

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

February 9, 1979

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

ROLL CALL: Roll call found all members present.

Witnesses giving testimony are listed on attached Register.

CONSIDERATION OF SENATE BILL 294: Senator Dover introduced his bill, explaining that it would allow alternative energy grants to be awarded for the research, development or marketing of the byproducts of gasohol, or to build gasohol plants. The bill called for an increase in the percentage of coal tax money which is presently allocated to the alternative energy program. His testimony is attached, see Exh. #1.

Following his testimony the Chairman called for other proponents and first to speak was Marlene Kaiser, also in support of the bill, as was Don Brelsford, who distributed a copy of his testimony, see Exh. #2. Sharon Peterson also spoke as a proponent representing WIFE, the NFO and the Farmers Union.

The Chairman called for opponents of the bill and Ronald Pogue spoke as a neutral on the bill, and, following his testimony, the members asked several questions. It was pointed out that private companies are doing research on further refinement of gasohol and that they are equipped for the research. Following the questions the hearing on SB294 was closed.

CONSIDERATION OF SENATE BILL 300: Senator Mathers presented no formal introduction of the bill. Terry Cohea, Researcher, had drawn up a chart, see Exh. #3, which showed the distribution of the Coal Severance Tax Trust Fund at present, and what it would be under SB300. He permitted those concerned with portions of the 'Coal Trust Pie' to testify. First to speak was Mr. Holmes of the Montana Institute of Arts Foundation, who asked that the portion allocated to the foundation be kept in the law. Next to speak was David Sexton of the MEA who said they were in support of that aspect that provides for funding of public schools. Dan Mizner spoke in support of the bill as well.

The Chairman permitted opponents to speak and first to speak was Mr. Bousliman who said the administration was concerned that the additional money put into the General Fund and spending would be accelerated. Then, when the coal tax money is gone the state would have to revert to other sources of income. Mr. Roberts of the Governor's Office expressed concern that the moneys from the Coal Tax Fund should be spent wisely so that the state's position in the present litigation should not be jeopardy. He felt the committee should proceed cautiously in allocating portions of the pie, so that the courts could see the moneys were being spent wisely.

Next to testify was Mr. Groff, representing the Department of Revenue, who also said he feared the court suit might be in jeopardy should that body decide the moneys were not being spent to the greatest advantage for the state. Mr. Mockler testified he had to object because impact counties were being cut insofar as tax allocations. Mr. Doney said he was at the meeting to answer any questions the committee might have as far as renewable energy programs are concerned. Mr. Cohn, chairman of the Coal Board, also spoke and gave a brief summary of the grants the Board had made in the past year and justifying the Board's decisions and existence. He mentioned an anticipated production of approximately 50 million tons for 1979 and said this is an increase of 24 million tons for the last year, thus there would be considerable additional impact on the coal-producing counties.

Mr. Holliday of the Fish & Game Dept., distributed a report on the 1977-78 Parks Acquisition, also made possible by the Coal Tax funds. Mr. Harrison felt the impact grants merited greater concern; he also referred to the litigation and the fear that had been expressed earlier by other witnesses of jeopardizing this court case. Mr. Miller asked that the committee not lose sight of the areas that are feeling impact. Mr. Dougherty gave testimony as well, and distributed a copy of his testimony, see Exh. #4. Mr. Campbell spoke briefly for the impacted counties and upholding work of the Coal Board. Mr. Pogue spoke as a neutral but regretted the fact that smaller percentages of the Coal Tax would go to alternative energy. He distributed copies of a brochure, see Exh. #5, attached. Mr. Stephens spoke briefly also, for the impacted counties and said most improvements took time and to stop funds to those counties when their projects were not yet complete, would in his opinion, be a mistake.

Senator Mathers made his concluding remarks and said he felt the worry of 'being hooked' on Coal Tax moneys was a groundless worry as the prediction was made there would be coal production in Montana for about 200 years. He also felt the big concern over the law suit was not necessary. He asked the Taxation Committee to look carefully at the level of taxation in Rosebud and Big Horn counties in particular, noting that Rosebud has oil production in the north end of the county and coal in the southern end. He said \$5 million had been left for impact and he felt this was ample if Colstrip 3 and 4 are continued. He asked the committee also to look at some of the grants made by the Coal Board, mentioning in particular the library built for Miles City Community College. He said he felt the Legislature should review this coal money periodically and decide if the programs are legitimate. He also said the money has not been spent for the highways. He said Senator Manning had tried to obtain matching Federal funds for the moneys set aside and had not as yet been successful.

