MINUTES OF THE MEETING OF THE HOUSE TAXATION COMMITTEE
January 26, 1983

The meeting was called to order by acting Chairman Neuman. Roll call was taken and all committee members were present except Representatives Nilson and Yardley, who came later.

Testimony was heard on HB 333, HB 340 and HB 341 during this meeting.

Executive action was taken on HB 206, HB 227, HB 242, HB 261 and HB 264.

HOUSE BILL 333

REPRESENTATIVE GLENN ROUSH, District 13, sponsor of HB 333, said HB 333 was before this committee two years ago and there is now one deletion on the bill. House Bill 333 deletes the date of December 31, 1982, on page 1, line 19.

REPRESENTATIVE ROUSH said HB 333 is an act to extend indefinitely the 3-year exemption from the severance tax and one-half the net proceeds tax on natural gas produced from a well 5,000 feet deep or deeper. He said this law has been in effect since 1977.

REPRESENTATIVE ROUSH said a well must be completed and put on production before qualification for the tax exemption is effective. He said 2.65% of the gross value of gas goes to Montana. The exemption applies for only three years after the well is put on production.

Proponents

DAVID A. JOHNSON, Manager of Planning and Economics, Gas Supply Department, Montana Power, testified in support of HB 333. (See EXHIBIT 1.)

There were no opponents testifying on HB 333.

REPRESENTATIVE ROUSH said, in closing, the problem is with the termination date of 12-31-82. The legislature keeps coming back every session to put another date on bills. He said there are very few wells that would qualify for this exemption. This exemption would provide an incentive for companies to drill new wells.

REPRESENTATIVE ASAY asked how many wells, over 5,000 feet deep, there are in the state now. Mr. Johnson said there are 7-8. Representative Asay asked if more wells will be drilled as a result of this legislation. Mr. Johnson said it will be a contributing factor.

REPRESENTATIVE NILSON was present at this time.

REPRESENTATIVE WILLIAMS said this bill was passed in 1977 to encourage the production of natural gas. There seems to be a shortage of natural gas and the consumption has gone down but the prices keep going up. He said he doesn't think this bill has accomplished anything. Mr. Johnson said the wells under 5,000 feet deep do not develop long-term reserves that will help us in the future. This bill might encourage more companies to drill deeper wells so that we can get some reserves.

REPRESENTATIVE YARDLEY was present at this time.

REPRESENTATIVE NORDTVEDT said he would like this committee to receive a statement from the Public Service Commission as to whether these taxes are taken into account in their rate settings.

The hearing was closed on HB 333.

REPRESENTATIVE YARDLEY took over as chairman.

<u>HOUSE BILL 340</u> and <u>HOUSE BILL 341</u>

REPRESENTATIVE JOHN SHONTZ, District 53, sponsor of HB 340 and HB 341, said he would like to present the bills concurrently.

REPRESENTATIVE SHONTZ said the mechanisms in HB 340 and HB 341 are different but the two bills accomplish the same thing. When gas taxes are increased, the gas station owners and distributors feel the pressure.

REPRESENTATIVE SHONTZ said there are two methods of collection of motor fuel taxes in Montana:

1. Diesel Fuel - When a fuel distributor receives fuel, he signs a check for the cost of the fuel, excluding tax. When he sells the fuel, he collects the tax from what he sells and then he pays the tax.

2. Gas Fuel - When a bulk dealer gets gas, he writes out a check for the gas plus the tax so that he can't recover the tax cost until he has sold all the gas. He would have a lot of his own money wrapped up in the fuel costs until all that fuel is sold. The smaller the business, the tougher it is on the owner.

REPRESENTATIVE SHONTZ said HB 340 allows the station owner a deduction for evaporation costs.

REPRESENTATIVE SHONTZ said HB 341 removes the system for the collection of taxes on gas and, instead, allows for the same system of tax collection as with diesel fuel. The tax on gas would not have to be paid until that gas is sold. This system reduces the state revenue, but because of the amount of pressure put on the communities and customers it is not asking too much to give them that break.

REPRESENTATIVE HARRINGTON said he has been checking on gas prices around the state and the prices vary from $1.04 to $1.19 which he didn't think was right. Representative Shontz agreed with him and said if this problem is not addressed, the prices will go higher.

REPRESENTATIVE SHONTZ said Ellen Feaver, Director of the Department of Revenue, had told him the administrative costs, if HB 341 passes, would be a minimum of $200,000 plus they would have to hire six new FTEs (full time employees).

There were no other proponents testifying on HB 340 or HB 341.

