HOUSE BILL 992

Introduced by Raney

3/14	Introduced
3/14	Referred to Taxation
3/14	First Reading
3/14	Fiscal Note Requested
3/20	Fiscal Note Received
3/21	Fiscal Note Printed
3/27	Hearing
3/27	Tabled in Committee

House BILL NO. 992

INTRODUCED BY Raney

A BILL FOR AN ACT ENTITLED: "AN ACT ESTABLISHING FUEL ECONOMY STANDARDS FOR NEW STATE VEHICLES; ESTABLISHING A PILOT PROJECT TO PURCHASE AND TEST ALTERNATIVE-FUELED STATE VEHICLES; PROVIDING A PORTION OF COAL SEVERANCE TAX FUNDS TO THE ALTERNATIVE ENERGY AND ENERGY CONSERVATION GRANTS AND LOANS PROGRAM FOR ETHANOL AND VEGETABLE OIL RESEARCH, DEVELOPMENT, AND DEMONSTRATION; CLARIFYING THAT THE SALE OF NATURAL GAS AS A VEHICLE TRANSPORTATION FUEL IS NOT SUBJECT TO UTILITY REGULATION; REVISING THE DEFINITION OF STRIPPER WELLS AND EXEMPTING THE FIRST 5 BARRELS OF AVERAGE DAILY PRODUCTION FROM THE STATE SEVERANCE TAX IF THE MONTHLY PRICE OF CRUDE OIL IS LESS THAN $25 PER BARREL; AMENDING SECTIONS 15-35-108, 15-36-121, 69-3-101, AND 90-4-106, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

WHEREAS, improved efficiency in the consumption of petroleum is necessary in order to reduce the nation's dependence on foreign oil; and

WHEREAS, light duty vehicles, including automobiles, small pickup trucks, and vans, are significant users of products derived from petroleum; and

WHEREAS, vehicle manufacturers have been very successful in increasing vehicle fuel efficiency over the past 15 years, but current federal law does not require improvement above a standard of 27.5 miles per gallon, which became effective in 1985; and

WHEREAS, increased fuel efficiency is possible using currently available technology and without significant changes in the size, mix, or performance of the nation's vehicle fleet; and

WHEREAS, the Senate and the House of Representatives of the State of Montana support the adoption of federal legislation requiring vehicle manufacturers to improve vehicle fuel efficiency.

STATEMENT OF INTENT

It is the intent of the legislature in reinstating funding for the alternative energy and energy conservation research, development, and demonstration program that the department of natural resources and conservation should spend the funds on technologies and projects with high potential to improve and enhance the economics and availability of alternative transportation fuels, including ethanol and vegetable oils. The legislature does not intend for the department to reestablish an unsolicited grants and loans program. Consistent with the requirements of 90-4-106,

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the department is authorized to award funds for research, development, and demonstration to those technologies and projects that have the highest potential to fulfill the statutory objectives of the program.

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

NEW SECTION. **Section 1. Motor vehicle purchases -- fuel economy requirement -- exemption.** (1) Except as provided in subsection (2), automobiles and light duty trucks with a cargo rating of three-quarters of a ton or less that are purchased by a state agency on or after the following dates must meet or exceed the following fleet average mileage ratings:

(a) on and after January 1, 1993, at least 29 miles per gallon combined city and highway gas mileage rating for cars and at least 24 miles per gallon combined city and highway gas mileage rating for light duty trucks;

(b) on and after January 1, 1997, at least 38 miles per gallon combined city and highway gas mileage rating for cars and at least 30 miles per gallon combined city and highway gas mileage rating for light duty trucks; and

(c) on and after January 1, 2000, at least 45 miles per gallon combined city and highway gas mileage rating for cars and at least 35 miles per gallon combined city and highway gas mileage rating for light duty trucks.

LC 1765/01

(2) The provisions of subsection (1) do not apply to the purchase of vehicles for use in law enforcement.