The meeting was then opened for questions from the committee. Senator Roskie questioned Mr. Bousliman concerning his stated fear of some of the Coal Tax moneys going into the General Fund. There followed several other questions and the members expressed the opinion that the Coal Tax money should benefit the entire state.

Feb. 9, 1979

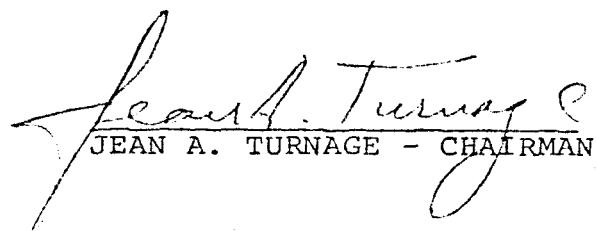
Ott Tscache, director of the Small Business Administration in Montana, was present giving testimony regarding the role of the SBA in the state and their inability to loan enough money to small businessmen due to lack of interested investors. He explained the mechanics of obtaining an SBA loan, and said the banks retain 9 to 9 1/2% with the SBA loaning the 90%. He said they then sell that percentage, depending on interest rates. He made reference also to equity capital which was subject of a bill heard previously by the Taxation Committee, SB244.

Following his testimony the hearing was closed on SJR5, previously heard by this committee.

CONSIDERATION OF SENATE BILL 347: Senator Towe gave a brief summary of this bill which merely defines the 'local effort' criteria which the Coal Board must consider in awarding local impact grants. Mr. Harrison spoke briefly as well, neither opposing or supporting the bill, merely suggesting some word changes in the bill he felt may have been overlooked in the drafting. Mr. Mockler felt the bill could create problems as coal development began as far back as the 1950's and the way the bill is worded it could affect counties which had such development for many years.

Mr. Stephens spoke also and said he had trouble with the wording preceding 'coal development' and felt that counties with lower mill levies do not qualify for grants. He said the impacts are still there, in some of the counties.

Due to conflicts it was necessary to curtail further testimony and Chairman Turnage said questions will be permitted at a future work session on these bills. The meeting was adjourned.



JEAN A. TURNAGE - CHAIRMAN

Date Feb. 9, 1919

ROLL CALL.

SENATE TAXATION COMMITTEE

46th LEGISLATIVE SESSION - 1979

Each Day Attach to Minutes.

SEN.

SENATE ~~IMPEACHMENT~~ COMMITTEE

BILL 294,300,347

VISITORS' REGISTER

DATE 2-9-79

Please note bill no.

(check one)

NAME	REPRESENTING	BILL #	(check one) SUPPORT	OPPOS
Mundo A. Campbell	Montana Coal Board	300 347	✓	✓
Bill Pechache	SRA	SJR.5	✓	
Ben Holiday	FG Dept.	SB 300		
GEORGE BOUSHIMAN	OBPP	SB 300		✓
Jack Cohn	Mont. Coal Board	SB 300 SB 347	✓	✓
Tom Mackler	Mont. Coal Council	SB 300 SB 347	✓	
Ed Miller	Big Horn Co. Comm.	SB 300 SB 347		✓
James T. Harmon	Mont. Assoc. of Coal Miners	300 347		✓
Ed McAffee	Rosebud Co. Comm.	300		
Sharon Peterson		SB 347	✓	
Ted J. Davy	Dept. Natural Resources	SB 300		✓
Don Bullock	Brule Coal Company	SB 347	✓	
Michael G. Styler	MT Assoc. of County	300 347		✓
David Sexton	Montana Education Assn.	300	✓	
Bill Miller	City of Butte	300		✓
Eric W. Kegier	Healthcare Project	300	X	
Ro Jones				
Ronald Pogue	Alternative Energy, Resources	294 300	neither neither	
Joe Roberts	Governor	300		✓
Steve Detert	Montana 21st Century			
Frank Johnson				

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Exhibit 3

Testimony of Northern Plains Resource Council SB 300
February 9, 1979

Mr. Chairman, members of the committee, for the record my name is Steve Doherty, and I am presenting testimony on behalf of the Northern Plains Resource Council. Northern Plains is an organization of farmers, ranchers, and other citizens who are concerned with the effects of energy and mineral industrialization on agriculture and agricultural people.

The debates over the enactment of a 30% severance tax for sub-bituminous coal were long and hard. In the end the 30% severance tax was made law because we Montanans wanted to avoid the ravages of the past, soften the blows during the present, and move towards implementing a renewable energy future. Along with the debates over the levying of any tax follow the inevitable debates of how it's going to be spent.

