MINUTES

MONTANA HOUSE OF REPRESENTATIVES
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Chairman Harrington, on February 3, 1989, at 9:00 a.m.

ROLL CALL

Members Present: All

Members Excused: None

Members Absent: None

Staff Present: Dave Bohyer, Legislative Council

Announcements/Discussion: None

HEARING ON HOUSE BILL 420

Presentation and Opening Statement by Sponsor:

Rep. Francis Koehnke, District 32, stated this bill was to provide a tax incentive for the production of alcohol to be used as gasohol. This process uses wheat, barley or corn and is blended 10% to a gallon of gasoline to make premium unleaded gasoline. This product reduces carbon monoxide by 30% which will reduce air pollution.

Testifying Proponents and Who They Represent:

Gordon Doig, Alcotech, Ringling, Montana
Don Stirhan, Business Consultant, Registered Lobbyist of Ethanol Industry
Chris Kaufman, Montana Environmental Association
Kay Norenberg for Shirley Ball, Nashua
Kim Enkerud, Montana State Grazing District, Montana Cattlewomen's Association
Brant Quick, Northern Plains Resource Council
Evan Barrett, Executive Director, Butte Local Development Council
Dennis E. Winters, Partner, Montana Market Development Company

Proponent Testimony:

Gordon Doig spoke in support of the bill. (Exhibit 1).

Don Stirhan submitted testimony to the committee on his own behalf and also for two proponents who could not attend the hearing today. (Exhibits 2, 3, and 4).

Chris Kaufman urged support of the bill stating that Ethanol is a clean burning fuel which would help to reduce pollution.

Kay Norenberg submitted testimony for Shirley Ball. (Exhibit 5). Ms. Norenberg represented women in economics.

Kim Enkerud spoke in support of HB 420.

Brant Quick spoke in support of the bill. (Exhibit 6).

Testifying Opponents and Who They Represent:

None.

Opponent Testimony:

None.

Questions From Committee Members: Rep. Raney stated that in 1985, the tax incentive was extended for the Ethanol production. He asked why this was again being introduced. Rep. Khoenke replied that since that time the price of gas went down and more incentive is needed.

Rep. Driscoll asked if the 2.5 million maximum payments out of the gasoline tax fund had been reached. Norris Nichols from the Department of Motor Fuels replied it had not. Rep. Driscoll then asked how much was expended now on the program. Mr. Nichols replied that since April 1, 1987 through December of 1988, $300,963.00 has been spent. Rep. Driscoll then asked how the governor handled this money. Mike Walsh from the Budget Office replied that under current law the incentive was going to be discontinued so it was not included in the budget.

Rep. Cohen asked Mr. Stirhan if other products were being produced by the Ethanol companies. Mr. Stirhan replied that there are other products but Ethanol is the major one.

Rep. Gilbert stated to Mr. Nichols that in the bill, there is a floor and a cap. If production is not 11%, there is no tax benefit and if production is over 18%, there is no tax benefit. Mr. Nichols replied this is old language from the prior bill. Rep. Gilbert said it was and since it has not been updated, he was concerned. Mr. Nichols replied there was no floor that must be reached before receiving the incentive but there is a cap. Any new plant would be eligible for the tax incentive. Rep. Gilbert then asked if this was fully funded from the highway funds. Mr. Nichols stated this was correct.

Rep. Patterson asked Mr. Nichols how many producers in the state receive the payment from the Department of Highways. Mr. Nichols replied there is only one which is Alcotech at Ringling.

Rep. Gilbert asked Mr. Doig how many gallons of Ethanol are currently being produced. Mr. Doig replied 600,000.

<u>Closing by Sponsor:</u> Rep. Khoenke thanked the committee and stated he felt Montana needs the small business and this incentive will keep them going.

DISPOSITION OF HOUSE BILL 420

<u>Motion:</u> None

<u>Discussion:</u> None

<u>Amendments, Discussion, and Votes:</u> None

<u>Recommendation and Vote:</u> None. Will be considered in executive session at a later date.

HEARING ON HOUSE BILL 435

<u>Presentation and Opening Statement by Sponsor:</u>

Rep. Leo Giacometto, District 24, stated HB 435 was a different approach to remedying I105. The bill simply states that the 1986 revenue amount was the intent of I105 and clarifies that the 1986 revenue amount can be reached even if cap limits are exceeded by the counties. This does not effect the state tax level. The bill also allows each county to repeal I105 in their county. There were nine counties that did not support I105. He stated he felt these counties should be able to raise their taxes for their particular needs if that is what they choose to do and have local control in these matters.