(3) The fleet average mileage rating must be based on the manufacturer's estimated mileage ratings for each vehicle purchased on or after the dates specified in subsection (1).

NEW SECTION. **Section 2. Pilot project -- alternative-fueled state vehicles.** (1) The department of natural resources and conservation, in cooperation with the department of administration and the department of highways, shall design and implement a pilot project to purchase, demonstrate, and test up to five state vehicles that have the capability to use one or more alternative fuels derived from sources other than petroleum, including but not limited to ethanol, methanol, vegetable oil, natural gas, electricity, and hydrogen.

(2) The department of natural resources and conservation shall report the results of the pilot project to the 1993 legislature, including a comparison of the costs of purchasing and operating the alternative-fueled vehicles and vehicles that use petroleum-derived fuels, the rationale for the choice of the alternative fuel technology or technologies that are tested, vehicle performance, and other factors related to the economics and viability of alternative-fueled vehicles.

(3) The department shall submit to the 1993 legislature findings and recommendations concerning the desirability of expanding the number of vehicles in the state fleet that are capable of using alternative fuels.

Section 3. Section 15-35-108, MCA, is amended to read:

"**15-35-108. (Temporary) Disposal of severance taxes.** Severance taxes collected under this chapter must be allocated according to the provisions in effect on the date the tax is due under 15-35-104. Severance taxes collected under the provisions of this chapter are allocated as follows:

(1) To the trust fund created by Article IX, section 5, of the Montana constitution, 50% of total coal severance tax collections. The trust fund moneys shall be deposited in the fund established under 17-6-203~~(5)~~(6) and invested by the board of investments as provided by law.

(2) Starting July 1, 1987, and ending June 30, 1993, 12% of coal severance tax collections are allocated to the highway reconstruction trust fund account in the state special revenue fund.

(3) Coal severance tax collections remaining after the allocations provided by subsections (1) and (2) are allocated in the following percentages of the remaining balance:

(a) 17.5% to the credit of the local impact account.

Unencumbered funds remaining in the local impact account at the end of each biennium are allocated to the state special revenue fund for state equalization aid to public schools of the state.

(b) 30% to the state special revenue fund for state equalization aid to public schools of the state;

(c) 1% to the state special revenue fund to the credit of the county land planning account;

(d) 1 1/4% to the credit of the renewable resource development bond fund;

(e) 5% to a nonexpendable trust fund for the purpose of parks acquisition or management, protection of works of art in the state capitol, and other cultural and aesthetic projects. Income from this trust fund shall be appropriated as follows:

(i) 1/3 for protection of works of art in the state capitol and other cultural and aesthetic projects; and

(ii) 2/3 for the acquisition, development, operation, and maintenance of any sites and areas described in 23-1-102;

(f) 1% to the state special revenue fund to the credit of the state library commission for the purposes of providing basic library services for the residents of all counties through library federations and for payment of the costs of participating in regional and national networking;

(g) 1/2 of 1% to the state special revenue fund for conservation districts;

(h) 1 1/4% to the debt service fund type to the credit of the water development debt service fund;

(i) 2% to the state special revenue fund for the Montana Growth Through Agriculture Act;

(j) 1% to the state special revenue fund to the credit of the alternative energy and energy conservation research development and demonstration account;

(k) all other revenues from severance taxes collected under the provisions of this chapter to the credit of the general fund of the state. (Terminates July 1, 1993--sec. 7, Ch. 541, L. 1983.)

15-35-108. (Effective July 1, 1993) Disposal of severance taxes. Severance taxes collected under this chapter must be allocated according to the provisions in effect on the date the tax is due under 15-35-104. Severance taxes collected under the provisions of this chapter are allocated as follows:

(1) To the trust fund created by Article IX, section 5, of the Montana constitution, 50% of total coal severance tax collections. The trust fund moneys shall be deposited in the fund established under 17-6-203~~(5)~~(6) and invested by the board of investments as provided by law.

