

MINUTES OF THE MEETING OF THE HOUSE TAXATION COMMITTEE  
MARCH 2, 1983

The meeting was called to order at 8:00 a.m. by Chairman Yardley. Roll call was taken and all committee members were present except Representative Vinger, who was excused. Representatives Keenan, Nordtvedt, and Neuman came into the meeting later.

Testimony was heard on HB 706, HB 735, HB 779 and HB 780.

Executive action was taken on HB 706 during this meeting.

HOUSE BILL 779

REPRESENTATIVE JOHN HARP, District 19, sponsor of the bill, said HB 779 is an act exempting light utility and boat trailers from taxation and imposing a fee in lieu of tax.

REPRESENTATIVE HARP said the fiscal note on HB 779 will be amended and will show very little loss of revenue.

REPRESENTATIVE HARP said HB 779 includes any trailers 2,500 pounds or less.

Proponents

KEN HOOVESTOL, representing the Montana Snowmobile Association, said they had requested this bill. However, they would like HB 779 amended on page 7, line 3, so that the fee on a light utility or boat trailer of a capacity of 2,500 pounds or less is \$7 instead of \$5. The average fee on those types of trailers will be \$6.67 so that is why they want the fee increased from \$5 to \$7 to cover the average fee. He said they support the bill as a convenience tax for the users.

Opponents

CHARLES GRAVELEY, representing county treasurers and county assessors, said this committee is, again, being asked to cut the tax base of the counties. Unless that loss of revenue is replaced, the counties will have to come back and request additional funding to cover the loss of revenue.

MR. GRAVELEY asked that the fee be at least \$7 but it would be better if it were raised to \$10.

REPRESENTATIVE HARP closed his presentation on HB 779.

The hearing was closed on HB 779.

### HOUSE BILL 706

REPRESENTATIVE TOM ASAY, District 50, chief sponsor of the bill, said the purpose of HB 706 is to take a step towards stopping the decline of coal sales in Montana. We want to make coal sales more competitive. House Bill 706 is an act excluding certain royalties from the definition of contract sales price of coal.

REPRESENTATIVE ASAY explained royalty taxes. Royalty taxes are those taxes levied on coal when a lease is given on federal, state, or private land. There is a 12.5% royalty tax on the selling price of coal. The royalty tax has been increased from 15-20¢ per ton of coal to \$1.25-\$1.35 per ton of coal. He said it is obvious what that increase is doing to the competitive price of Montana's coal.

REPRESENTATIVE ASAY said Wyoming does not figure the royalty tax into the price of the coal when figuring the severance tax.

REPRESENTATIVE ASAY said coal production decreased last year by about 5.5 million tons. There were 250 mining jobs lost last year. He said the fiscal impact of HB 706 will be far less than the money received from royalties.

REPRESENTATIVE ASAY passed out copies of amendments to HB 706. (See EXHIBIT 1.) He said there will be no decrease in the severance tax now being collected, there will be a slight increase.

### Proponents

MARTIN WHITE, President of Western Energy, said there is a challenge to the state of Montana with the potential loss of Montana coal production and the resultant coal severance tax revenue.

MR. WHITE went over Wyoming's competitive advantages over Montana:

1. Thicker seams
2. Compliance Coal
3. Rail Freight Competitive/3 Railroads
4. Lower reclamation costs
5. Lower tax
6. Better method of calculating tax

MR. WHITE said the federal coal leasing act was amended in 1976 which changed the royalty tax from a fixed ¢/ton to 12.5% of the price.

MR. WHITE said the interaction of the royalty and severance taxes makes Montana coal incompetent. Montana will lose the market share. There have been 360 primary mining jobs lost since 1980. The solution is to change Montana legislation to remove the royalty tax from the severance tax calculation. The change in the calculation will protect Montana coal production, mining jobs and severance tax revenue.

MR. WHITE asked for a favorable recommendation on HB 706 from this committee. (See EXHIBIT 2.)

JIM MOCKLER, Executive Director of the Montana Coal Council stressed several points. The production of coal went down by 5.5 million tons last year. House Bill 706 will send a signal and attitude to customers that Montana is interested and wants to produce coal and have the customers' business.

GARY LANGLEY, Executive Director of the Montana Mining Association, said the mining industry is just as basic to Montana as agriculture is. Mining is not doing too well in Montana at this time. Any more cuts cannot be tolerated. If this bill is passed, you will see, in the long run, an increase in employment.

BILL OLSON, representing the Montana Contractors Association, said HB 706 is aimed at making coal competitive in the market place. He urged a do pass on HB 706.

MIKE FITZGERALD, President of the Montana Trade Association, passed out copies of his testimony. (See EXHIBIT 3.) He went over that handout with the committee members.

MR. FITZGERALD said from the outset he has supported I 95 and related development programs. He voted for the initiative and served on the Governor's Development Finance Committee that drafted the package of bills for implementation of I 95 and the Build Montana Program. He supported the concept of using tax revenues from non-renewable resource development to diversify Montana's economy. He said we must maintain and expand resource development. Montana coal producers are the benefactors of I 95 and many other state government programs. I 95 and related small business development programs are dependent upon continued and expanded coal production in Montana. Wyoming is an example of what is possible if Montana evolves an attitude of helping our coal industry. Mr. Fitzgerald asked for a do pass on HB 706.

DAVE LEWIS, Director of the Office of Budget and Program Planning, said HB 706, as amended, phases out the State Coal Severance Tax on future increases in federal, state and Indian reservation coal royalties. This will make our treatment of these royalties, for severance tax purposes, the same as in Wyoming.

The Governor was approached by the coal industry and asked to support the bill in its original form. Given our current fiscal condition, he felt that the original bill was "too much too soon". However, the amended bill will have a limited impact on the general fund in 1984 and 1985 and is acceptable. The administration does feel that the tax increase, which would take place if this amended bill were not approved, would be the wrong signal to the industry. We want to maintain our competitive relationship with Wyoming coal and increase Montana employment in the coal industry.

Eliminating the state severance tax on federal royalties, or a tax on a tax, is a positive signal to Congress that we are willing to be reasonable with our coal tax. There has been interest in Congress in reducing the state portion of federal royalties to 35% rather than the current 50%. One reason for this is that state taxes on federal royalties will increase when these royalties are increased.

Future legislatures will be able to evaluate this tax change to determine if it has helped to maintain and increase Montana production.

Mr. Lewis said he wants to stress that the effect of the amended HB 706 is to phase out a state tax increase that would occur when federal royalties are increased. At the end of the phase out period, our tax would be exactly at the current level. There will be no decrease from current tax levels. (See EXHIBIT 4.)

JIM MAYES, representing Operating Engineers Local #400, AFL-CIO, testified in support of HB 706, as amended. This bill would exclude certain royalties from the definition of contract sales price of coal. Mr. Mayes said they could not support the bill as it was originally written because the fiscal impact on state revenues was far too large. Because of the current economic recession and large reductions in federal aid, state government is already feeling a financial crunch. There have already been reductions in force and reductions in services. Further cuts, had this bill passed in original form, would probably have been necessary, causing an adverse impact on our state's citizens. However, as amended, the bill would not have a severe impact on state revenues and would assist coal producers. We are hopeful that this would have a positive effect on coal production and jobs, without causing undue hardship for state government. The amended bill maintains a good balance between state revenue needs and phasing out the coal severance tax on increased federal coal royalties. He asked for a favorable vote on HB 706, as amended. (See EXHIBIT 5.)

There were no opponents to HB 706.

REPRESENTATIVE ASAY, in closing, said there may be some question

as to whether this bill is considered an appropriations bill. If so, we need to get this bill out of the House by Friday. He asked if this committee could take executive action on HB 706 today.

REPRESENTATIVE BERTELSEN asked what percentage of the royalties paid are paid to federal and state compared to private. Mr. Mockler said about 80% of royalties paid are paid to federal and state. Mr. White said the percentages vary with his business but last year it was about 50-50.

REPRESENTATIVE SWITZER asked Mr. Lewis if his strong support of HB 706 is because of the jobs and money. Mr. Lewis said he wants to maintain our position with Wyoming and also maintain and increase employment.

The hearing on HB 706 was closed.

#### HOUSE BILL 735

REPRESENTATIVE NORMAN WALLIN, District 76, passed out copies of proposed amendments to HB 735. (See EXHIBIT 6.)

REPRESENTATIVE WALLIN said HB 735 is a bill to close loopholes that exist in present tax laws. House Bill 735 is an act to generally revise property tax exemptions; providing that the county tax appeal board may hear appeals related to exempt property.

REPRESENTATIVE WALLIN said HB 735 addresses the following:

1. Church owned residences are not assessed. Under HB 735 a modest tax would be imposed, taxing those residences as class four property
2. Property used exclusively for agricultural and horticultural societies would be placed on the tax roles.
3. Facilities owned and operated by organizations for the care of the retired or aged or chronically ill, which are not operated for gain or profit would also be taxed.
4. County tax appeal boards, under federal law, hear only cases relating to taxpayer appeals relating to their assessment. Exemptions are heard in Helena by the State Tax Appeal Board. Because exemptions granted in Helena often do not reflect knowledge of the local situations, some exemptions have been granted which would have been better had they not been granted. House Bill 735 says hearings for exemptions should be heard first by the county

tax appeal board. Appeals to the State Tax Appeal Board could then be made on all other appeals.

### Proponents

RAY WHITE, representing Gallatin County and the Montana Assessors Association, said HB 735 addresses problems local governments have been having since 1975 when these properties were taken from the tax roles. Taxing these properties would partially reimburse local governments for services provided by the local government, such as education, snow removal, fire and police protection, etc. Mr. White read prepared testimony to the committee. (See EXHIBIT 7.)

RUTHMARY TONN, representing the Gallatin County Commission, said local governments depend on property tax base as the only source of tax revenue. Property tax bases have been severely deteriorated by exemptions and reductions awarded to special categories of property. All property owners should pay their fair share for services. When one segment obtains an exemption an unfair burden is placed on property still on the tax roles. Local governments desperately need a sound property tax base. Please give serious consideration to this bill as a beginning to restore and protect the property tax base. Those applying for an exemption should do so at a public hearing before the local tax appeal board, as must anyone contesting the value of property. (See EXHIBIT 8.)

JOHN THOMPSON, a taxpayer from Gallatin County, read a prepared statement in support of HB 735. (See EXHIBIT 9.)

WILBUR VRISEN, a Gallatin County Commissioner, concurred with previous testimony and urged a do pass for HB 735.

### Opponents

JOHN FRANKINO, representing the Montana Catholic Conference, said his testimony on HB 735 will be given by Ward Shanahan.