<u>Testifying Proponents and Who They Represent:</u>

Eric Fever, Montana Education Association
Chuck Sterns, Financial Director and City Clerk for Missoula
Rep. Marion Hanson, District 100
Gloria Hermanson, Montana Cultural Coalition

<u>Proponent Testimony:</u>

Eric Fever stated it was necessary to take some action regarding I105 and for this reason he supports HB 435. However, as he has previously stated, this does not address the real issue of I105. Mr. Fever stated that the supreme court has ruled their must be a remedy to Lobal. He said it was his opinion that any remedy to Lobal would repeal I105. He suggested that HB 435 be placed on hold to see if the remedy to Lobal cannot be effected.

Chuck Stearns submitted proposed amendments to the bill and urged passage by the committee. (Exhibit 7).

Rep. Marian Hanson stated she wished to go on record in support of the bill. She said her counties needed this very badly because of the falling tax evaluations. She stated they needed to revert back to the 1986 revenue level.

Gloria Hermansen stated she supported HB 435 specifically for local community libraries that rely on county funding. Many of the libraries cannot remain open full time because of the effects of I105 and the situation is worsening. Ms. Hermansen stated access to libraries is crucial in this information age both from an education standpoint and an economic development standpoint.

Testifying Opponents and Who They Represent:

Dennis Burr, Montana Taxpayers Association

Opponent Testimony:

Dennis Burr stated he agreed with the need to amend I105 or SB 71, but did not agree this was the correct method. He stated his objection to the provision that allows each local government to vote on repealing I105. Mr. Burr stated the initiative should be repealed by a statewide vote just as it became law by a statewide vote. Mill levy increases are currently available to local governments under the emergency procedures in SB 71.

Questions From Committee Members: Chairman Harrington asked Mr. Burr what his thoughts were on the current court ruling. Mr. Burr replied that if the legislature equalizes the school funding through large increases in property tax, then I105 must be amended.

Rep. Gilbert stated he felt allowing the counties to lift limitations individually was setting a dangerous precedent. Rep. Giacometto stated he did not see this as a problem and that the counties should have more local control. Rep. Gilbert stated this violated the law that states no one can pass a law for one jurisdiction and there would be no point in a state legislature if the individual counties can repeal any section of state law they dislike. Rep. Giacometto replied that it was necessary to look at each issue. Taxes raised in Sydney, for example, will effect only Sydney. This is not setting a precedent. There are always many bills in the legislature to benefit certain areas only. Rep. Giacometto stated he saw no difference in allowing local government to have more control over their own affairs.

Rep. Ream stated to Rep. Giacometto that his counties voted for I105 and thereby imposed this on the entire state yet he advocates more local control. This seemed inconsistent. Rep. Giacometto replied those counties who wish to raise their taxes within their own communities should be allowed to do so but this has no effect on the raising of property tax at the state level. Rep. Ream stated there are statewide levies that do effect the whole state and I105 did effect those. Rep. Giacometto stated he was trying to clarifyy I105 and he would support changing this to the mill levy.

Rep. Gilbert stated he agreed on the 1986 revenue limit but his concern is still with the local vote of counties. He stated the legislature is faced with the monumental school equalization issue and if taxes of any kind are raised to meet this problem, local counties could still vote these increases out. Rep. Giacometto stated the section in the bill that refers to local control has nothing to do with any vote. This simply clarifies what is already law. I105 was a cap on property taxes and the determination was made that this was mills. The vote involved in the bill deals only with the particular county jurisdiction that wishes to raise their own local taxes for their particular needs. This in no way affects the state.

Rep. Patterson asked Rep. Giacometto about an apparent inconsistency in the bill in that the counties can raise their taxes but the state cannot. Rep. Giacometto replied that this may need legal clarification. He stated his intent was that the state was not a taxing jurisdiction on a voted levy in order for the county to repeal that levy. Also, there has not been a cap on the state level.

<u>Closing by Sponsor:</u> Rep. Giacometto again stated the most important part of his bill is to clarify the 1986 revenue level stating this was very much needed especially in counties that have experienced significant property evaluation drops.

DISPOSITION OF HOUSE BILL 435

<u>Motion:</u> None

<u>Discussion:</u> None

<u>Amendments, Discussion, and Votes:</u> None

<u>Recommendation and Vote:</u> None. Will be considered in a future executive session.

HEARING ON HOUSE BILL 236

Presentation and Opening Statement by Sponsor:

Rep. Richard Nelson, House District 6, submitted his presentation in writing. (Exhibit 8 and 9).