Unfortunately, the debates of Montanan's over the slicing of the coal tax pie have been rudely interrupted by the filing of a lawsuit against our coal tax. A successful defense is vital to the State of Montana.

Accordingly, NRPC is opposed to substantial alterations of the distribution formulas (which may affect our successful defense of the suit) until the coal tax suit is settled.

Thank you.

SENATE BILL 294

E.L. #1

Mr. Chairman, members of the committee. It is being recognized today that agriculture is not merely a food production system but is a domestic renewable energy production system. One form of energy is food which has often times been produced in excess. It has been our practice to pay farmers to shut down part of this massive energy production system because of its over-production of food. However, when agriculture is considered as a total energy production system it offers a great contribution to our fuel energy problems today. Ethanol made from the starches, wheat, barley, sugarbeets and potatoes can be mixed with gasoline and give better octane ratings, cleaner burning fuel and better mileage. All of these factors are vey important today with our concern of pollution and scarcity of fossil fuel. (Paper-cut backs - higher cost. Up to 30% ethanol can be mixed with gasoline with little or no alterations of the fuel system. However, gasohol has been trade marked which is 10% anyhdrous alcohol and 90% unleaded gasoline. Gasohol is being marketed competitvely in several states in the central U.S., along the east coast and Alaska. The demand for gasohol is greater than the production today.

Two years ago we were told gasohol was not energy efficient. Little had been done to produce ethanol as a fuel. It was produced for human consumption. In Chicago, at our last National Gasohol meeting engineers and builder of distilleries told us of methods they now have for producing ethanol for fuel that definitely make it energy efficient as well as competitive with our gasoline today. Some of the big pluses for ethanol is its ability to increase octane and to reduce exhaust gas emissions. Cars become gasoholice with

this mixture. The cars give a much better performance because of better ignition and a better burning fuel. EPA has recognized this and approved it as an additive to gasoline and encouraged further study for larger percentages of ethanol to gasoline. The department has also said that if a service station has only 3 pumps (1 regular, 1 premium and 1 for unleaded gasoline) gasohol may replace the unleaded gasoline pump. Also 4 cts. of federal gasoline tax is taken off the gasohol.

One other advantage of ethanol is the main food is still not used. There is a lot of potential for better utilization of ethanol in our gasoline and use of the by-products. For example, if wheat is used to obtain ethanol, the by-products are gluten, and high protein. Presently most of our gluten is imported from Australia (1978 - 51,648,378 lbs. at 38 cts. per lb.) It is used for making bread. Most of our protein for feed is imported into Montana. We have it all in Montana and could develop products and a market that would provide the needs of Montana, employment for our people, better utilization of our farm production. Many in the world are hungry today, but they don't need starchy food. They need protein and that is the by-product when ethanol is taken out. More work needs to be done to determine food products that the public will accept and can be marketed. One of the biggest problems with the production of ethanol is what can be done with the by-products, livestock feed-cattlemen-farming-more income. Another area that needs research is what is the best agricultural product to raise for making ethanol. These are three areas of research that need to be worked on now (1) best usage of ethanol with crude oil, (2) research into various foods by-products and developing a market (3) best agricultural products to produce ethanol.

If farmers can get more money producing a fuel crop, he will do it.

To do this it is necessary to have some ethanol in production and have the necessary research. It is necessary to get some plants in operation. There is no question alcohol products will be a future fuel. We can be a producer or we can import it into our state like so many other things we do.

Senate Bill 294 is a means of providing the financial resources from agricultural by means of a check off of 2¢ a bushel of wheat 2¢ per hundred pounds of barley. The Department of Agriculture would be head of the program. The 2¢ would be taken off the first sale, lien or mortgage of the grain only. The producer can request a refund of his money within 90 days if he does not want to take part in the program. The funds would be used for determining new uses of wheat and barley in relation to gasohol and food production, developing improved gasohol distillation technology, marketing knowledge and markets. It would provide grant money to public or private organizations for projects demonstrating the feasibility of gasohol production and includes the construction and operation of distillation plants.

Any grant proposal over \$500,000 must have legislative approval.

This bill would provide funds to enhance our farm program and help our farmers, help our energy problems and provide more business and jobs in Montana.

Ethanol coming from a farm product is a domestic renewable energy. It is solar energy. It is produced by our own people and has an employment factor. It provided another use of our agricultural products yet it retains the food we need for livestock and human consumption. It provides us with a much needed fuel. A fuel that gives better performance. We need an active state program for

developing best use of ethanol, best use of food byproducts and a market for them. We need either low interest loan money or grants to build plants - plants from 1 million to \$30-\$40 million. There is federal matching funds. The need for this program is coming at an ever increasing rate. We need to do as much as we can to setup the best program for Montana now.