WARD SHANAHAN, representing the Catholic Dioceses of Montana, said HB 735 will have a crippling fiscal impact upon the finances of our church properties. The two Catholic Dioceses have together about eighty residences for clergy which this bill will subject to taxation. They have been constructed in many cases in light of the exempt status.

In addition, this bill strikes the exemption for adjacent "land reasonably necessary for the convenient use of such buildings". This language was placed in the law some years ago to solve the problem of parking lots which are required by local zoning ordinances in order to provide "off street" parking for people attending church services. If these lots become taxable the financial strain

could be confiscatory.

Finally, and probably most burdensome is the separate annual assessment procedure before the tax appeal boards of each county. The local appeal boards are given the power to approve, modify or deny the exemption. The exemption must be claimed each year. This imposes a burden of administrative expense and legal costs just to file the annual claim, and then adds the possibility of contests in fifty-six counties which can result in many different interpretations of what a religious exemption is at any given time. (See EXHIBIT 10.)

WALTER MURFIT, an opponent to HB 735, said there will be a shift in the burden to small congregations. He said there is an added expense for adding these properties onto the tax roles. In the smaller congregations there will be two entities who will suffer: 1) the preacher and his family; and 2) the church programs. Mr. Murfit said this bill should not pass this legislature and he urged a do not pass.

CATHY CAMPBELL, representing the Montana Association of Churches, said they support the points made by Mr. Shanahan and Mr. Murfit. She asked the committee to defeat this bill.

GREG GROEPPER, representing the Department of Revenue, said the department is neither a proponent nor an opponent to HB 735. Every property tax exemption comes to Helena, is reviewed by an attorney and then signed by Mr. Groepper.

MR. GROEPPER went over some points of the bill. The test for clergy residences is the clergy has to own the residence for it to be tax exempt. The way the bill is written now, that test is not there. There might be some residences that are declared a church that are not really churches and those people would be able to enjoy the tax exempt status. Mr. Groepper said when the language concerning institutions of purely public charity is taken out of the bill, you take away the exemption that is presently enjoyed by such organizations as the Boy Scouts, Girl Scouts, United Way, Easter Seals, etc. If an agency receives federal funds, they do not get the tax exempt status. The exemptions that are now granted, are granted in accordance with statutes.

MR. GROEPPER discussed the tax appeal hearings. He said he was out of his office for two days and when he came back he had over 50 appeals on his desk. Of those 50 appeals, only six of those appeals were approved. If every appeal had to have a public hearing, there would be a great burden on the budget for administration purposes and the time involved in resolving the appeals would be very lengthy.

MR. GROEPPER said the Department of Revenue allows only one parsonage per church to be tax exempt. If there are more, the department is working with the county assessors to get that

cleaned up.

REPRESENTATIVE WALLIN, in closing, said the county commissioners used to hear the tax appeals on the county level and it worked fine. He said it is only fair that the parsonages be assessed at half the rate of other property assessments because those people are also enjoying benefits, such as education, fire and police protection, etc., that other taxpayers have to pay for.

CHAIRMAN YARDLEY asked Mr. Groepper how the department can justify only exempting one parsonage per church. The statute now reads "or for residences of the clergy". Mr. Groepper said that has been the department's interpretation of legislative intent.

REPRESENTATIVE NILSON asked how one would go about exempting property that they call a church. Mr. Groepper said if you have an organized church with sufficient membership, you could exempt that property.

The hearing was closed on HB 735.

#### HOUSE BILL 780

REPRESENTATIVE JOHN HARP, District 19, sponsor of the bill, said HB 780 is an act to establish schedules for the tax incentive for the production of gasohol; to provide for licensing of and reporting by alcohol distributors; and to rescind the suspension provision. Representative Harp went through HB 780 with the committee.

#### Proponents

ELLEN FEAVER, Director of the Department of Revenue, said during the biennium when alcohol was being produced on a large scale basis, the Department of Revenue met with those producers and worked out a system of reporting. Getting that reporting structure into the statutes is the main reason for this bill. House Bill 780 requires a license for all dealers and distributors. At the present time, there is no license fee. If this bill is not passed, and you raise the gasoline tax, the gasohol subsidy automatically increases. House Bill 780 has the requirement that only Montana produced alcohol is eligible for this subsidy. If imported alcohol is mixed with Montana produced alcohol, that alcohol is not eligible for a subsidy.

MS. FEAVER said the cap provision is very important. In 1982, the subsidy was only \$700,000. If the industry takes off, the subsidy could grow to the millions of dollars. In the current statute, there is a scale-down of the subsidy. That scale-down is dependent on time passing, not the cost of alcohol. Dealing with the market share approach is a more reasonable way to deal with the industry.



MS. FEAVER passed out copies of EXHIBITS 11 and 12, which show the gallons of gasohol sold in calendar year 1982 and an application for refund of tax on gasoline for denaturing ethanol or blending gasohol, respectively.

MAX C. DEIBERT, a proponent to HB 780, read a prepared statement to the committee. (See EXHIBIT 13.)

BRUCE KANIG, representing A.E. Montana, which is an alcohol producing company, said A.E. Montana is very pleased to see this legislation. It answers and resolves problems that have arisen over the last two years. He asked the committee to change the percentages of gallons of gasohol sold from 8% to 10% for the period ending on or before September 30, 1984; from 11% to 14% for the period ending on or before September 30, 1986; and from 18% to 22% for the period ending on or before September 30, 1988. He said that would make room for more alcohol production in the state, and would enable more employment. This legislation does fill in a gap that was missing.

JOHN BRAUNBECK, representing the Montana IOMA, said they support the concept of the gasohol subsidy and also support HB 780.

REPRESENTATIVE MEL WILLIAMS, District 70, rose as a proponent to HB 780. He said the proposed amendments are in line and will help the development of gasohol in Montana at a more rapid rate. One of the main projects of government is to help develop economic growth in the state of Montana and this will help. House Bill 780 will be a big boost to the communities of Montana.

CHRIS JOHANSEN, representing the Montana Farmers Union, said that organization supports HB 780 and urges a do pass.

There were no opponents testifying on HB 780.

REPRESENTATIVE HARP closed his presentation on HB 780.

REPRESENTATIVE DOZIER asked if gasohol operations have a property tax exemption under current law. Mr. Kanig said he thinks they are supposed to have a 3% tax break. Representative Nordtvedt said the property tax break for gasohol plants is not a 3% reduction - it is a movement from the 8.55% taxation to the 3% taxation for the first three years. Ms. Feaver agreed with that.

REPRESENTATIVE BERTELSEN asked Ms. Feaver what her reaction to Mr. Diebert's requested change in the schedule was. Ms. Feaver said it depends on what dollar amount of subsidy this legislature wishes to provide for this industry. The cap was determined at a figure of \$2.4 million per year. Mr. Diebert's changes would triple that amount so you have to decide if you want to take \$2.4

million, \$4 million, \$6 million, etc., from the highways program. She said the bill may not pass if you do not have a limit on the subsidy because of the concern over the highways.

REPRESENTATIVE REAM asked why the incentive should be closed out after 1989. Ms. Feaver said if the market share should go over 18%, it would be hard to say this would be a "fledgling industry".

The hearing was closed on HB 780.

CHAIRMAN YARDLEY called the meeting into Executive Session at this time.

EXECUTIVE SESSION

House Bill 706

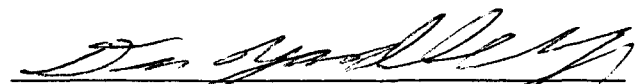
REPRESENTATIVE ASAY moved HB 706 DO PASS AS AMENDED.


REPRESENTATIVE ASAY moved the proposed amendments to HB 706.

The motion was voted on and PASSED unanimously. Representatives Keenan, Vinger and Harrington were not present during the vote.

The motion that HB 706 DO PASS AS AMENDED was voted on and PASSED unanimously. Representatives Keenan, Vinger and Harrington were not present during the vote.

The meeting was adjourned at 10:35 a.m.

  
\_\_\_\_\_  
DAN YARDLEY, Chairman

  
\_\_\_\_\_  
Vicki Lofthouse, Secretary

HOUSE BILL 706 - INTRODUCED BILL

1. Page 1, lines 14 and 15.  
Following: "taxes"  
Strike: "and royalites"
  
2. Page 1, line 16.  
Following: "15-35-107"  
Add: "Contract sales price includes all royalties paid on production, no matter how such royalties are calculated. However, with respect to state, federal, and Indian royalties, the contract sales price shall include only:
  - (a) 15 cents per ton, plus 75% of the difference between 15 cents per ton and the amount of such royalties actually paid, beginning July 1, 1984;
  - (b) 15 cents per ton, plus 50% of the difference between 15 cents per ton and the amount of such royalties actually paid, beginning July 1, 1985;
  - (c) 15 cents per ton, plus 25% of the difference between 15 cents per ton and the amount of such royalties actually paid, beginning July 1, 1986;
  - (d) 15 cents per ton beginning July 1, 1987."
  
3. Page 1, lines 22 - 24.  
Strike: all of subsection (5).  
Re-number: subsequent subsections.

ISSUE PAPER  
MONTANA SEVERANCE TAX & COAL ROYALTY INTERACTION  
WESTERN ENERGY COMPANY

Revenues

Montana faces a serious threat to its Coal Tax Revenue due to the declining production rate of Montana coal compared to Wyoming coal.

Wyoming's coal has many advantages. Their taxing picture and the method used to calculate their taxes is better than Montana's. Their coal occurs in seams thicker than those in Montana. The environmentally acceptable quality of their coal is generally better than Montana's. More rail freight competition out of Wyoming causes lower freight rates and they are closer to most markets. These advantages are contributing to greater levels of production in Wyoming.

In 1971, Montana produced 7.3 million tons of coal and Wyoming produced 8.0 million. In 1980, Montana produced 30.0 million tons and Wyoming produced 94 million tons. In 1982, Montana produced 27.8 million tons and Wyoming produced 106 million tons. Based on available projections, by 1987, Montana's production will be 40.6 million tons versus Wyoming's 153 million tons.

Montana can help the coal industry and benefit the State by changing the method used to calculate the Coal Severance Tax to eliminate the royalty from the calculation.

When the 1975 Montana Legislature passed a 30 percent severance tax, royalties paid on coal generally ranged from 15 to 20 cents per ton. At that time, the Severance Tax, Royalties and Production Taxes did not interact mathematically to inflate the price. In 1976, however, the Federal Coal Lease Amendments Act of

1976 changed the fundamental structure of coal royalties in the West by providing that no surface mined coal would be leased for less than 12½ percent royalty paid on the gross value of the coal.

The example on the following page compares the price of coal using a flat fee royalty as it was in 1975 when the Severance Tax was passed and the price using a 12½ percent royalty as mandated by the 1976 Leasing Amendments Act. Also, it compares the price of coal as calculated using the new formula as prescribed by the proposed legislation.