Testifying Proponents and Who They Represent:

Bruce Muir, Montana Schoolboards Association
Eric Fever, Montana Education Association
Jess Long, School Administrators of Montana

Proponent Testimony:

Bruce Muir stated that in the last session, the education trust fund was used to balance the budget. This was of great concern to the education community and was contrary to the legislative intent when the trust was established. Mr. Muir stated there must be a better solution to establishing school funds and recommended the Public School Fund mentioned in the constitution. HB 236 amends that section of the constitution that establishes the Public School Fund and this trust is inviolate. The Public School Fund establishes funds for schools the same as the education trust fund but cannot be used for anything other than public school funding. Mr. Muir stated there is no fiscal impact of this bill during this biennium since this does not become effective until the start of the next biennium. Mr. Muir said the amendments to the bill presented by the sponsor eliminates the schools receiving double funding from both the Education Trust Fund and the Public School Fund since they have no intention of doing this. Mr. Muir urged support for HB 236.

Eric Fever stated that for all intents and purposes, the education trust fund is dead since it was capped and then used for other funding. He stated that what little is left of the fund is slated to be used in former Governor Scwinden's budget. Current Governor Stephens has not altered that proposal. The loss of these funds has resulted in a cooperative effort between the Montana Education Association, the Montana Schoolboards Association and the School Administrators of Montana to find a solution. HB 236 would require the legislature to place on the ballot in 1990, a proposal to the people to amend the constitution to protect money transferred from the coal tax in to the common school fund and to remain forever inviolate for public schools. Mr. Fever urged passage of the bill.

Jess Long stated that public school funds are an endowment to be used in future years. He urged passage of the bill and asked the committee in so doing to give the people of

Montana the opportunity to vote on this concept.

Testifying Opponents and Who They Represent:

None.

Opponent Testimony:

None.

Questions From Committee Members: Rep. Driscoll asked Mr. Muir since you will receive 7.6% in FY 90, is the purpose to get less money or to have a constitutional trust. Mr. Muir replied the 7.6% goes to the educational trust. The foundation program only receives 67.5% of the interest from the foundation program. For the two year period, only 5 million of the 7.6 would go to K12 education. Rep. Driscoll then asked the amount of money in the public school fund at present to which Mr. Muir replied $190,000,000.00.

Rep. Giacometto asked Mr. Muir what percentage goes to the school equalization fund of the public school fund interest. Mr. Muir replied 95% goes to the foundation program and 5% is reinvested in the trust.

Closing by Sponsor: Rep. Nelson thanked the committee and urged a positive action on the bill.

DISPOSITION OF HOUSE BILL 268

Motion: None

Discussion: None

Amendments, Discussion, and Votes: None

Recommendation and Vote: Will be considered in executive session at a later date.

EXECUTIVE SESSION

DISPOSITION OF HOUSE BILL 35 HEARD ON JANUARY 11, 1989:

DISCUSSION: Rep. Harrington presented the revised fiscal note on HB 35 to the committee stating the bill reduces the taxable value of buses and trucks heavier than 3/4 ton which gives a total impact of $607,520.00.

Rep. Driscoll stated that his subcommittee reduced the tax rate on trucks and buses from 13 to 11% and clarified the definition of coal haulers but did not change the tax classification.

Rep. Raney stated he did not understand the $607,520.00 total amount. Rep. Cohen clarified this stating this is the reduction in taxable value. The mill levy is then applied to the taxable value so the dollar loss per year would be $168,177.00.

MOTION: DO PASS AS AMENDED by Rep. Gilbert. Passed by the committee on a voice vote of 12 to 6. Reps. Driscoll, O'Keefe, Raney, Schye, Stang and Cohen voted no.

DISPOSITION OF HOUSE BILL 268:

Placed into subcommittee by Chairman Harrington with Rep. Elliott as chairman, and Reps. Raney and Rehberg.

ADJOURNMENT

Adjournment At: 11:02 a.m.

Dan Harrington

REP. DAN HARRINGTON, Chairman

DH/lj

2915.min

DAILY ROLL CALL

TAXATION COMMITTEE

51st LEGISLATIVE SESSION -- 1989

Date February 3, 1989

NAME	PRESENT	ABSENT	EXCUSED
Harrington, Dan, Chairman	✓		
Ream, Bob, Vice Chairman	✓		
Cohen, Ben	✓		
Driscoll, Jerry	✓		
Eliott, Jim	✓		
Koehnke, Francis	✓		
O'Keefe, Mark	✓		
Raney, Bob	✓		
Schye, Ted	✓		
Stang, Barry	✓		
Ellison, Orval	✓		
Giacometto, Leo	✓		
Gilbert, Bob	✓		
Good, Susan	✓		
Hanson, Marian	✓		
Hoffman, Robert	✓		
Patterson, John	✓		
Rehberg, Dennis	✓		

CS-30

2-3-89
12:10 pm
7.0.