(2) Coal severance tax collections remaining after

allocation to the trust fund under subsection (1) are allocated in the following percentages of the remaining balance:

(a) 17.5% to the credit of the local impact account. Unencumbered funds remaining in the local impact account at the end of each biennium are allocated to the state special revenue fund for state equalization aid to public schools of the state.

(b) 30% to the state special revenue fund for state equalization aid to public schools of the state;

(c) 1% to the state special revenue fund to the credit of the county land planning account;

(d) 1 1/4% to the credit of the renewable resource development bond fund;

(e) 5% to a nonexpendable trust fund for the purpose of parks acquisition or management, protection of works of art in the state capitol, and other cultural and aesthetic projects. Income from this trust fund shall be appropriated as follows:

(i) 1/3 for protection of works of art in the state capitol and other cultural and aesthetic projects; and

(ii) 2/3 for the acquisition, development, operation, and maintenance of any sites and areas described in 23-1-102;

(f) 1% to the state special revenue fund to the credit of the state library commission for the purposes of providing basic library services for the residents of all counties through library federations and for payment of the costs of participating in regional and national networking;

(g) 1/2 of 1% to the state special revenue fund for conservation districts;

(h) 1 1/4% to the debt service fund type to the credit of the water development debt service fund;

(i) 2% to the state special revenue fund for the Montana Growth Through Agriculture Act;

(j) 1% to the state special revenue fund to the credit of the alternative energy and energy conservation research development and demonstration account;

(k) all other revenues from severance taxes collected under the provisions of this chapter to the credit of the general fund of the state."

Section 4. Section 90-4-106, MCA, is amended to read:

"**90-4-106. Criteria for grant or loan awards.** The department may award grants or loans to applicants under 90-4-105 in accordance with the following criteria:

(1) A grant may cover a period exceeding 1 year, provided that all funds for the grant must be encumbered or accrued from the program appropriation for the year the grant is authorized.

(2) The department may give preference to projects

which are also supported by funding from the federal government or other persons, provided the projects are consistent with the other objectives of the department. The purpose of this preference is to use the alternative energy and energy conservation research development and demonstration account for matching moneys in order to support more substantial research or commercialization.

(3) The department may give preference to research centers unattached to existing educational institutions where several investigators can share supporting services. However, this shall not be interpreted to prohibit the department from awarding grants or loans to existing educational institutions.

(4) The department may give preference to research centers which make information available to individuals, small businesses, and small communities seeking the use of renewable energy sources and energy conservation in their homes, plants, places of business, and small communities.

(5) All information resulting from such research shall be made available to the public.

(6) The department may expend or commit available alternative energy and energy conservation research development and demonstration funds. The department may commit funds for demonstration purposes only when in its judgment such expenditures or commitments have good

potential for producing savings of nonrenewable energy sources. The department may not commit funds for demonstration purposes when any of the following conditions are present:

(a) previous commitments of a similar nature were not productive;

(b) a similar demonstration has been conducted within close geographic proximity of the geographic location of the proposed demonstration project, other than a project proposed for funding under 90-4-109;

(c) the proposed demonstration project would not further the purpose of this part.

(7) The department shall give preference to projects that promote the use of alternative transportation fuels, including but not limited to projects that:

(a) improve the economics of ethanol production and use, including the economics of other products that are created by the ethanol production process; and

(b) improve the economics of vegetable oil production and the availability of vegetable oil for pollution control purposes and for use as a fuel extender or petrochemical feedstock and other uses presently served by petroleum-derived fuels."

Section 5. Section 69-3-101, MCA, is amended to read:

"**69-3-101. Meaning of term "public utility".** (1) The term "public utility", within the meaning of this chapter, shall embrace every corporation, both public and private, company, individual, association of individuals, their lessees, trustees, or receivers appointed by any court whatsoever, that now or hereafter may own, operate, or control any plant or equipment, any part of a plant or equipment, or any water right within the state for the production, delivery, or furnishing for or to other persons, firms, associations, or corporations, private or municipal:

(a) heat;

(b) street-railway service;

(c) light;

(d) power in any form or by any agency, except the sale of natural gas as a vehicle transportation fuel;

(e) except as provided in chapter 7, water for business, manufacturing, household use, or sewerage service, whether within the limits of municipalities, towns, and villages or elsewhere;

(f) regulated telecommunications service.

