
 12 tax increases be imposed is interpreted to mean no further
 13 increase may be made in the tax rate applied to property in
 14 each class in 1986.

15 (3) No new class of property may be created solely to
 16 circumvent the policy underlying [Initiative No. 105]. If a
 17 new class of property is created in order to afford
 18 preferential treatment to a category of property, the
 19 taxable rate that applies may not exceed the rate at which
 20 such property was taxed in 1986.

21 Section 2. Property tax limited to 1986 levels --
 22 clarification -- extension to all property classes. [Section
 23 2 of Initiative No. 105] is interpreted and clarified as
 24 follows:

25 (1) The limitation to 1986 levels is extended to apply

1 to all classes of property described in Title 15, chapter 6,
2 part 1.

3 (2) The limitation on the amount of taxes levied is
4 interpreted to mean that the actual tax liability for an
5 individual property is capped at the dollar amount due in
6 each levy category for the 1986 tax year. In tax years
7 thereafter the property must be taxed in each levy category
8 at the 1986 cap or the product of the taxable value and
9 mills levied, whichever is less for each levy category.

10 (3) The limitation on the amount of taxes levied does
11 not mean that no further increase may be made in the total
12 taxable valuation of a taxing unit as a result of:

13 (a) annexation of real property and improvements into
14 a taxing unit;

15 (b) construction, expansion, or remodeling of
16 improvements;

17 (c) transfer of property from tax-exempt to taxable
18 status; or

19 (d) revaluations caused by:

20 (i) cyclical reappraisal; or

21 (ii) expansion, addition, replacement, or remodeling of
22 improvements.

23 (4) The limitation on the amount of taxes levied does
24 not mean that no further increase may be made in the taxable
25 valuation or in the actual tax liability on individual

1 property in each class as a result of:

2 (a) construction, expansion, replacement, or
3 remodeling of improvements that adds value to the property;

4 (b) annexation of the individual property into a new
5 taxing unit; or

6 (c) conversion of the individual property from
7 tax-exempt to taxable status.

8 (5) Property in classes four, twelve, and fourteen is
9 valued according to the procedures used in 1986, including
10 the designation of 1982 as the base year, until the
11 reappraisal cycle beginning January 1, 1986, is completed
12 and new valuations are placed on the tax rolls and a new
13 base year designated, if the property is:

14 (a) new construction;

15 (b) expanded, deleted, replaced, or remodeled
16 improvements;

17 (c) annexed property; or

18 (d) property converted from tax-exempt to taxable
19 status.

20 (6) Property described in subsections (5)(a) through
21 (5)(d) that is not class four, class twelve, or class
22 fourteen property is valued according to the procedures used
23 in 1986 but is also subject to the dollar cap in each levy
24 category based on 1986 mills levied.

25 (7) The limitation on the amount of taxes, as

1 clarified in this section, is intended to leave the property
 2 appraisal and valuation methodology of the department of
 3 revenue intact. Determinations of county classifications,
 4 salaries of local government officers, and all other matters
 5 in which total taxable valuation is an integral component
 6 are not affected by [Initiative No. 105], except for the use
 7 of taxable valuation in fixing tax levies. In fixing tax
 8 levies, the taxing units of local government may anticipate
 9 the deficiency in revenues resulting from the tax
 10 limitations in [Initiative No. 105], while understanding
 11 that regardless of the amount of mills levied, a taxpayer's
 12 liability may not exceed the dollar amount due in each levy
 13 category for the 1986 tax year.

14 (8) The limitation on the amount of taxes levied does
 15 not apply to the following levy or special assessment
 16 categories, whether or not they are based on commitments
 17 made before or after approval of [Initiative No. 105]:

- 18 (a) rural improvement districts;
- 19 (b) special improvement districts;
- 20 (c) levies pledged for the repayment of bonded
- 21 indebtedness, including tax increment bonds;
- 22 (d) city street maintenance districts;
- 23 (e) satisfaction of judgments against a taxing unit;
- 24 (f) electric company street lighting assessments; and
- 25 (g) revolving funds to support any categories

1 specified in this subsection (8).