STANDING COMMITTEE REPORT

February 3, 1989

Mr. Speaker: We, the committee on Taxation report that House Bill 35 (first reading copy -- white) do pass as amended.

Signed: ______________________
Dan Harrington, Chairman

And, that such amendments read:

1. Title, line 4.
Strike: "GENERALLY"

2. Title, line 5.
Following: "CLARIFYING"
Insert: "CERTAIN"

3. Title, lines 9 and 10.
Following: "STORAGE;" on line 9
Strike: "CLARIFYING PROVISIONS RELATING TO PER CAPITA TAX ON LIVESTOCK; CLARIFYING SWINE VALUATION PROCEDURES;"

4. Title, lines 12 through 14.
Following: "TON;" on line 12
Strike: the remainder of line 12 through line 14

5. Title, line 16.
Following: "15-24-902"
Strike: "THROUGH"
Insert: ", 15-24-903, AND"

6. Title, line 17.
Strike: line 17 in its entirety

7. Title, line 18.
Following: "SECTIONS"
Strike: "15-8-401 THROUGH 15-8-407,"

8. Title, line 19.
Strike: "15-24-926,"

9. Page 5, line 2.

Following: "exceed"
Strike: "16,000"
Insert: "18,000"

10. Page 5, line 4.
Following: "mining"
Strike: ","
Insert: "or"
Following: "quarrying"
Strike: ", or earthmoving"

11. Page 5, line 14.
Strike: "nonperishable,"

12. Page 5, lines 15 and 16.
Following: "livestock" on line 15
Strike: the remainder of line 15 through "harvest" on line 16

13. Page 5, line 20.
Following: "~~March~~"
Strike: "January"
Insert: "March"

14. Page 6, line 12.
Following: "~~and~~"
Insert: ", other than livestock,"

15. Page 7, lines 5 and 6.
Following: "~~grain,~~" on line 5
Strike: the remainder of line 5 through "ton" on line 6

16. Page 7, line 25.
Following: "on"
Strike: "January"
Insert: "March"

17. Page 8, line 3.
Following: "of"
Strike: "January"
Insert: "March"

18. Page 8, line 10.
Following: "on"
Strike: "January"
Insert: "March"

19. Page 8, line 20 through page 9, line 3.
Strike: section 10 in its entirety
Renumber: subsequent sections

20. Page 9, line 10.
Following: " state after"
Strike: "January"
Insert: "March"

21. Page 10, line 3 through page 16, line 17.
Strike: sections 12 through 17 in their entirety
Renumber: subsequent sections

22. Page 16, lines 18 and 19.
Following: "Sections" on line 18
Strike: "15-8-401 through 15-8-407,"

23. Page 16, line 19.
Strike: ", 15-24-926,"

24. Page 16, lines 21 through 24.
Strike: section 19 in its entirety
Renumber: subsequent sections

EXHIBIT 1
DATE 2/3/89
HB 420
Rep. F. Kukoski

HB-420

"An act to extend the tax incentive for production of alcohol that is blended or is to be blended as gasohol."

ALCOTECH BACKGROUND

Alcotech is an ethanol plant located at Ringling, Montana which began production in 1981. Much time has been spent on research and development of the plant to the point of making it a very efficient plant. The facility capitalizes on waste wood products as a primary energy source for the production of ethanol from wheat and feed grains. The removal of the waste wood products from the local lumber mills has proven to be advantageous for the mills as it reduces their need for disposal of the products. The plant in most cases utilizes lower or off grade qualities of wheat or feed grains which normally would have little economic value to the producers. Alcotech has created a strong market for these off grade grains.

Alcotech started a livestock feeding program in late 1987 to pursue the utilization of Distillers Dried Grains (DDG) in livestock rations. To this point in time, the research and development of the ration formulations and characteristics of DDG rations have been extremely encouraging. We are firmly of the belief after dozens of tests on various classes of livestock that there is little economic loss to the original product value by the production of ethanol.

The economic value of DDG when used properly in the livestock rations can be from 65% to 100% of the original value of the grain. Many off grade grains which are not acceptable for livestock consumption can be used in the ethanol process and still yield back a number one quality DDG.

ADVANTAGES OF ETHANOL

1. Energy Source: The previous energy crises in the late 1970's occurred when imports were running at 37% of consumption. Our country now is at 42% imports. Ethanol should be the alternative to a large percentage of these imports, thus reducing our foreign dependence.

2. Environmental Enhancement: Test results of burning 10% ethanol and 90% gasoline have indicated as much as a 34% reduction in carbon monoxide emissions. Many cities in our country are out of compliance with EPA emissions standards currently and ethanol provides a viable use in achieving compliance. Ethanol can be a valuable fuel for reduced ozone production which is leading to the world greenhouse effect.