Opponents

NORRIS NICHOLS, Administrator of the Motor Fuel Tax Division, Department of Revenue, said the cost of HB 340, if passed, will be $600,000 per year of the biennium in lost funds to the Department of Highways. ($501,000 in gas tax and $109,000 in diesel tax.)

REPRESENTATIVE BERTELSEN asked Mr. Nichols if he sees any real gain to the retailers or would the distributors get the allowances. Mr. Nichols said if both bills are passed, the retailer would get the break.

TERRY MURPHY, representing the Montana Farmers Union, said a number of things are being changed that do not need to be changed. He has two concerns:

1. He asked that this legislature not tamper with or do away with the provision for non-highway uses of fuel taxes.

2. He said he doesn't want to see the tax rates for the gasohol tax accelerated from the provisions accepted in 1979.

GARY DELANO, Bureau Chief of the Weights and Measures Division, Department of Commerce, said he is involved with the licensing of all service stations in Montana. Last year they issued 2,011 licenses, including bulk and service stations, and 60 petroleum dealers went out of business.

REPRESENTATIVE REAM asked what the fiscal impact would be on HB 341. Mr. Norris said at the present time, there are 70 licensed distributors. The Department of Revenue has two employees, at a cost of $37,000 per year, who take care of the administration and collection of gas taxes. There are two other employees, at a cost of $30,000 per year, who process the gasoline refunds. If HB 341 passes, the Department of Revenue will need six additional field officers that would be located throughout the state in order to audit the station owners properly and timely. A total of $253,000 per year will be needed to administer the program if HB 341 passes.

REPRESENTATIVE HARP asked how much is refunded in gas tax to non-highway use. Mr. Nichols said $2,291,000 was refunded to about 11,000 retailers, of which 92% of the 11,000 was agriculture.

The hearing on HB 340 and HB 341 was closed.

CHAIRMAN YARDLEY called the committee into Executive Session.

<u>EXECUTIVE SESSION</u>

<u>House Bill 168</u>

CHAIRMAN YARDLEY informed the committee that Representative Pistoria, sponsor of HB 168, asked if this committee would reconsider the bill if he cut the amount of the increased allocation to one quarter of what it was.

REPRESENTATIVE HARRINGTON moved to RECONSIDER PREVIOUS ACTION of HB 168.

REPRESENTATIVE REAM said the increased allocation would not go to Galen only. It would go to the local level alcohol programs as well.

CHAIRMAN YARDLEY said he would not allow another hearing on HB 168 but would allow Representative Pistoria to offer amendments on the bill to the committee for consideration.

REPRESENTATIVE NEUMAN said he would support the motion to reconsider HB 168 because Representative Pistoria has put quite a bit of research into this area and it would be worthwhile to reconsider the bill.

The motion was voted on and PASSED. A roll call vote was taken and all committee members voted yes except Representatives Devlin, Nordtvedt, Switzer, Underdal, Williams and Yardley. Representative Dozier and Jacobsen were not present during the vote.

House Bill 241

REPRESENTATIVE ASAY moved to RECONSIDER PREVIOUS ACTION ON HB 241 for the purpose of amending the bill, taking out the penalties.

REPRESENTATIVE VINGER said the county treasurers could request mobile home park owners to inform them of any moving of a mobile home now if there is no penalty for noncompliance.

REPRESENTATIVE WILLIAMS opposed the motion and said there is no point in having the bill if there is no penalty.

The motion was voted on and FAILED. All committee members voted no except Representatives Asay and Underdal, who voted yes.

REPRESENTATIVE WILLIAMS moved to amend HB 241, lowering the penalty.

The motion was voted on and FAILED. All committee members voted no except Representatives Williams, Ream, Nilson, Zabrocki and Underdal.

CHAIRMAN YARDLEY went over the other bills assigned to this committee that have had hearings and told committee members why they would not hold executive action on those bills today.

House Bill 206

REPRESENTATIVE HARRINGTON said the amendment offered on HB 206 did not deal with the problem of deleting the auction system of property sales.

REPRESENTATIVE REAM moved HB 206 DO NOT PASS.

The motion was voted on and PASSED unanimously.

House Bill 227

REPRESENTATIVE HARRINGTON moved HB 227 DO PASS.

The motion was voted on and PASSED unanimously.

House Bill 242

REPRESENTATIVE NILSON moved HB 242 BE TABLED.

The motion was voted on and PASSED unanimously.

House Bill 294

REPRESENTATIVE HARP moved HB 294 DO PASS.

REPRESENTATIVE NORDTVEDT said a fiscal note is needed on HB 294.

REPRESENTATIVE NEUMAN asked if the double deduction problem has been solved.

CHAIRMAN YARDLEY said he would hold off on taking action on HB 294 until a fiscal note has been received.

