

HOUSE TAXATION COMMITTEE

48th LEGISLATURE

SPECIAL SESSION 1

Rep. Dan Yardley, Chairman

Rep. Nancy Keenan

Rep. Ted Neuman, Vice Chairman

Rep. Les Nilson

Rep. Hubert Abrams

Rep. Ken Nordtvedt

Rep. Tom Asay

Rep. Bob Ream

Rep. Vern Bertelsen

Rep. Dean Switzer

Rep. Gerald Devlin

Rep. Melvin Underdal

Rep. Bob Dozier

Rep. Orren Vinger

Rep. John Harp

Rep. Mel Willaims

Rep. Dan Harrington

Rep. Carl Zabrocki

Rep. Glenn Jacobsen

ROLL CALL

HOUSE TAXATION COMMITTEE

LEGISLATIVE SESSION, 1983

Date December 1983

Name	16																			
REP. YARDLEY, Chairman	X																			
REP. NEUMAN, Vice-Chrm.	X																			
REP. ABRAMS	X																			
REP. ASAY	X																			
REP. BERTELSEN	X																			
REP. DEVLIN	X																			
REP. DOZIER	E																			
REP. HARP	X																			
REP. HARRINGTON	X																			
REP. JACOBSEN	X																			
REP. KEENAN	X																			
REP. NILSON	X																			
REP. NORDTVEDT	X																			
REP. REAM	X																			
REP. SWITZER	X																			
REP. UNDERDAL	X																			
REP. VINGER	X																			
REP. WILLIAMS	X																			
REP. ZABROCKI	X																			

HOUSE TAXATION COMMITTEE48th Legislature - SPECIAL SESSION I

Bill No.	Subject matter	Date In	Sponsor	Hearing Date	Committee Action	Date Out
HJR 2	Requesting an interim study of the tax incentive for the production of alcohol to be blended for gasahol and requiring a report of the finding of the study to the legislature.	12-15-83	Yardley	12-16-83	AND AS AMENDED DO PASS	12-16-83

MINUTES OF THE HOUSE TAXATION COMMITTEE
December 16, 1983

The meeting of the House Taxation Committee was called to order at 8:00 a.m. on Friday, December 16, 1983 in Room 224K of the State Capitol by Vice-Chairman Rep. Ted Neuman. All committee members were present except for Rep. Dozier. Also present was Jim Oppedah1 from the Legislative Council.

HOUSE JOINT RESOLUTION 2

PROPONENTS

REP. HARRISON FAGG explained that he was contacted by Midwestern Agencies who are interested in starting a business in Montana. He received a letter of commitment from them later. Rep. Fagg stated that the changes or effects this would bring to the State of Montana were pretty unmeasurable in this short a time to discuss thoroughly. There would be an increase in the subsidy to their product; it was not known what this would mean in terms of overall costs to the State of Montana. He stated he had talked to the State of New Mexico about what they had done, what their subsidies were and what type of program they had. New Mexico had given a flat 11 cents per gallon. Under Montana law it would be 7 cents at the present time. He asked New Mexico officials if they were getting their money back that they had paid to induce this industry to come into the State. New Mexico officials replied in their opinion they about broke even with 11 cents. They have made \$186 million investment in ethanol plants and in operating management and construction and have created 1000 new jobs. Rep. Fagg feels that if they are breaking even on 11 cents that we should be able to make money on it if we charged 7 cents but he was unsure how much at this point.

He feels it is a good industry for Montanans because it starts out with wood chips which are used to heat the boilers for the distilling. By his best guess, it would give about 150,000 acres of wheat or grain availability to Montana for the industry. It is also a good market for distressed grain because they can use any type of grain whether it be wormy, moldy or whatever.

There are a lot of offshoots from this type of program, one being a biomass of energy generating and the last extraction is a product that is excellent for feedlots. It would utilize the timber industry, the agricultural industry, and realize manufacturing potentials for the State regarding jobs, income, etc. He feels the potential is just immeasurable at this point and is therefore the reason he brought the resolution before the committee rather than the subsidies at this point. He would like to see this issue studied by a committee or interim study committee before the next Legislature.

GARY BUCHANAN, Director of the Commerce Department, explained they like this type of business as it utilizes so much of the

industry of Montana. He did want to alert the committee that they have had at least six companies expressing interest in this type of business. He stated that when they receive an inquiry they examine the business as a whole and see what tax credits are available, etc. The Commerce Department refers the business to the laws of Montana. They feel this is important for equality between all the new companies. This enables a company to look at what is presently available in the State. Buchanan felt there was a limit to subsidies and that this had to be looked at carefully. Although the Commerce Dept. did not have the time to thoroughly study all the alternatives, he felt that the issue deserved study and should be examined carefully. They would be very willing to work with whatever legislative group is interested and would also be willing to use staff resources on the study, as well as study the subsidies, and the technologies of the new business.