2 Section 3. Codification instruction. Sections 1 and 2
 3 are intended to be codified as an integral part of Title 15,
 4 chapter 10, and the provisions of Title 15, chapter 10,
 5 apply to sections 1 and 2.

6 Section 4. Extension of authority. Any existing
 7 authority of the department of revenue to make rules on the
 8 subject of the provisions of this act is extended to the
 9 provisions of this act.

10 Section 5. Effective date -- applicability. (1) This
 11 act is effective on passage and approval.

12 (2) This act applies retroactively, within the meaning
 13 of 1-2-109, to taxable years beginning after December 31,
 14 1986.

15 Section 6. Termination. This act terminates December
 16 31, 1989.

-End-

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB575, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act to clarify the provisions of Initiative No. 105 approved by the electors of Montana; to extend the provisions of Initiative No. 105 to all classes of property; and providing an immediate effective date, a retroactive applicability date, and a termination date.

FISCAL IMPACT:

The fiscal impact of the proposed legislation cannot be estimated. The proposal freezes the amount of taxes levied at the 1986 level on all classes of property. The amount of taxes levied would be frozen at the 1986 level. If the tax base of a taxing jurisdiction is decreased due to deletions of property, revenue would be decreased to that jurisdiction. If the tax base of a taxing jurisdiction is increased due to new construction or the addition of property, the revenues would be increased by the 1986 taxes levied applied to the additional property. If the tax base remains the same, the taxing jurisdiction would collect the same amount of revenue. At the state level, the university levy and school foundation program revenues would be dependent upon the taxable valuation of the state. If the taxable valuation decreases, revenue would decline; if the taxable valuation increases due to new construction or additional property, revenue would too; and if the valuation remains constant, revenues would remain the same.

TECHNICAL OR MECHANICAL DEFECTS IN PROPOSED LEGISLATION OR CONFLICTS WITH EXISTING LEGISLATION:

This proposal would affect property tax revenue in FY87. A significant share of taxes on personal property are due and payable prior to June 30, 1987. Accordingly, this revenue has been included in local government budgets for FY87. This proposal would jeopardize revenue that has already been budgeted. The proposal fails to address changes in the valuation of mineral proceeds caused by changes in the volume of production or the price of minerals from year to year. Taxes on mineral proceeds would be limited to 1986 levels, but the proposal is silent on how that limit would operate in practice. Because of the annual fluctuations in the value and quantity of minerals, a precise mechanism is needed to implement any kind of limit on mineral property tax.

David L. Hunter DATE 2/9/87
DAVID L. HUNTER, BUDGET DIRECTOR
Office of Budget and Program Planning

Mike Kadas DATE 2-11-87
MIKE KADAS, PRIMARY SPONSOR

Fiscal Note for HB575, as introduced.

HB 575

APPROVED BY COMMITTEE
ON TAXATION

HOUSE BILL NO. 575
INTRODUCED BY KADAS

A BILL FOR AN ACT ENTITLED: "AN ACT TO CLARIFY PROVISIONS OF INITIATIVE NO. 105 APPROVED BY THE ELECTORS OF MONTANA; TO EXTEND THE PROVISIONS OF INITIATIVE NO. 105 TO ALL CLASSES OF PROPERTY; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE, A RETROACTIVE APPLICABILITY DATE, AND A TERMINATION DATE."

WHEREAS, the electors of Montana approved Initiative No. 105, limiting certain property taxes to 1986 levels unless the Legislature reduces property taxes prior to July 1, 1987, and establishes alternative revenue sources; and

WHEREAS, Initiative No. 105 was not intended by its drafters and proponents to encompass the numerous interconnecting statutory provisions that would require amendment to facilitate implementation of the measure; and

WHEREAS, it is the intent of the Legislature to enact provisions compatible with the will of the electors in limiting certain property taxes to 1986 levels while providing procedures to enable the Department of Revenue and local government units to function smoothly under such limits.