(2) The term "public utility" does not include:

(a) privately owned and operated water, sewer, or combination systems that do not serve the public;

(b) county or consolidated city and county water or sewer districts as defined in Title 7, chapter 13, parts 22 and 23; or

(c) a person exempted from regulation as a public utility as provided in 69-3-111."

Section 6. Section 15-36-121, MCA, is amended to read:

"**15-36-121. Exemption from state severance tax -- imposition of local government severance tax.** (1) It is the public policy of this state to promote a sufficient supply of natural gas to provide for the residents of this state, to lessen Montana's dependence on imported natural gas, and to encourage the exploration for and development and production of natural gas, petroleum, and other mineral and crude oil within the state.

(2) All the natural gas produced from any well that has produced 60,000 cubic feet or less of natural gas a day for the calendar year prior to the current year shall be taxed as provided in this section. Production must be determined by dividing the amount of production from a lease or unitized area for the year prior to the current calendar year by the number of producing wells in the lease or unitized area and by dividing the resulting quotient by 365. The first 30,000 cubic feet of average daily production per well is exempt from all of the state severance tax imposed by 15-36-101. The first 30,000 cubic feet of average daily production per well is subject to a local government severance tax of 10%. Everything over 30,000 cubic feet of gas produced is taxed at 1.59% plus a local government

severance tax of 10%.

(3) If the monthly price of oil is less than $25 per barrel, then the first 5 barrels of average daily production from a stripper well are exempt from all of the state severance tax imposed by 15-36-101 but not from the local government severance tax. The monthly price of oil is the price of west Texas intermediate crude oil as reported in the Wall Street Journal in the first edition published during the month.

~~(3)~~(4) (a) For the purposes of this section, "stripper well" means a well that produces less than:

(i) 10 barrels per day~~,~~ if the well is less than 6,000 feet deep;

(ii) 15 barrels per day if the well is 6,000 feet deep or deeper but less than 10,000 feet deep; and

(iii) 20 barrels per day if the well is 10,000 feet deep or deeper.

(b) The number of barrels per day is determined by dividing the amount of production from a lease or unitized area for the year prior to the current calendar year by the number of producing wells in the lease or unitized area, and by dividing the resulting quotient by 365.

~~(4)~~(5) Notwithstanding the provisions of subsection (2), all reporting requirements under the state severance tax remain in effect."

<u>NEW SECTION.</u> **Section 7. Codification instruction.** [Section 1] is intended to be codified as an integral part of Title 2, chapter 17, part 4, and the provisions of Title 2, chapter 17, part 4, apply to [section 1].

<u>NEW SECTION.</u> **Section 8. Retroactive applicability.** [Section 6] applies retroactively, within the meaning of 1-2-109, to all oil and gas produced during quarters beginning on or after January 1, 1991.

<u>NEW SECTION.</u> **Section 9. Effective date.** [This act] is effective on passage and approval.

-End-

STATE OF MONTANA - FISCAL NOTE

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB0992, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act establishing fuel economy standards for new state vehicles; establishing a pilot project to purchase and test alternative-fueled state vehicles; providing a portion of coal severance tax funds to the alternative energy and energy conservation grants and loans program for ethanol and vegetable oil research, development, and demonstration; clarifying that the sale of natural gas as a vehicle transportation fuel is not subject to utility regulation; revising the definition of stripper wells and exempting the first 5 barrels of average daily production from the state severance tax if the monthly price of crude oil is less than $25 per barrel; and providing an immediate effective date and a retroactive applicability date.