The problem is created by the fact that the Severance Tax is levered up because it applies to the Federal Royalty costs on a percentage basis, while the percentage royalty applies to all elements of the price including severance taxes. This was not the case prior to the Federal Government passing a percentage royalty rather than a flat fee royalty rate. Wyoming, in contrast, allows a deduction for Federal, State, and Indian Royalties to ensure that an artificial price increase does not occur. The most serious implication for Montana will be the continuing loss of market share to Wyoming coal producers. The loss of market share can occur in at least two ways:

- (1) Reduce the coal taken under existing contracts to the contract minimum.

Most of the coal in Montana is produced under long-term contracts which typically contain a maximum and minimum tonnage provision. For instance, our contract with Northern States Power Company has a maximum of 5.5 million tons and a minimum of 2.5 million. Northern States Power can drop to the contract minimum of 2.5 million tons with no more than 30 days notice. All of our contracts have similar maximum and minimum provisions. Conceivably, Western Energy Company's production could be reduced by 8 million tons on an annual basis because of the difference between our present projected production level and the contract minimums.

<u>PRICE ELEMENTS</u>	<u>FLAT FEE ROYALTY \$ .15/TON</u>	<u>EXISTING METHOD 12½% ROYALTY</u>	<u>PROPOSED METHOD 12½% ROYALTY</u>
Operating Cost and Profit Royalty	\$6.32 .15	\$ 6.32 1.40	\$ 6.32 1.34
Contract Sale Price (I)*	<u>\$6.47</u>	<u>7.72</u> <sup>3</sup>	<u>7.66</u>
State Prod. Taxes	2.28	2.71	2.28
Fed. Reclamation Fee	.35	.35	.35
Subtotal	<u>\$9.10</u>	<u>\$10.78</u>	<u>\$10.29</u>
Black Lung @ 4%	<u>.36</u>	<u>.43</u>	<u>.41</u>
TOTAL PRICE	\$9.46	\$11.21	\$10.70

\*(1) Assumes Montana Production Taxes:

Severance @	30.00%
Gross Proceeds @	4.62%
Resource Indemnity Trust Tax @	<u>.50%</u>
TOTAL	35.12%

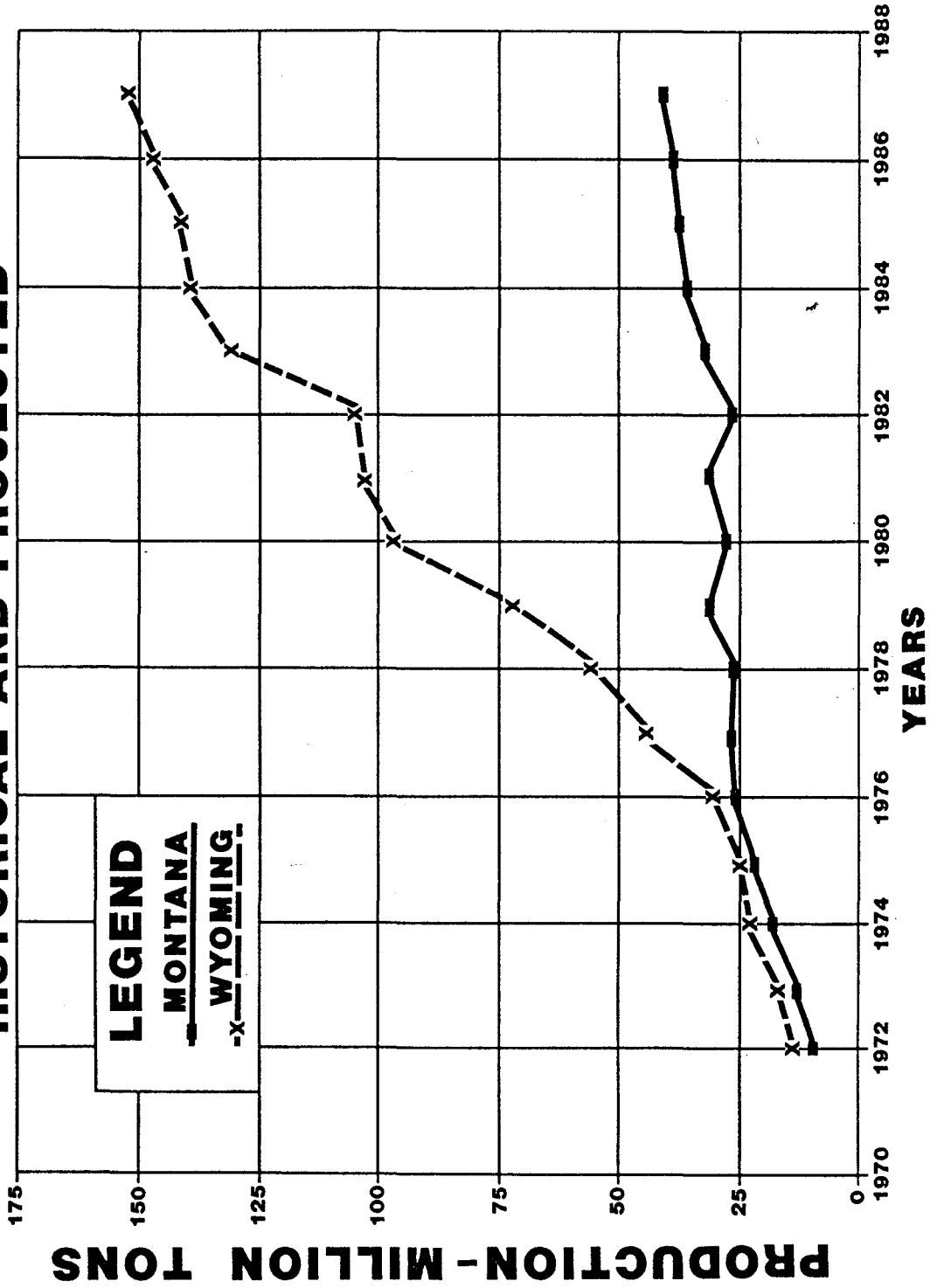
(2) Do not enter into new contracts with Montana producers.

To our knowledge, there have been no new major long-term contracts for Montana coal signed since 1975.

### Jobs

Earlier this month when Anaconda Company announced the closing of the Butte pit and the fact that there would be 700 people laid off, every newspaper in the State carried the article. Since 1979, Montana has lost 360 primary jobs in the coal fields and using a standard multiplier of 3 to 1 for secondary jobs, another 1,080 jobs have been lost in support businesses. There has been no outcry about these jobs. The jobs lost to date are just the beginning. The following charts and graphs explain the impact of the proposed change.

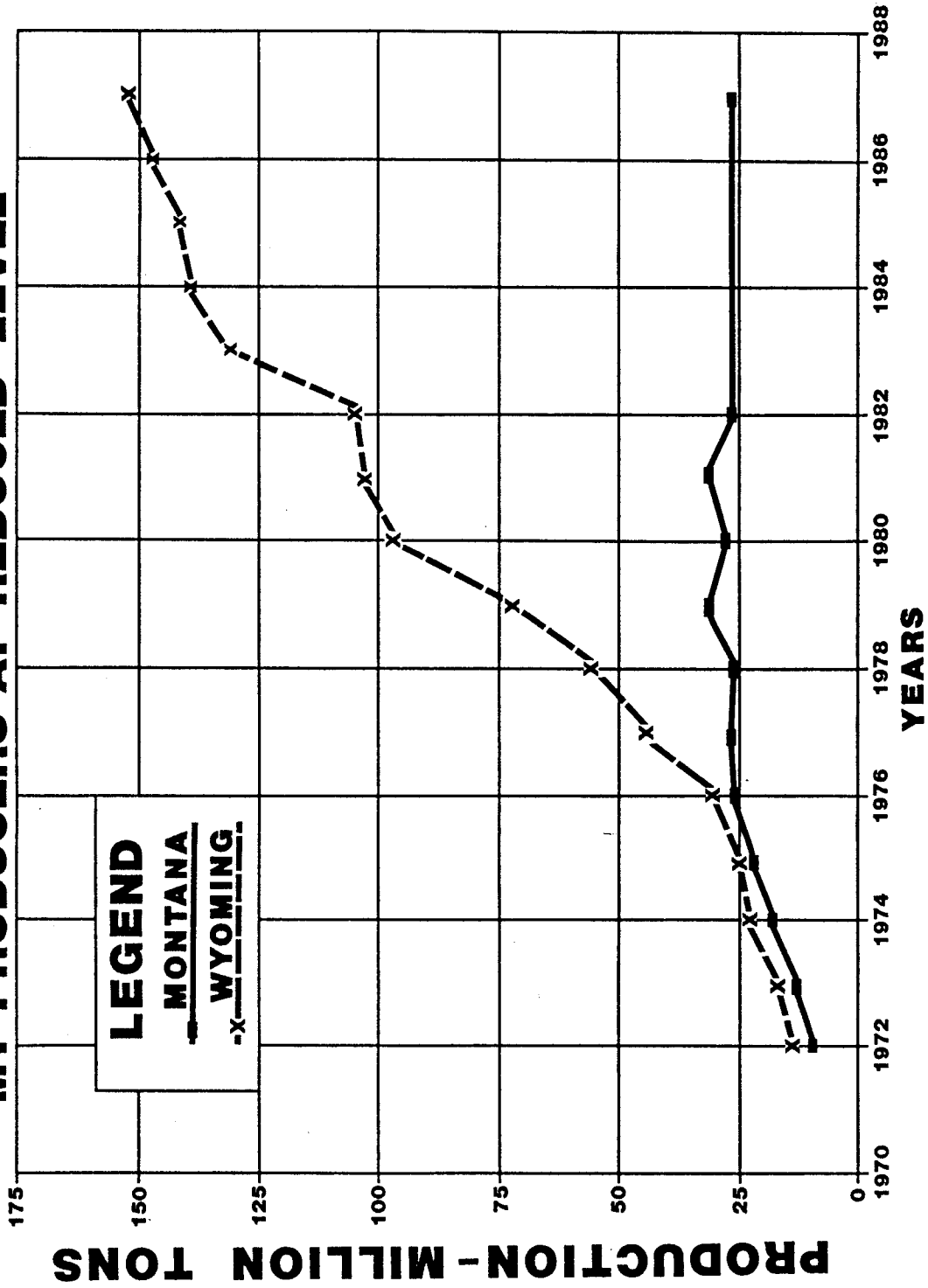
# MT WY COAL PRODUCTION HISTORICAL AND PROJECTED



(1) Wyoming Production estimated by Wyoming Geological Survey  
 (2) Montana Production from producer estimates supplied to the Montana Coal Council