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

Section 1. Declaration of policy -- clarification -- extension to all property classes. [Section 1 of Initiative No. 105] is interpreted, clarified, and extended as follows:

(1) In order to avoid constitutional challenges based on discriminatory treatment of taxpayers in tax classes not enumerated in [Initiative No. 105], the limitation to 1986 levels is extended to apply to all classes of property described in Title 15, chapter 6, part 1.

(2) The policy declaration in [subsection (5) of section 1 of Initiative No. 105] that no further property tax increases be imposed is interpreted to mean no further increase may be made in the tax rate applied to property in each class in 1986.

(3) No new class of property may be created solely to circumvent the policy underlying [Initiative No. 105]. If a new class of property is created in order to afford preferential treatment to a category of property, the taxable rate that applies may not exceed the rate at which such property was taxed in 1986.

Section 2. Property tax limited to 1986 levels -- clarification -- extension to all property classes. [Section 2 of Initiative No. 105] is interpreted and clarified as follows:

(1) The limitation to 1986 levels is extended to apply

1 to all classes of property described in Title 15, chapter 6,
2 part 1.

3 (2) The limitation on the amount of taxes levied is
4 interpreted to mean that the actual tax liability for an
5 individual property is capped at the dollar amount due in
6 each levy-category TAXING UNIT for the 1986 tax year. In tax
7 years thereafter the property must be taxed in each levy
8 category TAXING UNIT at the 1986 cap or the product of the
9 taxable value and mills levied, whichever is less for each
10 levy-category TAXING UNIT.

11 (3) The limitation on the amount of taxes levied does
12 not mean that no further increase may be made in the total
13 taxable valuation of a taxing unit as a result of:

14 (a) annexation of real property and improvements into
15 a taxing unit;

16 (b) construction, expansion, or remodeling of
17 improvements;

18 (c) transfer of property from tax-exempt to taxable
19 status; or

20 (d) revaluations caused by:

21 (i) cyclical reappraisal; or

22 (ii) expansion, addition, replacement, or remodeling of
23 improvements.

24 (4) The limitation on the amount of taxes levied does
25 not mean that no further increase may be made in the taxable

1 valuation or in the actual tax liability on individual
2 property in each class as a result of:

3 (a) construction, expansion, replacement, or
4 remodeling of improvements that adds value to the property;

5 (b) annexation of the individual property into a new
6 taxing unit; or

7 (c) conversion of the individual property from
8 tax-exempt to taxable status.

9 (5) Property in classes four, twelve, and fourteen is
10 valued according to the procedures used in 1986, including
11 the designation of 1982 as the base year, until the
12 reappraisal cycle beginning January 1, 1986, is completed
13 and new valuations are placed on the tax rolls and a new
14 base year designated, if the property is:

15 (a) new construction;

16 (b) expanded, deleted, replaced, or remodeled
17 improvements;

18 (c) annexed property; or

19 (d) property converted from tax-exempt to taxable
20 status.

21 (6) Property described in subsections (5)(a) through
22 (5)(d) that is not class four, class twelve, or class
23 fourteen property is valued according to the procedures used
24 in 1986 but is also subject to the dollar cap in each levy
25 category TAXING UNIT based on 1986 mills levied.