3. Octane Enhancement: Lead was once the nations most widely used octane enhancer and is currently being phased out as it is toxic. Many other octane enhancers are carcinogenic or suspected of being carcinogenic and will be phased out. Benzene, a carcinogenic octane enhancer, is currently under scrutiny to be eliminated. Ethanol is a completely clean burning, non-toxic, non-carcinogenic octane enhancer.

EXHIBIT 1
DATE 2/3/89
HB 420
Roger F. Koehnke

4. Grain Market: A recent study released by a ~~White House task~~ force on regulatory relief has revealed that government farm subsidy payments were reduced from between 59¢ to $1.37 for each gallon of ethanol that was produced. Ethanol production provides a strong and viable market not only for number one grains but particularly for off grade and lower quality grains.

ENHANCEMENTS FOR THE MONTANA ECONOMY

1. Jobs: Whereas Montana's economy has not been conducive to an increased number of jobs the past few years, ethanol can be a viable option to increased employment, not only in the production of ethanol, but also with utilization of the co-products such as DDG, CO_2, wheat oil and barley oil.

2. Optimization of Current Grain Production: Whereas ethanol may be produced by utilizing lower quality and off grade grain products, it provides a very viable market for products currently having little or no economic value--such as sprout damage, germ damage, bug damage, heat damage, etc.

3. Wood Forrest Products: Current research indicates that waste wood forrest products can be an extremely good source of feedstock in the production of ethanol. There is strong potential for the development of ethanol through utilization of these waste products. Currently, disposal of waste wood products poses a serious economic strain on the wood forrest products industry.

4. Livestock: Utilization of highly efficient DDG's could mean increased numbers of livestock being placed on feed within Montana or retained in Montana for longer periods of time. Also, a curtailment of imported protein sources for Montana livestock.

5. Value Added: As most major Montana resources are currently being exported out of state, ethanol can be an extremely important industry to utilizing these products by adding value, creating jobs and stimulating Montana's economy.

WHAT CAN BE DONE IN MONTANA?

Noting the increased demand for ethanol and environmental considerations of our energy supply, Montana is in an excellent position to capitalize on this industry. If Montana is to remain competitive with adjacent states, tax incentives for the production of ethanol will assist this industry which should grow markedly within the decade. HB 420 is an extension of the current tax incentive to ethanol which could be a valuable tool in creating new industry, sustaining jobs and benefiting Montanas tremendous grain, livestock and wood forrest products industry.

EXHIBIT 2
DATE 2/3/89
HB 420
Rep. F. Kilkenke

ETHANOL: An Industry of Montana

A Summary of the Industry and its Future
January, 1989

What is ethanol?

Ethyl alcohol (ethanol) is a high grade alcohol product that is used as an octane enhancer for unleaded gasoline. Fuel blenders and bulk plant distributors will blend the ethanol product with their gasoline supplies to produce, primarily, premium unleaded gasoline. Normally, the industry utilizes a 10% ethanol blend ratio; one gallon of ethanol is blended with nine gallons of gasoline.

Ethyl alcohol is produced from feed grain (wheat, barley or corn) through a fermentation process. In general terms, the process is based on standard technology used in the brewing industry for years; starch from the grain is fermented into alcohol. The protein that remains is in the form of mash and contains fat, fiber, and minerals. This mash is a by-product of the alcohol process and it is commonly referred to as distillers dried grain (DDG).

Are there advantages to the ethanol product?

Yes, the features of the ethanol industry provide at least three advantages over traditional gasoline consumption:

1. Environmental Considerations -- ethanol test results have demonstrated that a 10% blend can reduce carbon monoxide emissions by as much as 30%. EPA air quality standards are not being met in over 80 metropolitan areas; as an octane enhancer, ethanol meets these standards and is already on the agenda for national political attention and support.

Carbon monoxide emissions are also feared as a major contributor to the ozone break-down. Ozone deterioration has led to speculation of the "greenhouse effect" in altering our normal climatic conditions. Ethanol usage, and its environmental advantages, help to positively impact growing public concern in this area.

2. Energy Alternative -- the energy crisis of the 1970's demonstrated an over-dependence on foreign oil imports as a source of energy. Alternative sources of energy grant us greater control and independence in terms of our energy future. As a domestically-produced energy source, ethanol is an excellent alternative to customary gasoline consumption.

3. Extended Market for Grain Production -- the alcohol production process relies upon grain as its feedstock. Depending upon plant preferences, either wheat, barley, or corn can be used effectively in the process. As ethanol production increases, there

EXHIBIT 2
DATE 2/3/89
HB 420
Rep. F. Koehnke

will be a corresponding increase in demand for such grain products. Therefore, the ethanol industry serves as a viable marketplace for surplus grain inventories, as well as annual harvest yields.