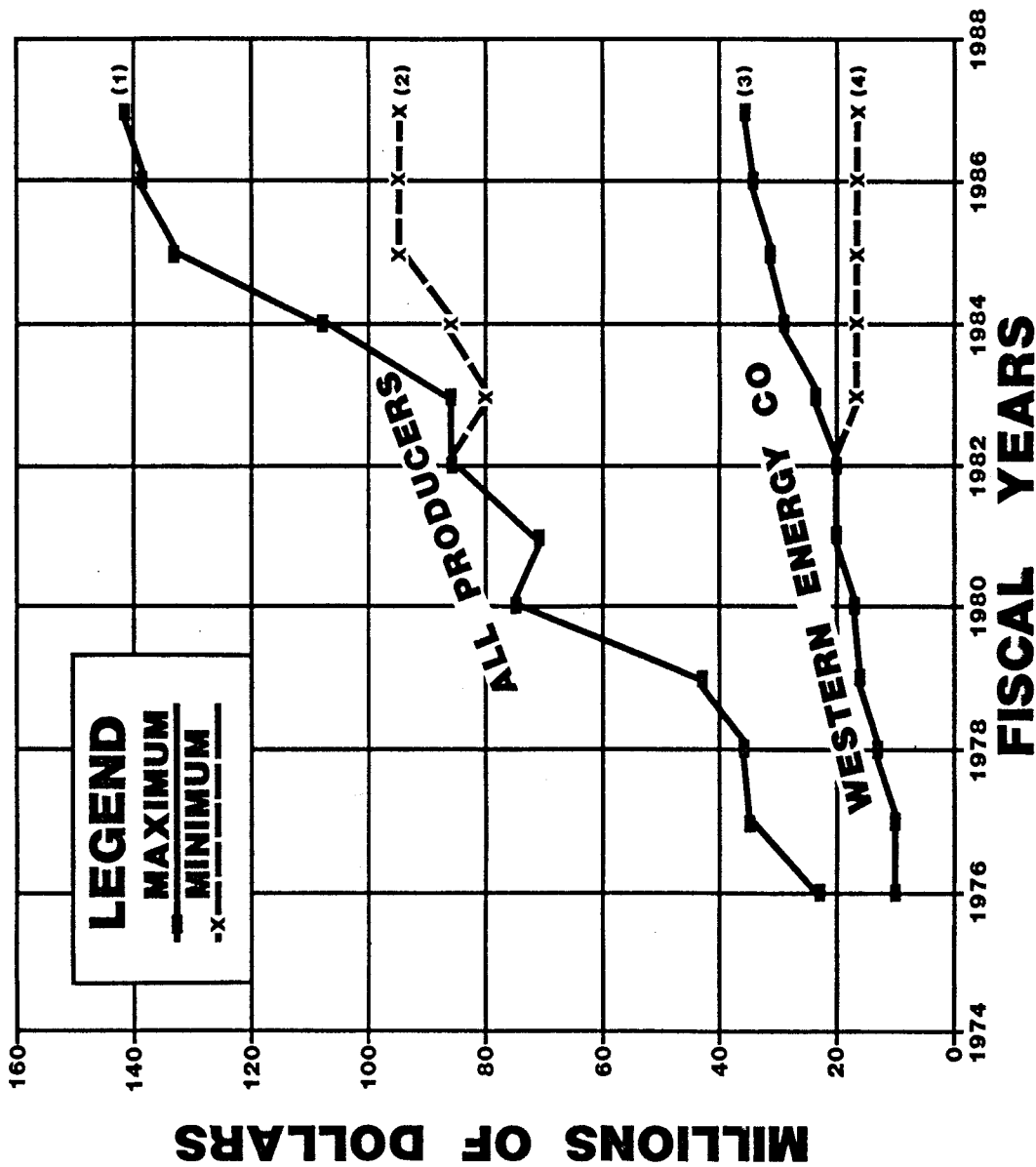


# MT WY COAL PRODUCTION MT PRODUCERS AT REDUCED LEVEL



Wyoming production estimated by Wyoming Geological Survey  
 Western Energy forced to contract minimums - other Montana Producers at 82 level

# COAL SEVERANCE TAX REVENUES



(1) Budget Office estimates FY83, 84, 85 / FY86, 87 projected at FY85 rates.

(2) Assumes Western forced to minimums and other producers at 82 levels, severance tax collections uses average severance tax, Budget estimates.

(3) Assumes Western at projected production levels.

(4) Assumes Western at Minimum Levels.

MONTANA COAL PRODUCERS

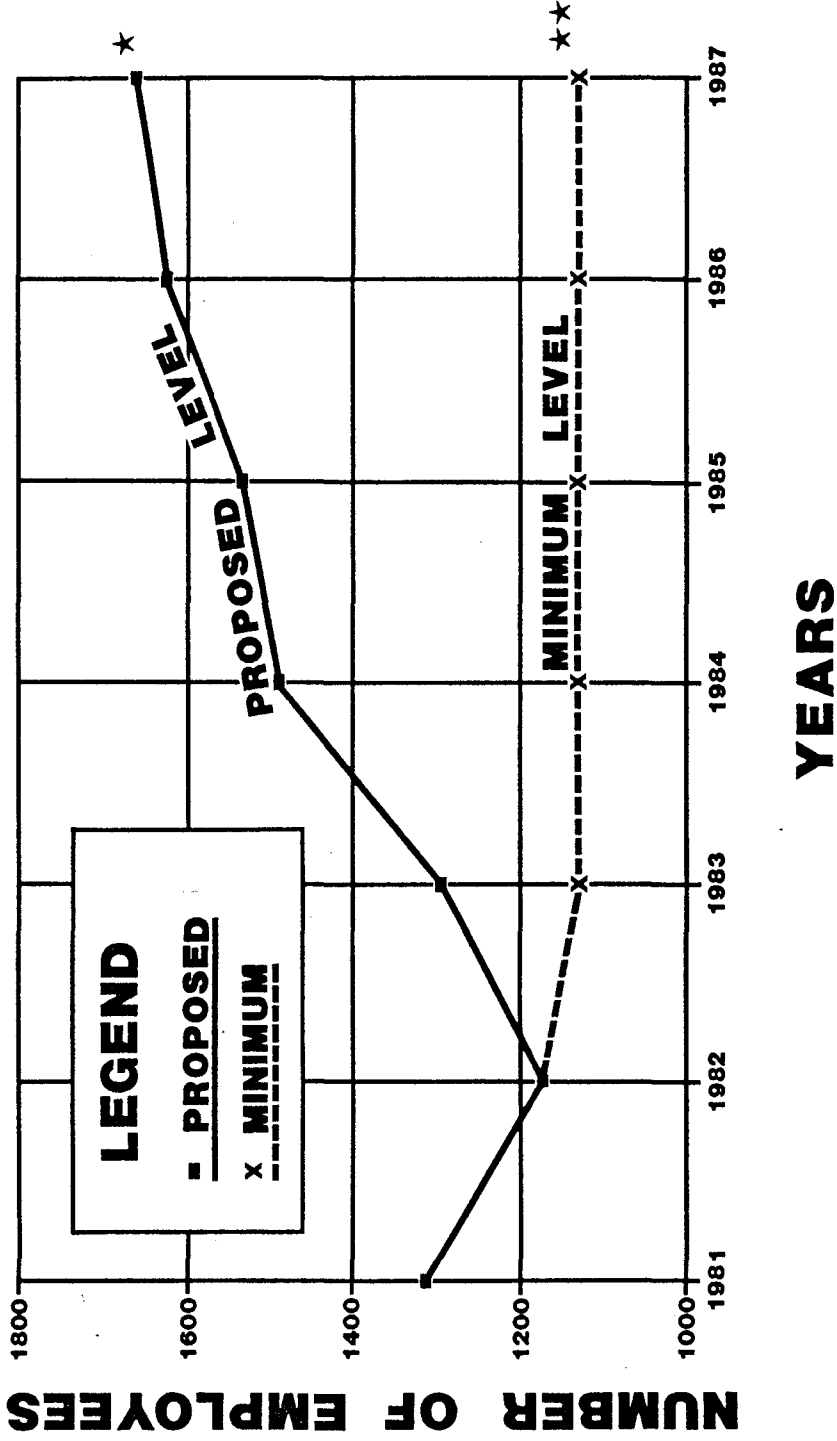
Projected and actual receipts from Federal Royalties:

	<u>1982</u>	<u>1983</u>	<u>1984</u>
Peabody	\$ 575,000	\$ 630,000	\$ 630,000
Nerco	400,000	861,000	861,000
Western Energy	7,700,000	5,953,000	6,905,000
Decker	918,227	1,881,677	11,629,761
Knife River	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Total	\$9,793,227	\$9,525,667	\$20,225,761
State's Share of Federal Royalty	\$4,896,613	\$4,762,833	\$10,112,880

Projected and actual receipts from State Royalties:

	<u>1982</u>	<u>1983</u>	<u>1984</u>
Peabody	\$ 0	\$ 0	\$ 0
Nerco	0	0	0
Western Energy	0	0	360,000
Decker	49,631	623,000	5,500,000
Knife River	0	0	0
Westmoreland	<u>41,261</u>	<u>145,250</u>	<u>145,250</u>
State Royalties	\$ 90,892	\$ 768,250	\$ 6,005,250
Total State & Fed. Royalties	\$4,987,505	\$5,531,083	\$16,118,130