1 (7) The limitation on the amount of taxes, as
 2 clarified in this section, is intended to leave the property
 3 appraisal and valuation methodology of the department of
 4 revenue intact. Determinations of county classifications,
 5 salaries of local government officers, and all other matters
 6 in which total taxable valuation is an integral component
 7 are not affected by [Initiative No. 105], except for the use
 8 of taxable valuation in fixing tax levies. In fixing tax
 9 levies, the taxing units of local government may anticipate
 10 the deficiency in revenues resulting from the tax
 11 limitations in [Initiative No. 105], while understanding
 12 that regardless of the amount of mills levied, a taxpayer's
 13 liability may not exceed the dollar amount due in each ~~levy~~
 14 category TAXING UNIT for the 1986 tax year UNLESS THE TAXING
 15 UNIT'S TAXABLE VALUATION DECREASES BY 5% OR MORE FROM THE
 16 PREVIOUS TAX YEAR. IF A TAXING UNIT'S TAXABLE VALUATION
 17 DECREASES BY 5% OR MORE FROM THE PREVIOUS TAX YEAR, IT MAY
 18 LEVY ADDITIONAL MILLS TO COMPENSATE FOR THE DECREASED
 19 TAXABLE VALUATION, BUT IN NO CASE MAY THE MILLS LEVIED
 20 EXCEED A NUMBER CALCULATED TO EQUAL THE REVENUE FROM
 21 PROPERTY TAXES FOR THE 1986 TAX YEAR IN THAT TAXING UNIT.

22 (8) The limitation on the amount of taxes levied does
 23 not apply to the following levy or special assessment
 24 categories, whether or not they are based on commitments
 25 made before or after approval of [Initiative No. 105]:

- 1 (a) rural improvement districts;
- 2 (b) special improvement districts;
- 3 (c) levies pledged for the repayment of bonded
- 4 indebtedness, including tax increment bonds;
- 5 (d) city street maintenance districts;
- 6 (E) TAX INCREMENT FINANCING DISTRICTS;
- 7 ~~(e)~~(F) satisfaction of judgments against a taxing
- 8 unit;
- 9 ~~(f)~~(G) electric company street lighting assessments;
- 10 and
- 11 ~~(g)~~(H) revolving funds to support any categories
- 12 specified in this subsection (8).

13 Section 3. Codification instruction. Sections 1 and 2
 14 are intended to be codified as an integral part of Title 15,
 15 chapter 10, and the provisions of Title 15, chapter 10,
 16 apply to sections 1 and 2.

17 Section 4. Extension of authority. Any existing
 18 authority of the department of revenue to make rules on the
 19 subject of the provisions of this act is extended to the
 20 provisions of this act.

21 Section 5. Effective date -- applicability. (1) This
 22 act is effective on passage and approval.

23 (2) This act applies retroactively, within the meaning
 24 of 1-2-109, to taxable years beginning after December 31,
 25 1986.

HB 0575/02

1 Section 6. Termination. This act terminates December
2 31, 1989.

-End-

1 HOUSE BILL NO. 575

2 INTRODUCED BY KADAS

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4 A BILL FOR AN ACT ENTITLED: "AN ACT TO CLARIFY PROVISIONS
5 OF INITIATIVE NO. 105 APPROVED BY THE ELECTORS OF MONTANA;
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7 CLASSES OF PROPERTY; AND PROVIDING AN IMMEDIATE EFFECTIVE
8 DATE, A RETROACTIVE APPLICABILITY DATE, AND A TERMINATION
9 DATE."

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11 WHEREAS, the electors of Montana approved Initiative
12 No. 105, limiting certain property taxes to 1986 levels
13 unless the Legislature reduces property taxes prior to July
14 1, 1987, and establishes alternative revenue sources; and

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16 drafters and proponents to encompass the numerous
17 interconnecting statutory provisions that would require
18 amendment to facilitate implementation of the measure; and

19 WHEREAS, it is the intent of the Legislature to enact
20 provisions compatible with the will of the electors in
21 limiting certain property taxes to 1986 levels while
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7 years thereafter the property must be taxed in each levy
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9 taxable value and mills levied, whichever is less for each
10 levy-category TAXING UNIT.

11 (3) The limitation on the amount of taxes levied does
12 not mean that no further increase may be made in the total
13 taxable valuation of a taxing unit as a result of:

14 (a) annexation of real property and improvements into
15 a taxing unit;

16 (b) construction, expansion, or remodeling of
17 improvements;

18 (C) TRANSFER OF PROPERTY INTO A TAXING UNIT;

19 (D) SUBDIVISION OF REAL PROPERTY;

20 (E) RECLASSIFICATION OF PROPERTY;

21 (F) INCREASES IN THE AMOUNT OF PRODUCTION OR THE VALUE
22 OF PRODUCTION FOR PROPERTY DESCRIBED IN 15-6-131 OR
23 15-6-132;

24 (G) transfer of property from tax-exempt to taxable
25 status; or

1 ~~(d)~~(H) revaluations caused by:

2 (i) cyclical reappraisal; or

3 (ii) expansion, addition, replacement, or remodeling of
4 improvements.