House Bill 261

REPRESENTATIVE KEENAN moved HB 261 DO NOT PASS.

REPRESENTATIVE HARRINGTON said there is a law in the statutes which deals with the concern of military personnel having to pay back taxes on their vehicles if they have been in storage while the person was overseas.

The motion was voted on and PASSED. All committee members voted yes except Representatives Nilson, Jacobsen and Zabrocki.

House Bill 264

REPRESENTATIVE REAM moved HB 264 DO PASS.

REPRESENTATIVE BERTELSEN said he supports the motion because HB 264 is an example of how the state can be involved in and stimulate new businesses.

REPRESENTATIVE HARP said the cost of the tax credit is only $83,000 and over 1,000 Montanans participated in the energy credit program.

REPRESENTATIVE NORDTVEDT said he doubts whether solar systems save all that much money when you consider the cost of installing the system. He said from testimony given, without the tax credit the system costs would not be as cost effective.

REPRESENTATIVE NORDTVEDT made a substitute motion that HB 264 BE AMENDED TO RENEW THIS TAX CREDIT FOR ONE MORE BIENNIUM, CHANGING THE SUNSET DATE FROM 1982 to 1984.

REPRESENTATIVE ZABROCKI said he opposes the motion. He feels there will be more solar system businesses established, more people will be employed because of those businesses, and the state will get more back in taxes than the state gives out in tax credits.

REPRESENTATIVE REAM said there is no form of energy reduction that is not subsidized by the federal government. He feels this form of energy conservation should be encouraged.

REPRESENTATIVE NORDTVEDT'S motion was voted on and FAILED. A roll call vote was taken and Representatives Abrams, Devlin, Nilson, Switzer, Underdal, Vinger and Yardley voted yes. The rest of the committee members voted no except for Representatives Asay and Dozier, who were not present during the vote.

REPRESENTATIVE REAM'S motion of DO PASS was voted on and PASSED unanimously.

The meeting was adjourned at 10:45 a.m.

Dan Yardley

DAN YARDLEY, Chairman

Vicki Lofthouse

Vicki Lofthouse, Secretary

EXHIBIT 1
1-26-83

48th Legislature

House Bill No. 333 - "An Act to Extend Indefinitely the 3-Year Exemption From the Severance Tax and One-Half the Net Proceeds Tax on Natural Gas Produced From a Well 5,000 Feet Deep or Deeper."

Statement Before the House Taxation Committee, January 26, 1983, on Behalf of The Montana Power Company, by David A. Johnson, Manager of Planning and Economics, Gas Supply Department.

Montana's economy was fueled by readily available, cheap Canadian gas for nearly 25 years, into the mid-1970's. Since the Arab Embargo in 1973, Canadian gas has become increasingly more expensive, and increasingly less secure. The Montana Power Company supports House Bill 333 because we believe it will provide incentives to develop gas reserves for Montana's future and reduce our dependence on Canadian gas.

Montana Power was the first company to import significant quantities of Canadian gas into the US in the early 1950's. Our dependence on Canadian gas grew until 1973 when it represented 50 billion cubic feet or over 80 percent of our 60 billion total supply. As Canadian prices have risen since the Embargo, our market has declined sharply and we have cut back our Canadian supply. In 1982 Canadian gas represented about 45 percent of the supply for our Montana market.

Montana needs to develop its own gas reserves to ensure a secure, low cost supply of energy for the future. We are projecting Montana Power's market to stay about level at 30 billion feet per year out to the year 2000. We anticipate supplying this demand with about 10 billion feet from Company owned, Canadian reserves and with about 20 billion feet from owned and purchased sources in Montana.

To carry out this strategy and maintain a supply of 20 billion feet per year from Montana, we will have to continue to explore and purchase new gas from independents to replace the gas we use each year. That is why we think the 3-year tax exemption proposed in House Bill 333, is important - it will help efforts to maintain our domestic Montana supplies. Provisions of the bill would have the following beneficial impacts on exploration in Montana:

1. Encourage Deeper Drilling - Drilling costs increase sharply with depth: our experience is that 3 to 5,000 foot gas wells now cost approximately $2 to $300,000 while 8 to 10,000 foot wells can cost $1.0 to $1.5 million or more. The proposed 3-year tax exemption would help offset the higher cost of deep drilling.

2. Improve Reserves - Any incentive is a plus in developing Montana reserves. This Bill, however, should encourage deeper exploration with the potential for larger reserves. This would compliment shallower efforts that generally result in high deliverability but short-lived, small reserves.