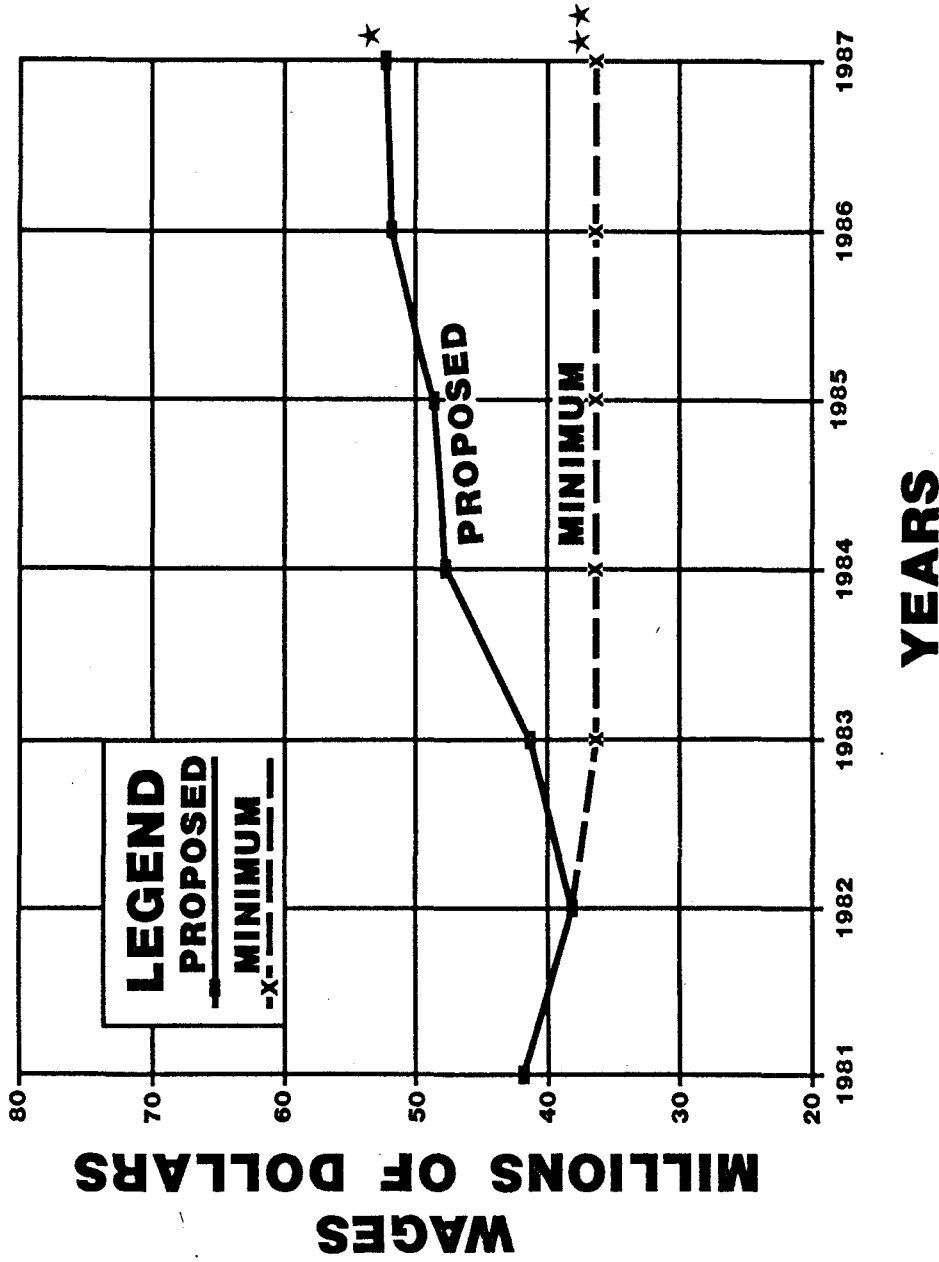
# MT COAL MINE EMPLOYMENT



★ 1981 and 1982 actual employment 1983-1987 projected at 24,460 tons/man/year against producers production estimates

★★ 1983-1987 at 27.5 million tons/year - WECO forced to minimum and other producers at 1982 level

# PROJECTED COAL MINE WAGES



★ 1981 figure from Mt. Coal Council 1982 - 1987 assumes \$32,000/year/worker X anticipated employment.

★★ 1983 - 1987 assumes Western forced to minimums other producers at 82 level number of workers X \$32,000.

TESTIMONY

IN SUPPORT OF HB 706

FROM  
MIKE FITZGERALD  
PRESIDENT  
MONTANA TRADE COMMISSION  
SUITE 612 - POWER BUILDING  
HELENA, MONTANA

Before the House Taxation Committee  
March 2, 1983  
Helena, Montana

## WORLD COAL RESERVES\*

Total Estimated	11,500 Billion Metric Tons
Measured Reserves	1,300 Billion Metric Tons
Economically Recoverable	740 Billion Metric Tons
(High Heating Value Coal Reserves)	600 Billion Metric Tons <sup>1</sup>

The following five regions have 95% of these known reserves:

North America	@ 31%	229.40 Billion Metric Tons
USSR And Satellites	@ 26%	192.40 Billion Metric Tons
Western Europe	@ 17%	125.80 Billion Metric Tons
China	@ 15%	111.00 Billion Metric Tons
Australia	@ 6%	<u>44.40 Billion Metric Tons</u>
<b>Total</b>	<b>@ 95% or @</b>	<b><u>703 Billion Metric Tons</u></b>

\*World Coal Production; Scientific American 1-79; Volume 240, Number 1; PP. 38-47.

<sup>1</sup>740 Billion Metric Tons Adjusted for Inferior Heating Quality Coal to 600 Billion Metric Tons.

ECONOMICALLY RECOVERABLE COAL RESERVES  
IN SELECTED WESTERN STATES\*

STATE	ANTHRACITE (000 Tons)	BITUMINOUS AND LIGNITE (000 Tons)	TOTAL (000 Tons)
Arizona	-	350,000	350,000
Colorado	27,700	14,841,500	14,869,200
Montana	-	108,396,200	108,396,200
New Mexico	2,300	4,392,500	4,394,800
North Dakota	-	16,003,000	16,003,000
South Dakota	-	428,000	428,000
Texas	-	3,271,900	3,271,900
Utah	-	4,420,500	4,420,500
Washington	-	1,954,000	1,954,000
Wyoming	-	53,336,100	53,336,100
<b>WESTERN STATES TOTAL</b>	<b>30,000</b>	<b>207,393,700</b>	<b>207,423,700</b>

\*Communication with George Krimpasky, United States Bureau of Mines, Helena, Montana (1974 Data).



## MONTANA COAL PRODUCTION

<u>MINES</u>	<u>1979 (Tons)</u>	<u>1981</u>
Coal Creek	63,858	64,142
Decker East	5,492,702	5,350,113
Decker West	5,422,588	5,277,648
Knife River	297,694	204,492
Western Energy	10,220,911	10,352,966
PM	11,081	7,404
Westmoreland	4,974,984	4,450,296
Spring Creek	94,368	4,368,885
Peabody	2,909,320	3,193,570
Beartooth	7,321	Closed
Divide	<u>8,245</u>	<u>8,165</u>
Total 1979 Production	<u>29,503,072</u> (1)	<u>33,277,681</u>

Source: State Department Of Lands (1)  
By WESCO Resources,

Montana Coal Council (2)

PROJECTED/ADJUSTED

Montana Coal Production (1979-2000)

(Million Tons)

<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>
3.5	22.1	36.4	128.5(1)	270.1(1)
			280 (2)	

1981 Adjusted Estimates for the Year 2000

100 Million Tons Annually  
Total Estimated Montana Coal Production

Source: (1) Montana State Department of Lands  
(2) U.S. Department of Energy

- Montana's 1982 coal production was 32,160,075 tons. 1982 coal severance taxes totaled \$86,186,845.61.
- Wyoming's 1982 coal production was 104 million tons. Wyoming 1982 coal severance taxes totaled \$152,800,324.
- Wyoming's coal production is projected to be 128 million tons annually by 1986.
- Montana's coal production will not likely reach 50 million tons annually by 1990. Our coal production might not reach 40 million tons annually by 1990.

Montana coal producers are competing in the world market with other Rocky Mountain and eastern U.S. producers as well as Canada South Africa, Poland, Australia, the Soviet Union and China in the not too distant future.

To increase sales of Montana's rather low (8,600 BTU) coal, producers must improve the delivered price per million BTU<sup>S</sup>.

As an example:   \$10.00   Per Ton F.O.B. Mine  
                  \$20.00   Rail Freight To Customer  
                  \$30.00   Total Delivered Price

To calculate delivered price per million BTU<sup>S</sup> :

$$\begin{aligned} & \$30.00 \quad \text{Delivered price per ton} \\ & \div \frac{2000 \text{ lbs.} \times 8,600 \text{ BTU}}{\phantom{2000 \text{ lbs.} \times 8,600 \text{ BTU}}} \\ & = @ \$1.74 \text{ per million BTU}^S \end{aligned}$$

To increase sales of Montana's coal we must improve the delivered price per million BTU<sup>S</sup>.

There are only a few ways this can be done. To be competitive in U.S. and world markets, Montana coal producers will likely have to achieve all of the following:

- Increase the BTU heating value of the coal at the mine by benefaction.
- Create competitive transportation by coal slurry, either water or some other form.
- Improve coal burning technology.
- Lower taxes.

From the outset I have supported I 95 and related development programs. I voted for the initiative and served on the Governor's Development Finance Committee that drafted the package of bills for implementation of I-95 and the Build Montana Program.

I supported the concept of using tax revenues from non-renewable resource development to diversify Montana's economy. However, we must maintain and expand resource development.

Montana coal producers are the benefactors of I 95 and many other state government programs. I 95 and related small business development programs are dependent upon continued and expanded coal production in Montana. Our neighbor, Wyoming, is an example of what is possible if we evolve an attitude of helping our coal industry.

I respectfully recommend that you pass HB 706.

TESTIMONY ON HOUSE BILL 706

House Bill 706 as amended, phases out the State Coal Severance Tax on future increases in Federal, State and Indian Reservation Coal Royalties. This will make our treatment of these royalties, for severance tax purposes, the same as in Wyoming.

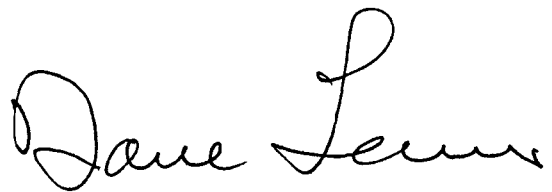
The Governor was approached by the coal industry and asked to support the bill in its original form. Given our current fiscal condition he felt that the original bill was "too much too soon". However, the amended bill will have a limited impact on the General Fund in 1984 and 1985 and is acceptable. The administration does feel that the tax increase, which would take place if this amended bill were not approved, would be the wrong signal to the industry. We want to maintain our competitive relationship with Wyoming Coal and increase Montana employment in the coal industry.

Eliminating the state severance tax on Federal Royalties, or a tax on a tax, is a positive signal to Congress that we are willing to be reasonable with our coal tax. There has been interest in congress in reducing the state portion of Federal Royalties to 35% rather than the current 50%. One reason for this is that state taxes on Federal Royalties will increase when these royalties are increased.

Future Legislatures will be able to evaluate this tax change to determine if it has helped to maintain and increase Montana production.

I want to stress that the effect of the amended House Bill 706 is to phase out a state tax increase that would occur when Federal Royalties are increased. At the end of the phase out period our tax would be exactly at the current level. There will be no decrease from current tax levels.