5 (4) The limitation on the amount of taxes levied does
6 not mean that no further increase may be made in the taxable
7 valuation or in the actual tax liability on individual
8 property in each class as a result of:

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10 remodeling of improvements that adds value to the property;

11 (B) TRANSFER OF PROPERTY INTO A TAXING UNIT;

12 (C) RECLASSIFICATION OF PROPERTY;

13 (D) INCREASES IN THE AMOUNT OF PRODUCTION OR THE VALUE
14 OF PRODUCTION FOR PROPERTY DESCRIBED IN 15-6-131 OR
15 15-6-132;

16 ~~(b)~~(E) annexation of the individual property into a
17 new taxing unit; or

18 ~~(c)~~(F) conversion of the individual property from
19 tax-exempt to taxable status.

20 (5) Property in classes four, twelve, and fourteen is
21 valued according to the procedures used in 1986, including
22 the designation of 1982 as the base year, until the
23 reappraisal cycle beginning January 1, 1986, is completed
24 and new valuations are placed on the tax rolls and a new
25 base year designated, if the property is:

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 2 (b) expanded, deleted, replaced, or remodeled
 3 improvements;
 4 (c) annexed property; or
 5 (d) property converted from tax-exempt to taxable
 6 status.
 7 (6) Property described in subsections (5)(a) through
 8 (5)(d) that is not class four, class twelve, or class
 9 fourteen property is valued according to the procedures used
 10 in 1986 but is also subject to the dollar cap in each levy
 11 category TAXING UNIT based on 1986 mills levied.
 12 (7) The limitation on the amount of taxes, as
 13 clarified in this section, is intended to leave the property
 14 appraisal and valuation methodology of the department of
 15 revenue intact. Determinations of county classifications,
 16 salaries of local government officers, and all other matters
 17 in which total taxable valuation is an integral component
 18 are not affected by [Initiative No. 105], except for the use
 19 of taxable valuation in fixing tax levies. In fixing tax
 20 levies, the taxing units of local government may anticipate
 21 the deficiency in revenues resulting from the tax
 22 limitations in [Initiative No. 105], while understanding
 23 that regardless of the amount of mills levied, a taxpayer's
 24 liability may not exceed the dollar amount due in each levy
 25 category TAXING UNIT for the 1986 tax year UNLESS THE TAXING

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 2 PREVIOUS TAX YEAR. IF A TAXING UNIT'S TAXABLE VALUATION
 3 DECREASES BY 5% OR MORE FROM THE PREVIOUS TAX YEAR, IT MAY
 4 LEVY ADDITIONAL MILLS TO COMPENSATE FOR THE DECREASED
 5 TAXABLE VALUATION, BUT IN NO CASE MAY THE MILLS LEVIED
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 7 PROPERTY TAXES FOR THE 1986 TAX YEAR IN THAT TAXING UNIT.
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 9 not apply to the following levy or special assessment
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 15 indebtedness, including tax increment bonds;
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 25 are intended to be codified as an integral part of Title 15,

1 chapter 10, and the provisions of Title 15, chapter 10,
2 apply to sections 1 and 2.

3 Section 4. Extension of authority. Any existing
4 authority of the department of revenue to make rules on the
5 subject of the provisions of this act is extended to the
6 provisions of this act.

7 Section 5. Effective date -- applicability. (1) This
8 act is effective on passage and approval.

9 (2) This act applies retroactively, within the meaning
10 of 1-2-109, to taxable years beginning after December 31,
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12 Section 6. Termination. This act terminates December
13 31, 1989.

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