ASSUMPTIONS:

1. Total coal severance tax receipts will be $38,595,000 in FY92 and $37,109,000 in FY93 (OBPP).
2. 90.0365% of stripper oil production after January 1, 1991 will be exempt from the state severance tax because of the "first five barrels" exemption (OBPP).
3. Stripper oil production will be 389,500 barrels in the last quarter of FY91, 1,476,000 barrels in FY92 and 1,388,000 barrels in FY93 (OBPP).
4. The price of oil will be $24.71 in FY91, $24.11 in FY92 and $21.40 in FY93 (OBPP).
5. Oil severance tax receipts, under current law, will be $19,147,000 in FY91, $20,947,000 in FY92 and $17,476,000 in FY93 (OBPP).
6. The oil severance tax rate, under current law, is 5%. (MCA 15-35-101).
7. Under current law, 100% of oil severance taxes are deposited in the state's general fund.
8. The fiscal impact of the provisions for new fuel economy standards and purchasing and testing of alternative-fueled state vehicles cannot be estimated.

FISCAL IMPACT:

See next page

Rod Sundsted 3-20-91

ROD SUNDSTED, BUDGET DIRECTOR DATE

Office of Budget and Program Planning

Bob Raney 3-21-91

BOB RANEY, PRIMARY SPONSOR DATE

Fiscal Note for HB0992, as introduced

HB 992-1

CORRECTED COPY

COLOR CORRECTION

Revenues:

The following estimate is based on the old definition of stripper well (a well which produces 10 barrels per day or less). Since the proposal expands this definition the impact shown may be understated. The department has no information which would allow a more precise estimate. The exemption would decrease oil severance tax revenues by $433,000 in FY91 (01).

	FY '92			FY '93		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
Oil Severance Tax (01)	20,947,000	19,345,000	(1,602,000)	17,476,000	16,139,000	(1,337,000)

FUND INFORMATION: Coal Severance Tax

The proposal would allocate 0.38% of the coal severance tax receipts to the state special revenue fund to the credit of the alternative energy and energy conservation research development and demonstration fund. This reallocation would be for the FY92-93 biennium and beyond for the foreseeable future.

	FY92			FY93		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
Alternative Energy R & D	$0	$146,661	$146,661	$0	$141,014	$141,014
General Fund	5,939,771	5,793,110	(146,661)	5,711,075	5,570,061	(141,014)
Conservation Districts	73,331	73,331	0	70,507	70,507	0
County Land Planning	146,661	146,661	0	141,014	141,014	0
Local Impact	2,566,568	2,566,568	0	2,467,749	2,467,749	0
Agricultural Growth	293,322	293,322	0	282,028	282,028	0
Public Schools	4,399,830	4,399,830	0	4,230,426	4,230,426	0
State Library	146,661	146,661	0	141,014	141,014	0
Renewable Resource	183,326	183,326	0	176,268	176,268	0
Parks Trust	733,305	733,305	0	705,071	705,071	0
Permanent Trust	19,297,500	19,297,500	0	18,554,500	18,554,500	0
Water Development	183,326	183,326	0	176,268	176,268	0
Highway Trust	4,631,400	4,631,400	0	4,453,080	4,453,080	0
TOTAL	$38,595,000	$38,595,000	$0	$37,109,000	$37,109,000	$0

TECHNICAL NOTE:

Section 90-4-103 (1) creates the alternative energy and energy conservation research, development and demonstration account. As it is currently written, this section only has money flowing into the account from repayments of previously awarded grants and loans. The section needs to be amended to allow for money to be paid into the account under 15-35-108 in order to accomplish the purposes of the bill.

HB 992-1

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FISCAL IMPACT:

See next page

3-20-91
ROD SUNDSTED, BUDGET DIRECTOR — DATE
Office of Budget and Program Planning

3-21-91
BOB RANEY, PRIMARY SPONSOR — DATE

Revenues:

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Permanent Trust	19,297,500	19,297,500	0	18,554,500	18,554,500	0
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