LEGISLATURE1:O/1

  
O B P P

# International Union of Operating Engineers

LOCAL 400

Affiliated with AFL-CIO

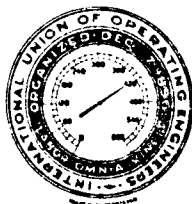
Montana

JOHN SLATTERY  
President

D. F. "DAVE" JOHNSTON  
Vice President

LOUIS LAYMAN  
Treasurer

RALPH REID  
Rec. Corres. Secretary



BILL BURLINGAME  
Business Manager &  
Financial Secretary

HEADQUARTERS  
2717 Airport Road  
Helena, Montana 59601  
Telephone: (406) 442-9597

TESTIMONY OF JIM MAYES ON HOUSE BILL 706, BEFORE THE HOUSE TAXATION  
COMMITTEE, MARCH 2, 1983

---

I am Jim Mayes representing Operating Engineers Local #400, AFL-CIO. I am here today to testify in support of House Bill 706, as amended. This bill would exclude certain royalties from the definition of contract sales price of coal.

We could not support the bill as it was originally written because the fiscal impact on state revenues was far too large. Because of the current economic recession and large reductions in federal aid, state government is already feeling a financial crunch. There have already been reductions in force and reductions in services. Further cuts, had this bill passed in original form, would probably have been necessary, causing an adverse impact on our state's citizens.

However, as amended, the bill would not have a severe impact on state revenues and would assist coal producers. We are hopeful that this would have a positive effect on coal production and jobs, without causing undue hardship for state government.

The amended bill maintains a good balance between state revenue needs and phasing out the coal severance tax on increased federal coal royalties.

Please vote in favor of House Bill 706, as amended. Thank you.

[Original had union "bug", which was removed for duplication]

PROPOSED AMENDMENTS TO H.B. 735

1. Page 2, line 15 through 17.

Following: "(e)" on line 15

Strike: line 15 through "buildings" on line 17

Insert: "buildings, with land they occupy, owned by  
a church and used for residences of the clergy"



WITNESS STATEMENT

Name Ray White Committee On \_\_\_\_\_  
Address Boyaner Mt. Date 3-2-83  
Representing Gallatin Co. Support   
Bill No. HB 735 Oppose \_\_\_\_\_  
Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

attached

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

HOUSE BILL 735

PAGE 2, LINE 15

(E) AMEND (BUILDINGS, WITH LAND THEY OCCUPY, OWNED BY A CHURCH AND USED FOR RESIDENCES OF THE CLERGY)

PAGE 3, LINE 13 & 14

WOULD TAX THESE PROPERTIES WHICH WOULD PARTIALLY REIMBURSE CITIES, COUNTIES AND SCHOOLS FOR SERVICE THAT IS BEING PROVIDED, SUCH AS FIRE AND POLICE PROTECTION, SNOW REMOVAL, STREET MAINTENANCE, EDUCATION, ETC.

IN GALLATIN COUNTY WE HAVE APPROXIMATELY 60 RELIGIOUS DENOMINATIONS. THERE ARE AT LEAST ONE AND SOMETIMES 2 AND 3 PARSONAGE EXEMPTIONS PER DENOMINATION. THERE ARE EVEN SOME RESIDENTIAL EXEMPTIONS FOR DENOMINATIONS THAT DO NOT EVEN HAVE A CHURCH BUILDING.

THE MANY EXEMPTIONS THAT ARE ALLOWED UNDER MONTANA LAWS ARE BECOMING AN OBVIOUS BURDEN ON OUR TAXPAYERS.

PAGE 4, LINE 5 & 6

I HAVE NEVER UNDERSTOOD THE NEED FOR THESE PROPERTIES TO BE EXEMPT. IN GALLATIN COUNTY THIS STATUTE EXEMPTED THE AMERICAN SIMMENTAL BUILDING AND APPROXIMATELY 18 ACRES OF LAND WHICH IF ON THE TAX ROLLS, WOULD GENERATE \$6,127 OF LOCAL TAX. THIS DOES NOT EVEN TAKE INTO CONSIDERATION THE TAX ON PERSONAL PROPERTY.

PAGE 4, LINE 18

I FEEL THAT "INSTITUTIONS OF PURELY PUBLIC CHARITY" IS TOO BROAD A TERM. PROPERTY EXEMPTIONS BECAUSE OF THEIR NEGATIVE NATURE TO TAXPAYERS AND GOVERNMENT SHOULD BE VERY SPECIFIC.

PAGE 5, LINES 13 THRU 16

CONCERNING FACILITIES FOR THE RETIRES IS INSERTED ON PAGE 4 LINES 18 THRU 21.

THE REMAINDER OF HOUSE BILL 735 ADDRESSES THE GRANTING OR DENYING OF PROPERTY TAX EXEMPTIONS THRU *THE* TAX APPEAL PROCESS. BECAUSE OF THE EFFECT ON LOCAL TAXPAYERS THAT OCCURS WHEN EXEMPTIONS ARE GRANTED, I FEEL THAT THEY SHOULD BE REVIEWED AT PUBLIC HEARINGS. EVEN THOUGH THE DEPARTMENT OF REVENUE IN THEIR PRESENT EXEMPTION PROCEDURES HAVE ALLOWED THE ASSESSOR AND APPRAISER TO COMMENT ON THE APPLICATION, IT DOES NOT AFFORD AN OPPORTUNITY FOR THE GENERAL PUBLIC AND LOCAL OFFICIALS TO OFFER TESTIMONY CONCERNING EXEMPTIONS. SINCE TAX REVIEW BOARDS HAVE BEEN ESTABLISHED UNDER OUR MONTANA CONSTITUTION IT SEEMS PROPER TO UTILIZE THEM FOR EXEMPTION REVIEWS.

WITNESS STATEMENT

Name Ruthann Tenn Committee On Taxation  
 Address P.O. Box 1961, Bayboro Date 3/2/83  
 Representing Gallatin County Commission Support   
 Bill No. HB 735 Oppose \_\_\_\_\_  
 Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. Local governments depend on propert. tax base as only source of tax revenue.

Property  
2. Tax base has been severely deteriorated by exemptions and reductions awarded to special categories of property.

3. All property owners should pay their fair share, <sup>for services</sup> when one segment obtains an exemption an unfair burden ~~is~~ is placed on property still on the rolls.

4. Local government desperately needs a sound property tax base. Please give serious consideration to this bill as a beginning to restore and protect the property tax base.

5. Those applying for an exemption should do so at a public hearing before the <sup>local</sup> Tax Appeal Board, as must anyone contesting the value of property.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

WITNESS STATEMENT

Name John D. Thompson Committee On Taxation  
Address Bozeman Mont. Date 3-2-83  
Representing Taxpayer Alliance Support   
Bill No. 40-735 Oppose \_\_\_\_\_  
Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. Chairman of the Gallatin Tax Appeal Board for 8 yrs.

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

Chairman yardley and members:

MAR 2, 1983

I support H.B. 735, as it is a step in the right direction.

Taxing property, as of the clergy, together with adjacent land, and facilities owned and operated by organizations for the care of the retired or aged or chronically ill, which are not operated for gain or profit. Property that is taxable by the above at one half of its market value for services, as fire protection, and police protection etc., is in the right direction. An amendment could be added, as buildings, with land they occupy, owned by a Church and used for residence of the clergy.

Line 16 page six: Taxpayers appeals related to property tax assessments and exemptions, all exemptions should have a public hearing. Any hearing on property valuations held by the County Tax Appeal Boards, should never go to the Department of Revenue DOR set their values, therefore, there is a conflict of interest. Better get JAB and the County Commissioners make the final decisions.

Ten years now and the property values have not been completed to date. Taxpayers

and more help is not the answer. LOR will never equalize taxes. One glaring example, is Big Sky where the high values set on the values in Gallatin County are far above values set on Madison County. The values determined by JAB were appealed by LOR, but they have failed to make a decision. Why? LOR know they will lose.

Supervisors hired by LOR did make a trip once each week to check on the County appraisers. Gallatin County is more fortunate, as the supervisor is from Billings where he spends his time.

Less finances and efficient help would help solve the problem, if we must keep LOR.

I could add more, but what I have written, will give a good idea why we should have H.B. 735.

Sincerely yours,

John M. Thompson

Bozeman, Mont. 59715

NAME Ward A. Shanahan BILL NO. HB 735 EXHIBIT 10  
3-2-83

ADDRESS 3rd Floor First Bank Bldg Helena DATE March 2, 1983

WHOM DO YOU REPRESENT Catholic Dioceses of Montana

SUPPORT \_\_\_\_\_ OPPOSE X X X X X X AMEND \_\_\_\_\_

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments: This bill will have a crippling fiscal impact upon the finances of our church properties. The two Catholic Dioceses have together about eighty residences for clergy which this bill will subject to taxation. They have been constructed in many cases in light of the exempt status.

In addition, the bill strikes the exemption for adjacent "land reasonably necessary for the convenient use of such buildings" This language was placed in the law some years ago to solve the problem of parking lots which are required by local zoning ordinances in order to provide "off street" parking for people attending church services. If these lots become taxable the financial strain could be confiscatory.

Finally, and probably most burdensome is the separate annual assessment procedure before the Tax Appeal Boards of each county. The Local appeal Boards are given the power to approve, modify or deny the exemption. The exemption must be claimed each year. This imposes a burden of administrative expense and legal costs just to file the annual claim, and then adds the possibility of contests in fifty six (56) counties which can result in many different interpretations of what a religious exemption is at any given time.

WE are unaware of any abuse of the exemption process by our churches. We have not been advised in advance of the introduction of this bill what grievances the sponsors may have against our organizations. We respectfully request a "DO NOT PASS " on this proposed legislation.



DEPARTMENT OF REVENUE  
MOTOR FUELS TAX DIVISION



TED SCHWINDEN, GOVERNOR

P.O. BOX 5895

STATE OF MONTANA

(406) 449-3474

HELENA, MONTANA 59604-5895

February 4, 1983

TO: Whom It May Concern

FROM: Norris Nichols, Administrator  
Motor Fuels Tax Division

SUBJECT: Gallons of Gasohol sold in calendar year 1982

Dollar loss due to subsidy

Gasoline	10,172,000 gallons @ .0888	\$903,274
Gasohol	10,172,000 gallons @ .02	<u>203,440</u>
	Cost of subsidy	\$699,834

STATE OF MONTANA  
DEPARTMENT OF REVENUE  
MOTOR FUEL TAX DIVISION  
P. O. BOX 5895  
HELENA, MONTANA 59604-5895

EXHIBIT 12  
3-2-83

NAME \_\_\_\_\_ OCCUPATION \_\_\_\_\_  
 ADDRESS \_\_\_\_\_ ZIP CODE \_\_\_\_\_  
 \_\_\_\_\_ PHONE NUMBER \_\_\_\_\_

APPLICATION FOR REFUND OF TAX ON GASOLINE FOR DENATURING ETHANOL OR BLENDING GASOHOL

Schedule B  
List bulk refund purchases of gasoline used for denaturing ethanol  
and/or gasoline purchases for blending gasohol.  
ATTACH ORIGINAL INVOICES

DATE	DEALER	Invoice No. OR B/L No.	GASOLINE	ANHYDROUS ETHANOL
<b>TOTALS</b>				

(See Instructions on Reverse Side)  
DENATURING

1. Gallons of anhydrous ethanol denatured . . . . . \_\_\_\_\_
2. Gallons of gasoline used for denaturing  
(attach original bill of lading or invoice) . . . . . \_\_\_\_\_
3. Refund amount \$.09 per gallon (line 2) . . . . . \_\_\_\_\_

GASOHOL BLENDING

1. Gallons gasoline used in blending . . . . . \_\_\_\_\_
2. Gallons anhydrous ethanol used in blending . . . . . \_\_\_\_\_
3. Total gallons gasohol blended (line 1 plus line 2) . . . . . \_\_\_\_\_
4. Refund amount \$.07 per gallon of gasoline (line 1) . . . . . \_\_\_\_\_
5. Less tax \$.02 per gallon of ethanol (line 2) . . . . . \_\_\_\_\_
6. Refund amount (line 4, less line 5) . . . . . \_\_\_\_\_

For the purpose of obtaining the refund herein claimed, I hereby declare and represent that the above and foregoing is a true and correct statement showing gasoline purchased and blended with anhydrous ethanol by the applicant; that the invoices included are the original purchase invoices received at the time of purchase and delivery; that the said claim against the State of Montana is just and wholly unpaid.