DAVE LEWIS, from the Office of Budget and Planning, stated that they do support the idea of trying to expand the industry of Montana. However, the Administration feels that when the proposal came up it was talking about a great impact ranging from 20 to 30 million dollars on the highway program over the next years. It was not appropriate to make a decision or even attempt to make a decision in this short a time period without more study first.

SEN. DOVER, District 25, spoke in favor of the resolution. He felt it had tremendous implications not only for fuel but for food. The burden would come back on the highways. He was quite interested in the byproducts for food sources. Although this might be a very good industry for Montana to get into, Dover felt it really deserved a good hard look first.

REP. GLENN MUELLER, District 21, Libby, felt this might be an industry that would be able to use the waste wood products the State has now. He urged the committee to approve of the study.

There were NO OPPONENTS to the resolution.

The hearing was then opened to questions from the committee.

REP. KEN NORDTVEDT asked if Rep. Fagg realized that the tax credit amounted to 70 cents on the gallon on the alcohol being produced if the gasohol tax was 7 cents. He was concerned that the State should have to compete to bring the business to Montana if it was a loss to the people. Rep. Fagg said it was not a loss but rather an investment in something that was very profitable not only for energy but also in the food industry.

REP. NORDTVEDT asked Mr. Buchanan about the tax shelters for this type of investment. Mr. Buchanan stated they apparently used investors who got part of this favorable tax. The investors construct and then occassionally sell the plants later after

production has begun. Nordtvedt feels this is the type of investment that they use for tax advantages, then perhaps walk away from it later. He was interested in knowing if this was simply a tax writeoff for the investors and if they even came out in the black on this type of investment. Gary Buchanan felt these were important considerations and certainly should be looked into.

REP. ASAY asked if within the scope of the Build Montana Program there weren't some research funds available for this type of project. Mr. Buchanan stated they wouldn't have the resources for paying for the committee's travel, etc., but they would have counsel, science, and technology which would be available to the Legislators.

REP. ASAY also asked what kind of a committee structure Rep. Fagg would think would be necessary. Rep. Fagg stated he had envisioned that it would be a special committee of the Legislature; he felt it would be of advantage to the Legislature to select those individuals who had interests in this type of project to work on it. He felt the issue should be looked at in great depth and he would have no problem with the resolution being amended to make it a special select committee.

REP. HARRINGTON asked about the production they would be talking about and was told it was 1.3 million gallons. A question was asked when this law sunsets and the committee was told it was 1989 and Rep. Fagg stated he was going to run it up to 1993. It would go 7 cents, five cents, and then down to three cents. The reason he dropped the bill was because apparently there was a federal law in Congress currently that concerned federal subsidies on the amount per gallon (2, 3, or 4 cents). Therefore the State would have to wait to see what Congress decided on.

REP. BOB REAM wanted to know if the act covered forest products, since the resolution stated agricultural products. Rep. Fagg stated that the word agricultural could be stricken and replaced with "Montana products" if necessary.

REP. ASAY was curious if other States had a phase-down also on charging 11 cents and then down. Sen. Dover stated he was sure it phased down, but it did go to 1993. Rep. Asay then wanted to know why the companies had chosen Montana. Rep. Fagg stated they liked the geographics of Montana because of distribution factors, access to other States through pipeline resources, etc. The companies felt that Montana was ideally located for a product and for transportation out after the product was manufactured.

REP. NILSON felt it should be stated specifically where the costs were coming from for the study to be completed. Rep. Fagg replied that because of the time factor involved in the Special

Session he didn't feel there was enough time to go through the appropriations process, etc. However, he felt there would be a source available for the funding.

REP. UNDERDAL asked how much of the subsidy was being used and was told it was a little over \$3 million presently. Gary Buchanan felt this was another consideration which should be given to the small plants now in existence. He said he would hate to see a subsidy war with other States and urged that the Legislature would have to be careful of what the limits in Montana were.

REP. KEENAN asked if the Economic Development Committee had an interim budget at this point. Chairman Yardley stated that they felt they should consider at this point legislative travel, because he felt there were others who might want to contribute to the study also, and he felt that the Executive branch might be utilized to get the necessary staff to conduct the study.