<u>What can be done to enhance the Montana ethanol industry?</u>

Noting the rising demand and popularity of ethanol, the future appears to be very bright. In this spirit, it is critically important that Montana maintain its competitive position with neighboring states.

Along with many other states, Montana presently offers tax incentives for the production of ethanol. Such incentives allow Montana producers to remain competitive with other states and achieve a certain degree of price stability.

The 1983 legislature authorized tax incentives for Montana ethanol production and, at present, these producer credits stand at 30 cents per gallon of ethanol. This incentive is competitive with other states and the legislation has proven to be very beneficial in assisting Montana's ethanol industry. Unfortunately, these alcohol tax incentives expire on April 1, 1989, a circumstance that could jeopardize future operations in Montana.

Rep. Francis Koehnke has introduced a bill to maintain these alcohol tax incentives and extend the allowable time period. This measure is consistent with other states and will allow Montana ethanol producers to remain competitive within the regional marketplace.

<u>Tax Incentives of Other Key States</u>

a) Idaho: 40 cents per gallon / blender credit (domestic)

b) Minnesota: 40 cents per gallon effective
/ 20-cent producer credit
/ 20-cent blender credit

c) Nebraska: 30 cents per gallon / producer credit

d) North Dakota: 40 cents per gallon / producer credit

e) South Dakota: 50 cents per gallon effective
/ 30-cent producer credit
/ 20-cent blender credit

f) Washington: 28 cents per gallon / blender credit (domestic)
18 cents per gallon / blender credit (imported)

EXHIBIT 2
DATE 2/13/89
HB 420
Rep. F. Koehnke

<u>Other Important Advantages for Montana</u>

The ethanol industry is well-suited to the economic characteristics of Montana. As primarily a natural resource state, Montana will realize both immediate and long-term benefit from the ethanol industry:

1. Agricultural Impact -- the ethanol industry is a true complement to Montana's agricultural communities. Current production methods utilize grain (wheat, barley, or corn) as the feedstock for the fermentation process. Ethanol producers are a growing market for such feed grains.

Additionally, the DDG by-product serves as an excellent high-protein feed supplement for livestock. Montana cattle feeders are finding the DDG product to be quite efficient in producing a quality beef product.

2. Forest Products Impact -- extensive research has been conducted in perfecting an alcohol production process that utilizes waste wood as its feedstock material. Now a burden to most lumber operations in Montana, wood chips and/or sawdust could be a new and viable resource for the ethanol industry of Montana.

The viability of waste wood as a feedstock is documented by Brelsford Engineering (Bozeman, Montana). Further, waste wood is the basis of the ethanol production facility of Bellingham, Washington.

3. Employment Impact -- In addition to greater optimization of our natural resources, the ethanol industry offers an expanding employment picture. As ethanol facilities are opened and/or production is increased, there will be a need to employ more workers in Montana. the industry offers good paying jobs and a quality work environment.

EXHIBIT 3
DATE 2/3/89
HB
Rep. F. Kubota

Butte Local Development Corporation

P.O. Box 507
Butte, Montana 59703

305 West Mercury
Phone 406-723-4349

DATE: February 3, 1989

TO: House Taxation Committee

FROM: Evan Barrett, Executive Director, Butte Local Development Corporation

SUBJ: Support for House Bill 420

Mr. Chairman and Members of the Committee:

The Butte Local Development Corporation (BLDC) urges this committee to give a "do pass" recommendation to House Bill 420 -- the extension of tax incentives for the production of ethanol from Montana grain.

The current law provides an incentive for "value-adding" to a key agricultural commodity. Continuation of this incentive is essential if we are to pursue value-adding as an economic development strategy.

We are particularly interested in the continuation because the BLDC, along with the Montana Energy Research and Development Institute (MERDI), and Technologies International Exchange, Inc. (TIE) are jointly pursuing the development of an integrated barley facility for Montana. One of the products from such a facility would be ethanol. The technology for the process is on line in a foreign country and represents a technology transfer opportunity for Montana to create a level of value-adding onto barley, which at this time is almost totally shipped out of state as a commodity.

The development of this plant requires additional feasibility analysis and financing before it can come on line, but the continued existence of the current incentive is critical to the development of the project. We estimate that the project could cost as much, or more than, $30 million. That capital cannot be attracted to the project without the continuation of the current ethanol production incentive.