DATE \_\_\_\_\_ SIGNED \_\_\_\_\_

## INSTRUCTIONS

**Definition: "Gasohol" means all products commonly or commercially known or sold as gasohol, produced and sold in Montana for the purpose of effectively and efficiently operating internal combustion engines, consisting of not less than 10% anhydrous ethanol produced in Montana from Montana agricultural products.**

**The following documents must be submitted with refund application:**

**Original bill of lading or invoice for gasoline used for blending or denaturing.**

**Original bill of lading or invoice for anhydrous ethanol purchased and used for blending.**

**Invoices must be listed on Schedule B.**

**Bills of lading and/or invoices must bear name and address of seller.**

**A complete dispersal record of all gasoline withdrawn from bulk storage must be maintained showing date and gallons used for producing gasohol. Only those gallons dispensed for the production of gasohol may be claimed for refund.**

H.B. 780 "An Act to Establish Schedules for the Tax Incentive for the Production of Gasohol: To Provide for Licensing of and Reporting by Alcohol Distributors; To Rescind the Suspension Provision; Amending Section 15-70-204, MCA; Repeating Section 3, Chapter 576, Laws of 1979; and Providing an Effective Date."

Testimony before House Taxations Committee 3/2/83

by Max C. Deibert, P. E.  
Consulting Engineer  
P. O. Box 3574  
Billings, MT 59103 Ph. 406-248-1218

I support H.B. 780 with certain essential changes.

The fuel alcohol industry in Montana should be allowed to develop in an orderly manner. The establishment of a significantly sized fuel alcohol business in Montana will provide a very valuable local market for Montana agricultural products, and will establish an important source of motor fuels produced from renewable, agriculturally produced, resources.

The enactment of H.B. 780, with certain essential changes in the bill as introduced, will provide an important incentive for the development of a significant amount of additional fuel alcohol production capacity in Montana. The size of the fuel alcohol industry which has developed during the four years since the Montana legislature enacted the gasohol tax incentive program has been severely limited by the extremely high interest rates required to finance new construction. Now that interest rates are falling to reasonable levels, it will be possible to arrange private financing for a significantly sized fuel alcohol production capacity in Montana.

Even one significantly sized fuel alcohol plant, capable of producing 10 million gallons of alcohol per year, would require over 5 million bushels of barley per year, which is almost 10 percent of Montana's annual barley production. Such a plant would directly employ approximately 100 Montanans and provide an indirect employment for hundreds of other Montana families.

The 1983 Montana Legislature should provide the reasonable incentives necessary to encourage this type of development, which directly benefits both agriculture and a renewable resource industrial base in our state.

Sections 3 through 13 and Section 15 of H. B. 780 will provide a necessary legal base for the orderly distribution and marketing of fuel grade alcohol in Montana. I support the enactment of Sections 3 through 13 and Section 15 as drafted in H. B. 780.

Section 14 of H.B. 780 contains two major provisions which must be changed from the draft bill in order to provide for an adequate incentive for the development of a significant new fuel alcohol production capability in Montana during the next few years...

The first of these provisions deals with the duration of the fuels tax incentives for gasohol in our state. The 1979 gasohol fuels tax legislation provided a 7¢ per gallon fuels tax differential until April 1, 1985, phasing down to 5¢ per gallon until April 1, 1987 and to 3¢ per gallon until April 1, 1989, after which there would be no fuels tax incentive for gasohol. The 1979 legislation provided what appeared to be a reasonable time incentive for the establishment of this new industry, and its eventual capability of standing alone without a fuel tax incentive. However, the 1979 legislature could not have seen that interest rates during the next few years would essentially preclude private financing of a significant fuel alcohol production capability in Montana. Now that interest rates have fallen, and we can finance new fuel alcohol production capacity, there is not enough time left in the gasohol fuels tax differential phase down schedule to adequately encourage new development. The duration of the phase down should therefore be extended.

The U. S. Congress recently enacted new highway fuels tax legislation which extends the federal fuels tax credit on gasohol until December 31, 1992. With its strong agricultural economy and with the recognition of the unquestioned

value of a significant amount of local utilization of our agricultural products, Montana should be at least as supportive of the fuel alcohol industry as is the federal government. This support can be demonstrated by changing Section 14 to extend the 5¢ per gallon tax credit on gasohol until 1989, and the 3¢ per gallon tax credit until April 1, 1993. This change will not effect the tax incentive during the next two years, but will declare Montana's renewed commitment to the fuel alcohol industry.

The second part of Section 14 which must be changed in order to encourage a significant new fuel alcohol industry in Montana deals with the cap on the total market available for gasohol sales. This market cap provides an unnatural restraint on the orderly and natural development of this market for agriculturally derived motor fuels. The market cap could force those in the fuel alcohol production industry to allocate production and/or sales in Montana to protect their tax incentives. This type of allocation is probably illegal, and any legislation which encourages such arrangements should not be enacted. Part 4 of Section 14 should not be amended, and all new language in the draft bill in this part should be deleted to remove the market ceiling.

The enactment of Section 15 will properly remove the uncertainty of the early cancellation of the gasohol fuels tax incentive in Montana. Private financial resources can not be expected to be extended to a new industry which is subject to the uncertainty of the arbitrary cancellation of one of its important development incentives. Since it will require at least two years to bring a significant amount of new fuel alcohol production capacity on line, the deletion of the cancellation provision of the gasohol fuels tax incentive will not effect state revenues during the next two years.

One further change I recommend for H. B. 780 deals with the restriction provision in Section 15-70-201, Part (7). This provision provides that only fuel alcohol produced in Montana from Montana agricultural products is eligible for the gasohol fuel tax incentive,

While this is a worthy objective of the Montana law which I support in principle, an identical provision in Minnesota law has been determined to be in violation of the commerce clause of the U. S. Constitution. This determination was made by the Minnesota Supreme Court in 1982. There are standing suits in Colorado and Louisiana against this type of restrictive provision.

Any similar action in Montana would not only delete the restrictive provision, but could cancel the entire fuels tax incentive until the legislature could enact the necessary revisions. This uncertainty could be removed by enacting an amendment to Section 15-70-201, Part (7) which provides that ethanol which is eligible for the gasohol tax incentive be either produced in Montana from Montana agricultural products, or be produced from agricultural products in another state which grants a fuels tax credit to gasohol made from alcohol produced in Montana. This fuels tax credit in the other eligible states would also be at least as large as Montana fuels tax incentive for gasohol. The state of Texas recently enacted similar legislation which is felt to be responsive to the issue decided in Minnesota, but which extends protection to locally produced alcohol.

Since only Louisiana, Alaska and Arkansas have state tax incentives for gasohol which are as large or larger than Montana's, and since these states are highly remote from Montana, the change suggested here will not provide for new imports of alcohol to our state during the next two years, but will protect this law against outside legal challenge.

Summary of Suggested Changes to H. B. 780

Page 1, line 21     Period after Montana.     Delete remainder of line  
line 22     Delete.  
line 23     Delete.

Page 4, line 4     Delete, with alcohol  
line 5     Delete.  
line 6     Delete; in this state

Page 4, lines 4, 5, 6, Add:

produced in another state which does not qualify under  
15-70-201 Part (7) with alcohol which does qualify under  
15-70-201 Part (7).

Page 6, line 12     Do not delete.  
line 13     Delete.  
line 21     Strike 1987, add 1989  
line 24     Strike 1989, add 1993

Page 7, line 1     Do not delete.  
line 2     Do not delete.  
line 3     Do not delete through gasohol.  
line 3     Delete, The schedule of tax rates  
line 4 through line 25     Delete.

Page 8, line 1 through line 15     Delete.

Page 8,     between lines 17 and 18, add: "Section 16. Section 15-70-201, Part  
(7), MCA is amended to read (7) "Gasohol" means all products  
~~commonly-or-commercially-known-or-sold-as-gasohol~~, produced  
and sold in Montana for the purpose of effectively and  
efficiently operating internal combustion engines, consisting  
of not less than 10% ~~anhydrous~~ ethanol produced ~~in-Montana~~  
from Montana agricultural products. To qualify under this  
section, this ethanol must:

(a) Be at least 196 proof when blended with gasoline  
and either (b) Be produced and distilled in Montana from Montana  
agricultural products.

or (c) Be produced in another state which both

(i) Has a fuels tax on gasohol which is less than its  
fuels tax as nonaviation gasoline by as much or more  
than the Montana fuels tax on gasohol is less than the  
Montana fuels tax on nonaviation gasoline, and



Page 8, between lines 17 and 18, continued.

(ii) Extends this difference in fuels tax between  
gasohol and nonaviation gasoline to gasohol  
blends made from ethanol manufactured in Montana.

Page 8, line 18      Strike 16, add 17.

line 23            Strike 17, add 18.