REP. SWITZER stated he had heard that the funds would be robbing the construction funds for highways and asked if these subsidies would come directly from the gas tax proceeds. Rep. Fagg stated that at the current time it all came out of the highway program but there were other areas which could be looked at - water and energy, coal tax, resource indemnity trust fund, and these should all be carefully looked into and considered. Rep. Nordtvedt stated he felt the funding came from the taxpayers who put the money into the highway fund first.

The hearing was then closed on HOUSE JOINT RESOLUTION 2.

EXECUTIVE SESSION on HOUSE JOINT RESOLUTION 2.

REP. DEVLIN asked Rep. Harp how much investigation had gone into the alcohol issue before the last Legislative session and was told they tried to continue the subsidy but wean the industry eventually with expiration dates because at some point in time the industries would have to stand on their own feet. Also under the existing statutes, the Governor, Director of the Department of Revenue, and the Director of Highways could look at the subsidy at any time and completely take it away if they felt it was a detriment to construction for the Highway Dept. They found that at the present time it didn't look like there was anything that would increase production for the present.

REP. NORDTVEDT stated for clarification that the law predated Rep. Harp's bill and Rep. Harp's bill only modified the law.

REP. HARRINGTON felt this was an important issue and it deserved promotion and moved that HOUSE JOINT RESOLUTION 2 DO PASS.

REP. ASAY stressed the the future needed to be looked into, since such things as an energy crunch were not one-time things. He felt it was necessary to realize that the subsidy was not only a subsidy to the producers of the alcohol but a subsidy also for the users of the alcohol. If it is determined that the extra product of alcohol is needed then the cost of that product is being subsidized by producing it.

REP. NORDTVEDT pointed out that when ethanol first came about as a source of energy much research went into it. It was determined that alcohol production was not so much of an energy source, because the process of producing the alcohol itself (the energy consumed in the distillation process, etc.) was as large or larger than the energy the resulting fuel produced. Therefore he submitted that the committee should be under no illusions that it was exciting the energy sources of the world by producing more alcohol.

REP. DEVLIN pointed out the importance of some of the byproducts of the production.

REP. ZABROCKI felt that with the excess of grain in the State that the alcohol market should certainly be looked into to see what the benefits might be.

REP. HARP stated that a big production for the State was being looked at, as well as outside the State. However, at a price of \$1.60 per gallon there might not be the demand for the product that there would be if it was sold cheaper than unleaded gas.

REP. JACOBSEN stated he felt the study was acceptable but there were some points that should be amended, the first being the amending of "agriculture" to "all products." He wondered if the study could be put into an appropriate committee that would not require extra funding and still be able to get the job done. Rep. Fagg stated that if action were to be taken by the committee on the resolution that this could then be worked out on the floor of the House.

REP. NORDTVEDT proposed an amendment to add to page 1, line 23 "but at the same time cost the taxpayer a significant amount through tax subsidies." Discussion of exact wording for the proposed amendment followed. It was agreed to word the amendment, "but at the same time it costs Montana's taxpayers a significant amount through tax subsidies."

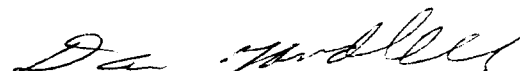
The question was called for on Rep. Nordtvedt's amendment. MOTION CARRIED, with 13 yes votes and 6 no votes.

REP. DEVLIN proposed an amendment to add a part (c) to page two:

(c) the taxpayers of this State. MOTION CARRIED on Rep. Devlin's amendment.

The question was called for on the motion that HOUSE JOINT RESOLUTION 2 DO PASS AS AMENDED; motion carried unanimously.

The meeting was adjourned at 10:00 a.m.



Rep. Dan Yardley - Chairman

STANDING COMMITTEE REPORT

December 16, 1983

MR. SPEAKER:

We, your committee on HOUSE TAXATION

having had under consideration HOUSE JOINT RESOLUTION Bill No. 2

First reading copy (White)
color

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA REQUESTING AN INTERIM STUDY OF THE TAX INCENTIVE FOR THE PRODUCTION OF ALCOHOL TO BE BLENDED FOR GASOLIN AND REQUIRING A REPORT OF THE FINDINGS OF THE STUDY TO THE LEGISLATURE.

Respectfully report as follows: That HOUSE JOINT RESOLUTION Bill No. 2
be amended as follows:

1. Page 1, line 23.
Following: "investment"
Insert: "but at the same time would cost Montana taxpayers a significant amount through tax subsidies"
2. Page 2, line 15.
Following: "Montana;"
Strike: "and"
3. Page 2, line 17.
Following: "Montana"
Insert: "; and (c) the taxpayer of this state"

DO PASS AS AMENDED

DAN YARDLEY, Chairman.

COMMITTEE SECRETARY