This potential project is important for Montana's barley producers in their effort to "value-add" to their commodity. The capacity of the plant would be approximately 150,000 metric tons of barley per year, or 6,870,000 bushels of barley annually. Development of the project would create an in-state demand for over 10% of Montana's average annual non-malting barley production. That would have significant positive implications for Montana's barley industry specifically and in Montana's economy in general.

Our organization is not a rural group, but we see that expansion of Montana's economy requires doing more with our agricultural commodities before they leave the state. We are committed to that "value-adding" goal, and we believe you are as well. If we are to accomplish that goal, we must develop new incentives for value-adding and keep in place those that we currently have -- such as the ethanol incentive. Therefore, we urge you to pass House Bill 420.

EXHIBIT 4
DATE 2/3/89
HB 420
Rep. T. Kitaka

February 2, 1989

TO: House Taxation Committee

FROM: Dennis E. Winters, Partner
Montana Market Development Company

RE: House Bill #420

Mr. Chairman and Members of the Committee:

My name is Dennis Winters, Partner, Montana Market Development Company. The entire mission of our company is economic development. We are currently involved in community, cooperative and individual company consulting for Montanans wanting to make the most of their available resources.

Montanans now find themselves pushed and pulled by macro-economic changes--everything from new market entrants in bulk commodities like wheat and lumber, deregulation in finance and transportation (like the newly threatened essential air service to our most remote communities) and technological changes they simply cannot afford.

We know, beyond any doubt, that the days of guaranteed levels of income beyond input costs from bulk beef, wheat, lumber and minerals are over. If Montana's high quality commodities are to compete in today's export-oriented markets, a large percentage of our production will have to be transformed into value-added or "high value" products.

But progressive Montana producers of raw commodities find themselves with quality advantages and price and delivery disadvantages.

That's where a tax incentive for ethanol production is vital. Our producers must get every in-State advantage in order to be competitive outside of the State. This means more than making the best grain possible. Montana must be able to create value-added products out of its bulk commodities.

In the case of ethanol from wheat, many people have begun to think that such a value-added product is not feasible price-wise. This is very short-sighted.

EXHIBIT 4
DATE 2/3/89
HB 420
Rep. F. Kuchat

Yes, it is true that while low energy prices continue, the demand for ethanol will not increase greatly. However, we all know that prices don't always remain low. It is difficult to find a forecaster that gives oil prices more than five years to continue at levels under twenty dollars. The current low price level for oil will change upwards during the next several years.

If we allow this tax incentive to sunset, we will be caught behind all of the surrounding States. We will have to start all over again.

When the situation changes to higher oil prices, we will be unable to compete with adjacent States for outside investment in ethanol production. The lag time that will occur as a result of not having a tax incentive for ethanol on the books could set Montana back decades as capital for ethanol production facilities goes to other states.

Grain is a major commodity resource in Montana. We need to give our producers every advantage as they struggle to move into the only future Montana has--a future where we add value to our raw resource commodities.

Now is not the time to "sunset" any advantage we have in the highly competitive markets for value-added agricultural commodities. In fact, it was a mistake to put a sunset provision on an incentive for a product in an industry as volatile as energy.

Please do not sunset this much needed tax incentive. Extend this advantage. Some day--in the not so distant future--you will be happy you did.

MONTANA MARKET DEVELOPMENT COMPANY

EXHIBIT 5
DATE 2/3/89
HB 420
Rep. F. Koehnke

For Kay Norenberg phone #449-6589
From Shirley Ball 785-4731

This testimony is given for Shirley Ball of Nashua. In 1987, Shirley Ball was appointed by USDA Secretary Lyng to serve on a seven person national panel to study the Cost Effectiveness of Ethanol.

The panel studied a number of areas including ethanol's impact on the environment, energy security, rural development and agriculture, all of which showed positive impacts.

One of the findings is that ethanol production still needs incentives from state and national government and that these incentives need to be reliable and consistant to encourage investment into ethanol plants. It is pointed out in the study that this is not unreasonable because every other form of energy we have has had incentives or subsidies, and most still have at least some of those incentives. Even after those other energies are well established..

The other point made regarding incentives is that a number of benefits come back to a rural community, a state and the nations, when an ethanol facility is established, that will help offset cost of the incentives.

A quote from page 3-29 of the study says Ethanol production provides a significant, healthy boost to rural economies, on both an economic and social level. Ethanol facitities provide an infrastructure of jobs, taxable productive enterprise over a wide geographic area in rural communities that are sorely in need of new businesses to remain viable.

There have been other programs of support for ethanol in Montana in the past but they have pretty much been phased out. I urge you to support HB 420 and provide help to Montana's fledgling ethanol industry.

I would like to express appreciation to the FAX system that has allowed my testimony to reach the committee when I am unable to, and thanks to Kay Norenberg for agreeing to read it.