I urge your support of Senate Bill 294.

BRELSFORD ENGINEERING

P.O. BOX 1252 · 315 HAGGERTY LANE · BOZEMAN, MONTANA 59715 · (406) 587-8486

Donald L. Brelsford, P.E.

Owner and Principal Engineer

Academics - BS and MS in Chemical Engineering and Pre-PhD in Bio-Chemical Engineering from MSU.

Experience - Industrial experience-12years-6 companies. Industrial and Engineering Consultant-self-employed since 1968.

1975 - Retained by John Orth of MERDI to be Project Leader for the FEA Suitability Study of Siting Coal-Fired Energy Facilities at Glasgow AFB. Project results identified future problems for Montana's petroleum and natural gas supply and demand.

Montana Crude Oil Supply - 1975 - 43% Canada; 40% Wyoming and 17% Montana.

In 1977 Canada supply cut to 30% and is to be cut to zero in 1983.

Montana Refinery Capacity - 160,000 bbl/day which is 36% of the total capacity of the Northern Great Plains.

Montana Energy Demand - 36% Industry, 31% Transportation, 15% Commercial and Residential and 4% Agriculture. Transportation energy demand is 73% gasoline, 18% railroad diesel, 9% highway diesel. Montana agricultural field operations and farm vehicles take 56% of the sector's demand.

Technology Assessment of the Production of Fuels from Montana Crops and Crop Residues currently being carried out by Breslford Engineering under the DNRC-ARES Program. Ethanol (Power Alcohol) from Montana crops and crop residues is the one appropriate and adaptable to Montana's future liquid fuel needs, and has been recommended it for more detailed assessment in Phase II of the current TA.

Cultural Net Energy Yield from wheat and barley production, on a heat equivalent basis, is 1000%, whereas corn is 400%.

American Agri-Fuel, Inc. of Clinton, Mo.

About 200 farmers formed AFI, raised adequate financing and will soon be constructing the first U.S. power alcohol production plant, using corn, wheat, and milo grains as raw materials. Engineers are Vogelbusch Bohler Bros. of Houston, Texas, a U.S. subsidiary of a major, experienced Austrian engineering firm. The AFI power alcohol plant will cost \$32 million & produce 20 million bbl of power alcohol per year. At a selling price of \$1.25/ gallon, Return on Investment should be 12% per year, Investment recovery, profit and depreciation is expected to be 4½ years.

Wheat and Barley are better raw materials because (1) higher valued by-products & (2) higher net renewable energy yield.

Power Alcohol plants of today's technology are continuous fermentation and distillation, unlike beverage and medicinal grain alcohol plants. They cost 300% less to build and 100% less energy to operate.

Overall Net Renewable Energy - from wheat and/or barley to power alcohol is 175%.

Gasohol Fuel - 2 million mile road test with Nebraska State vehicles demonstrated 5% increase in MPG over gasoline.

Agriculture is Montana's largest industry and the only one that has the potential to become renewable energy self sufficient!

Brelsford Engineering urges the adoption of the proposed legislation related to Gasohol, Power Alcohol, Fuels from Biomass and Alternative Renewable Energy Sources.

W. L. Brelsford

2-9-79

DISTRIBUTION OF COAL SEVERANCE TAX TRUST FUND

	<u>Under Current Law</u>		<u>Under SB 300</u>	
	<u>July 1 - Dec. 31, 1979</u>	<u>25%</u>	<u>July 1 - Dec. 31, 1979</u>	<u>25%</u>
	<u>Thereafter</u>		<u>50%</u>	
Constitutional trust fund	2%	2%	1.875%	2.5%
Alternative energy	2%	2%	1.875%	2.5%
Local impact fund	8%	4%	13.3%	8.75%
Coal Board Account				
Rural-urban Street & Road development account + funds transferred from coal area highway improvement acct.	5%	4%	0	0
State school equalization fund	15%	12%	7.5%	5%
Education trust fund	0	0	15%	10%
Coal area highway development	0	0	9.75%	0
Renewable Resources	0	0	1.875%	1.25%
Coal producing counties	0	0	1.5%	0
Site acquisition & operation	0	0	.9375% - 0	0
Parks acquisition & management	0	0	.9% - 3.75%	2.5%
County land planning	0	0	.75%	.5%
General fund + funds transferred from Renewable Resource	45%	28%	30% - 29.6%	19.5%
			\$2,095,000	

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PICUE

Exch. # 5

AERO.

1-79 vol. 6 #1

SUN-TIMES

SPECIAL ISSUE

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\$1.50

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