WITNESS STATEMENT

Name William Olson Committee On Taxation  
Address Helena, Mt. Date 3/2/83  
Representing Mt. Contractors Support ✓  
Bill No. HB 706 Oppose \_\_\_\_\_  
Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

WITNESS STATEMENT

Name Martin A. White Committee On TAXATION  
Address 107 E. Granite, Butte Date 3/2/83  
Representing Western Energy Co. Support ✓  
Bill No. H.B. 706 Oppose \_\_\_\_\_  
Amend ✓

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

WITNESS STATEMENT

Name James D. Mockler Committee On Tax  
Address 2301 Colonial Dr Date 3/2/83  
Representing MT Coal Council Support   
Bill No. H.B. 706 Oppose \_\_\_\_\_  
Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

- 1.
- 2.
- 3.
- 4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

WITNESS STATEMENT

Name John FRANKINO Committee On \_\_\_\_\_  
Address 815 HARRISON Date \_\_\_\_\_  
Representing Mt. Cath. Conference Support \_\_\_\_\_  
Bill No. HB 735 Oppose   
Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. *Testimony given by Ward Shonahan*

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

WITNESS STATEMENT

Name John C. Baanbeck Committee On \_\_\_\_\_  
Address 1217 Wilder Date 3-2-83  
Representing Montana IOMIA Support X  
Bill No. HB-780 Oppose \_\_\_\_\_  
Amend \_\_\_\_\_

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

VISITORS' REGISTER

HOUSE Taxation COMMITTEE

BILL HB 706

Date 3/2/83

SPONSOR Rep Asay

NAME	RESIDENCE	REPRESENTING	SUP- PORT	OP- POSE
Jim Mockler	Helena	MT. Coal Council	✓	
Dan Lewis	Helena	O B P P	✓	
Ken Williams	Butte, MT.	Western Energy Co	✓	
Nicholas	Helena	MT. Trade Council	✓	
BILL ROBINSON	BUTTE, MT	WESTERN ENERGY CO	✓	
Martin R. White	Butte	Western Energy Co.	✓	
Bill Olson	Helena	MT. Contractors	✓	
Jim Mays	Helena	LOCAL 400 IUOE	✓	
WE Black	Butte	RTI	✓	
Mary Ferguson	Helena	Montana Miners Assn.	✓	
Owen Nelson	Helena	Mont. Educ. ASSOC.		

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITOR'S REGISTER

HOUSE TAX

COMMITTEE

BILL 735

DATE 3-2-83

SPONSOR WALLIN

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
W. Franke	Colo. Blvd Helena	Helena		X
Walter S. Murphy	Helena	Self-		X
Anthony Tom	Bozeman	Gallatin County Commissioner	X	
Willie V. V. V.	Bozeman	Gallatin County Commissioner	X	
Ray White	Bozeman	Gallatin Co assessor	X	
John Thompson	Bozeman	Gallatin Co	X	
Cathy Campbell	Helena	MT Asen Churches		X
John Franklin	Mt. Cath Conf			X

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

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.



VISITORS' REGISTER

HOUSE \_\_\_\_\_ TAXATION \_\_\_\_\_ COMMITTEE \_\_\_\_\_

BILL HB-779

Date 3/2/83

SPONSOR Representative Harp

NAME	RESIDENCE	REPRESENTING	SUP- PORT	OP- POSE
<i>Ken Hoovestol</i>	<i>Great Falls</i>	<i>Mt. Snowmobile Assn.</i>	<input checked="" type="checkbox"/>	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITOR'S REGISTER

HOUSE Taxation

COMMITTEE

BILL HB 780

DATE 2-3-83

SPONSOR Harp

NAME	RESIDENCE	REPRESENTING	SUP- PORT	OP- POSE
Bruce Kanig	Bozeman, Mt.	A. E. MONT.	✓	
Chris Johannes	St. Falls	Mont. Fro. Union	✓	

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

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITOR'S REGISTER

HOUSE \_\_\_\_\_ TAXATION \_\_\_\_\_ COMMITTEE \_\_\_\_\_

BILL 413-750

DATE 3-2-83

SPONSOR Representative Harp

NAME	RESIDENCE	REPRESENTING	SUP- PORT	OP- POSE
<i>John W. ...</i>	<i>Helena</i>	<i>Montana Land Energy Serv. Co.</i>	✓	
<i>WE Black</i>	<i>Butte</i>	<i>RTI</i>		✓
<i>Mary (-W) ...</i>	<i>Billings</i>	<i>Self</i>	✓	

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

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

# STANDING COMMITTEE REPORT

March 2,

1993

MR. SPRAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 706

First reading copy (White)  
Color

A BILL FOR AN ACT ENTITLED: "AN ACT EXCLUDING CERTAIN ROYALTIES FROM THE DEFINITION OF CONTRACT SALES PRICE OF COAL; AMENDING SECTION 15-35-102, MCA."

Respectfully report as follows: That HOUSE Bill No. 706  
**be amended as follows:**

(See attached sheet)

DOUBASSXX

.....March 2,..... 19 83.....

1. Page 1, lines 14 and 15.

Following: "taxes"

Strike: "and royalties"

2. Page 1, line 16.

Following: "15-35-107."

Insert: "Contract sales price includes all royalties paid on production, no matter how such royalties are calculated with respect to state, federal, and Indian royalties, the contract sales price includes only:

(a) on and after July 1, 1984 and before July 1, 1985, 15 cents per ton plus 75% of the difference between 15 cents per ton and the amount of such royalties actually paid;

(b) on and after July 1, 1985 and before July 1, 1986, 15 cents per ton plus 50% of the difference between 15 cents per ton and the amount of such royalties actually paid;

(c) on and after July 1, 1986 and before July 1, 1987, 15 cents per ton plus 25% of the difference between 15 cents per ton and the amount of such royalties actually paid; and

(d) on July 1, 1987 and thereafter, 15 cents per ton."

3. Page 1, line 22 through line 24.

Following: line 21

Strike: subsection (5) in its entirety

Renumber: subsequent subsections

**AND AS AMENDED**  
**DO PASS**

**CAN YARDLEY,**.....

Chairman.

# STANDING COMMITTEE REPORT

March 8, 1983

MR. **SPEAKER:** .....

We, your committee on **TAXATION** .....

having had under consideration ..... **HOUSE** Bill No. **706** .....

**Second** reading copy ( **Yellow** ) **With House Committee of the Whole Amend-**  
color **ments, March 4, 1983,**

**A BILL FOR AN ACT ENTITLED: "AN ACT EXCLUDING CERTAIN ROYALTIES  
FROM THE DEFINITION OF CONTRACT SALES PRICE OF COAL; AMENDING  
SECTION 15-35-102, MCA."**

Respectfully report as follows: That ..... **HOUSE** Bill No. **706** .....

**be amended as follows:**

**(See attached sheets)**

**XXXXXX  
DO PASS**

.....**DAN YARDLEY,**.....  
Chairman.

**COMMITTEE SECRETARY**

March 8,

19 83

1. Page 1, line 7.

Following: "MCA"

Insert: "; AND PROVIDING AN EFFECTIVE DATE"

2. Page 1, line 19.

Following: "CALCULATED"

Insert: ". However,"

3. Page 1, line 19 and line 20.

Following: "TO"

Strike: line 19 through "ROYALTIES;" on line 20

Insert: "royalties paid to the government of the United States, the state of Montana, or a federally recognized Indian tribe,"

4. Page 1, line 21 and line 22.

Following: "(A)" on line 21

Strike: line 21 through "1985" on line 22

Insert: "for quarterly periods ending on and after September 30, 1984"

5. Page 1, line 23.

Following: "SUCH"

Insert: "federal, state, and tribal government"

6. Page 1, line 25 through Page 2, line 1.

Following: "(B)" on line 25

Strike: line 25 through "1986" on Page 2, line 1

Insert: "for quarterly periods ending on and after September 30, 1985"

7. Page 2, line 2.

Following: "SUCH"

Insert: "federal, state, and tribal government"

8. Page 2, line 4 and line 5.

Following: "(C)" on line 4

Strike: line 4 through "1987" on line 5

Insert: "for quarterly periods ending on and after September 30, 1986"

9. Page 2, line 6.

Following: "SUCH"

Insert: "federal, state, and tribal government"

March 8, 1983

10. Page 2, line 8.

Following: "(D)"

Strike: line 8 through "THEREAFTER"

Insert: "for quarterly periods ending on and after  
September 30, 1987"

11. Page 3, line 4.

Following: "92-4-203."

Insert: "Section 2. Effective date. This act is effective  
July 1, 1984."

12. Strike: House Committee of the Whole Amendments,  
March 4, 1983, numbers one and two.

AND AS AMENDED  
DO PASS



# STANDING COMMITTEE REPORT

March 4,

19 83

MR. **SPEAKER:** .....

We, your committee on ..... **TAXATION** .....

having had under consideration ..... **HOUSE** ..... Bill No. **735** .....

First reading copy ( White )  
color

**A BILL FOR AN ACT ENTITLED: "AN ACT TO GENERALLY REVISE PROPERTY TAX EXEMPTIONS; PROVIDING THAT THE COUNTY TAX APPEAL BOARD MAY HEAR APPEALS RELATED TO EXEMPT PROPERTY; AMENDING SECTIONS 15-6-134, 15-6-201, AND 15-15-101 THROUGH 15-15-103, MCA."**

Respectfully report as follows: That ..... **HOUSE** ..... Bill No. **735** .....

~~DO NOT PASS~~ **DO NOT PASS**

# STANDING COMMITTEE REPORT

March 9,

83

19.....

MR. **SPEAKER:** .....

We, your committee on **TAXATION** .....

having had under consideration ..... **HOUSE** Bill No. **779** .....

**First** reading copy (**White** color) .....

**A BILL FOR AN ACT ENTITLED: "AN ACT EXEMPTING LIGHT UTILITY AND BOAT TRAILERS FROM TAXATION AND IMPOSING A FEE IN LIEU OF TAX; PROVIDING FOR DISPOSITION OF FEES; AMENDING SECTIONS 15-6-138, 15-6-201, 61-3-501, 61-3-509, 61-3-521, AND 61-3-523, MCA; AND PROVIDING A DELAYED EFFECTIVE DATE."**

Respectfully report as follows: That ..... **HOUSE** Bill No. **779** .....  
**be amended as follows:**

1. Page 7, line 3.  
Strike: "\$5"  
Insert: "\$7"

**AND AS AMENDED**

**-DO-PASS**

# STANDING COMMITTEE REPORT

March 9, 19 83

MR. **SPEAKER:**

We, your committee on **TAXATION**

having had under consideration **HOUSE** Bill No. **780**

First reading copy ( White )  
Color

A BILL FOR AN ACT ENTITLED: "AN ACT TO ESTABLISH SCHEDULES FOR THE TAX INCENTIVE FOR THE PRODUCTION OF GASONOL; TO PROVIDE FOR LICENSING OF AND REPORTING BY ALCOHOL DISTRIBUTORS; TO RESCIND THE SUSPENSION PROVISION; AMENDING SECTION 15-70-204, MCA; REPEALING SECTION 3, CHAPTER 576, LAWS OF 1979; AND PROVIDING AN EFFECTIVE DATE."

Respectfully report as follows: That **HOUSE** Bill No. **780**

DO PASS