3. Provide gas for Montana's Future - In addition to the benefit of encouraging exploration, restricting the tax exemption to gas distributed within Montana would be a detriment to potential gas exports from the state.

In 1982 Montana Power, including our nonutility operations, drilled seven wells out of 20 that were deeper than 5,000 feet. Of those seven, four were dry holes, two resulted in gas production and one resulted in oil production. I would like to point out that, in the case of our gas utility operations, it is not the Company that would benefit most from the proposed tax exemptions, it is our customers. We would not see increased profits because of lower taxes. Instead, our rates would include a lower cost of service pass through.

Montana Power is confident that there is still a lot of undiscovered gas within the state. The western part of the state is still relatively "unexplored," particularly the deeper zones. We strongly support and urge passage of House Bill 333 to provide additional incentives that will encourage exploration for and development of Montana's gas reserves.

230099

STATE
OF
MONTANA

DEPARTMENT OF JUSTICE

MOTOR VEHICLE DIVISION

303 Roberts, Helena, Montana 59620 (406) 449-3000

January 25, 1983

Representative Dan Yardley
Chairman, House Taxation Committee
State Capitol
Helena, Montana 59620

Dear Representative Yardley:

I have been requested to submit comments relative to amendments to House Bill 50 adopted by the Committee on January 19, 1983.

For purpose of clarification, the only requirement of the original House Bill 50 was for the Division of Motor Vehicles to provide a fee change on the renewal notices.

That would mean a one full year lead time to put the vehicle codes back on our vehicle file and certain program changes. It would have required we resolve the problem of obtaining the NADA tape. In addition, this is limited to renewal registrations and would not list a fee if the information was absent.

HOUSE BILL 50 AS AMENDED: The amendments as provided on January 19, 1983, substantially alter the Motor Vehicle Division's role in administering this proposed act. I will address my concerns numerically to the referenced amendments.

(1) I have problem with "exclusive of any extra equipment". The present NADA blue book "middle" book value often includes extra equipment such as automatic transmission, power steering, and air conditioning.

(2) If operating this year, utilizing a January 83 blue book, most 1976 vehicles and older would pay $10. Presently FOB price is not determined by the Motor Vehicle Division. Since this is currently the responsibility of the county treasurer and Department of Highways for sales tax purposes, a conflict in determining the value may exist. This section would have the effect of imposing a 2.78% sales tax on a new vehicle with 1.5% going to the Highway ERA and 1.28% going to the county. It is also my understanding the FOB term is outdated and not universally used by manufacturers.

(3) This amendment gives the responsibility of determining the ad valorem fees based on the middle book value to the Division of Motor Vehicles.

The statement that the fee schedules are to be made available to county treasurers indicates that county personnel would assess the vehicles which are not assessed by a computer program. This is assuming a computer program is intended to be developed for this purpose.

In order to initiate an automated vehicle assessment program by December 15th of 1983, it would be necessary to contract with a data processing company to decode VIN numbers and assign vehicle codes to present vehicles.

For example, our present file cannot distinguish between an Oldsmobile Cutlass, a Cutlass Supreme, Cutlass Salon, Supreme L-6, etc. This can only be determined by vehicle code. The vehicle code can be added in one of two ways:

1. By manually looking it up at the time of assessment and entering it on the system (this would take one full year to implement and require county personnel and keypunch operators to do so).

2. By decoding the Vehicle Identification Number utilizing data processing applications. This second option would cost around $100,000 to purchase software and create the necessary application to decode VIN's and to index these to the light vehicles presently on file.

The following motor vehicle applications would have to be changed at an approximate cost of:

Mail renewal notice	$10,000
County registration system	$10,000
Print & provide books to counties	$ 3,000

In addition, to update, maintain, and monitor this system, I am informed it would require a System Analyst and an additional operator.

The best we could hope to do the first year is 50% of the vehicles under the fee system. This percentage would increase as years went on, recognizing that each year the system would have to be updated to include new vehicles and those brought in from out of state. The county treasurer in return would have to assess the remaining vehicles manually. Obviously, additional personnel would be needed at the county level to perform any assessment duties.

Conclusion:

The problem of determining vehicle values by a central government agency is an expensive and complicated one. This was the state's experience under the previous system.

To convert to such a program in a short period of time poses many risks and complicates our efforts to serve the public.

I would be most pleased to explain my position and answer any questions of the Committee.

Sincerely,

Larry G. Majerus

Larry G. Majerus
Administrator
Motor Vehicle Division

LGM:cco

STATEMENT OF INTENT
House Bill No. 341

This bill requires a statement of intent because in section 33 it gives the Department of Revenue rulemaking authority to administer the collection of gasoline tax under the same procedures as the special fuels tax law.

The Legislature intends that the department of revenue would adopt rules which provide that proper reports are secured by the department and that proper payment of taxes are made by the taxpayer. The Legislature further intends that the rules would insure that no overpayments occur but, when they do, that the taxpayer is promptly refunded the amount of the overpayment.

The Legislature further intends that the rules which the Department of Revenue adopts will be based upon the procedures now used to collect special fuels taxes, or such other system of rules that allows the efficient administration of the gasoline tax under a unified procedure.

VISITORS' REGISTER

HOUSE TAXATION COMMITTEE

BILL HB 333 Date January 26, 1983

SPONSOR Roush

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
Mike Zimmerman	Butte	MPCo	✓	
David A. Johnson	Butte	MPCo	✓	
Larry Tangler	Sidney			
Swartz	"	HD 53	–	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Form CS-33
1-81

VISITORS' REGISTER

HOUSE Taxation COMMITTEE

BILL HB 340

Date January 26, 1983

SPONSOR Shontz

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
Ellen Feaver	Helena	Dept Revenue		✓
Norris Nichols	Helena	Dept of Revenue		✓
Marvin Beck	Deer Lodge	IOMA	✓	
John Braunbeck	Helena	Iowa Mont Oil Gas Ass.	✓	
Howard Whitley	Gt Falls	IOMA	✓	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Form CS-33
1-81

VISITORS' REGISTER

HOUSE TAXATION COMMITTEE

BILL HB 341 Date January 26, 1983

SPONSOR Shontz

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
Ellen Feaver	Helena	Dept of Revenue		✓
Norris Nichols	Helena	Dept. of Rev		✓
Gary Delano	Helena	Bureau of Wts & Meas		✓
Howard Tolwaty	Great Falls	IOMA		✓
Marvin Beck	Deer Lodge	IOMA		✓
John Braunbeck	Helena	IOMA Mont LP Gas Ass		✓
Terry Murphy	Gt. Falls	Mt. Farmers Union		✓

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Form CS-33
1-81

STANDING COMMITTEE REPORT

February 2, 19 83

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 333

First reading copy (White)
color

A BILL FOR AN ACT ENTITLED: "AN ACT TO EXTEND INDEFINITELY THE 3-YEAR EXEMPTION FROM THE SEVERANCE TAX AND ONE-HALF THE NET PROCEEDS TAX ON NATURAL GAS PRODUCED FROM A WELL 5,000 FEET DEEP OR DEEPER; AMENDING SECTION 15-36-121, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

Respectfully report as follows: That HOUSE Bill No. 333
be amended as follows:

1. Title, line 4.
Following: "EXTEND"
Strike: "INDEFINITELY"
Insert: "FOR A TEN YEAR PERIOD"

2. Page 1, line 19.
Following: "~~December-31,-1982,~~"
Insert: "but before December 31, 1992,"

AND AS AMENDED
DO PASS

DAN YARDLEY, Chairman.

STATE PUB. CO.
Helena, Mont.

COMMITTEE SECRETARY

STANDING COMMITTEE REPORT

January 27, 19 83

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 341

First reading copy (White)
color

A BILL FOR AN ACT ENTITLED: "AN ACT REQUIRING ADMINISTRATION OF THE GASOLINE TAX LAW UNDER THE SAME PROCEDURES AS THE SPECIAL FUELS TAX LAW; AMENDING SECTIONS 7-14-301, 7-14-304, 15-70-301 THROUGH 15-70-308, 15-70-311 THROUGH 15-70-314, 15-70-322 THROUGH 15-70-333, 17-5-507, 60-3-201, AND 60-3-202, MCA; REPEALING SECTIONS 15-70-201 THROUGH 15-70-232, MCA; AND PROVIDING AN APPLICABILITY DATE."

Respectfully report as follows: That HOUSE Bill No. 341

~~DO PASS~~ DO NOT PASS

STATE PUB. CO.
Helena, Mont.

DAN YARDLEY, Chairman.

COMMITTEE SECRETARY

STANDING COMMITTEE REPORT

January 27, 19 83

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 340

First reading copy (White)
color

A BILL FOR AN ACT ENTITLED: "AN ACT INCREASING DEDUCTIONS ALLOWED ON PAYMENT OF MOTOR FUELS TAXES; AMENDING SECTIONS 15-70-205 AND 15-70-327, MCA; AND PROVIDING AN EFFECTIVE DATE."

Respectfully report as follows: That HOUSE Bill No. 340

~~DO PASS~~ DO NOT PASS

STATE PUB. CO.
Helena, Mont.

DAN YARDLEY, Chairman.

COMMITTEE SECRETARY