Shirley Ball

EXHIBIT 6
DATE 2/3/89
HB 420 Rep. Kadas

NORTHERN PLAINS RESOURCE COUNCIL

Field Office
Box 858
Helena, MT 59624
(406) 443-4965

Main Office
419 Stapleton Building
Billings, MT 59101
(406) 248-1154

Field Office
Box 886
Glendive, MT 59330
(406) 365-2525

TESTIMONY IN SUPPORT OF HB 420

Mr. Chairman and Members of the Committee,

My name is Brant Quick. I am a here today on behalf of the Northern Plains Resource Council in support of HB 420.

As an organization, Northern Plains has long understood the importance of sound economic development. We believe that ethanol production provides this kind of development, and should be actively encouraged by extending the ethanol tax credit.

The ethanol industry is well-suited for Montana's needs. It provides an additional market for our abundant supply of grains, while adding significant value in the process.

In addition, the by-product has proven to be a high-quality, inexpensive source of cattle feed. By generating additional cattle feeding in Montana, we provide additional markets for Montana's feeder calves which are among the finest in the world. Currently, most of our calves are shipped to other states to be finished, depriving Montana the additional revenue generated in the process. There have been many failed attempts to start and maintain packing houses in our state, but according to a represententative of the Montana Beef Council, if we are to successfully create additional beef packing, we must have a greater supply of finished cattle available in Montana.

Ethanol production has other benefits as well. Unlike many other types of energy development, it is renewable and therefore, not limited to finite reserves. Also because ethonal is a very clean fuel, it demand is likely to grow[redacted] faster than most other sources.

Ethanol production can also take place in nearly all places in Montana on both a large and small scale basis. This makes it a more likely source of employment and economic development for most of the state than other sources, such as coal or oil development which require huge amounts of capital and are dependent on isolated reserves.

Finally, the adverse social and environmental impacts often associated with other types of energy development are not experienced with ethanol production. This makes it ideally-

EXHIBIT 6
DATE 2/3/89
HB 420
Rep. F. Koehnke

suited for our states economy which depends greatly on the tourism our pristine environment attracts.

I would like to thank you for the opportunity to present testimony here today and ask that you give a do pass recomendation on HB 420.

MISSOULA

FINANCE/CITY CLERK OFFICE

201 W. SPRUCE • MISSOULA, MT 59802-4297 • (406) 721-4700

FINANCE AND DEBT MANAGEMENT
BUDGET AND ANALYSIS
ACCOUNTING
CITY CLERK
UTILITY BILLING
RISK MANAGEMENT

EXHIBIT 7
DATE 2/13/89
HB 435
Rep. Leo Giacometto

February 2, 1989
Letter #89-026

The Honorable Leo A. Giacometto
Montana House of Representatives
Capitol Station
Helena, MT 59624

Dear Representative Giacometto:

The following are the amendments to House Bill #435 that Alec Hansen talked to you about yesterday:

1. Page 1, line 24, replace "electors of the county" with "electors of the taxing unit". The same should be done for page 7, line 6, but the words "for taxing units in the county" should also be stricken there as they would now be redundant.

This change would make this bill consistent with HB125 and the decision to remove a particular taxing jurisdiction's mill levy limit should be their vote, not the vote of the entire county.

2. Section 2 should be stricken entirely and the subsequent sections renumbered.

The changes to 15-7-122 MCA as proposed in Section 2 have consequences beyond what was the intent of the bill, so Section 2 should be stricken entirely and the subsequent sections renumbered. Section 15-7-122 MCA should remain unchanged because it deals with levying to allow jurisdictions to increase budgets by 5% annually. This law was enacted during the high inflation years to allow flexibility to jurisdictions who were bumped up to mill levy limits, most notably the 65 all purpose mill levy limit found in Section 7-6-4452 MCA. There are currently 59 cities and towns who have used 15-7-122 MCA to exceed the 65 mill levy limit (see attached exhibit).

The intent of what you wanted to do in Section 2 is done by the addition of sub-section 11 on page 8. Section 2 as written could prevent any budget growth for the 59 taxing jurisdictions which exceed the 65 mill levy limit even if they were to annex new land or otherwise have increases to their tax base. Currently those jurisdictions are limited to both the 1986 mill levy limit and 5% budget growth. Jurisdictions at or below 65 mills are limited to the 1986 mill levy limit, but have no budgetary growth limit. The 5% rule in 15-7-122 MCA needs to remain as an important safety net for those jurisdictions which levy more than 65 mills for the all purpose levy. Thank you for your consideration.

Respectfully,
Chuck Stearns
Chuck Stearns
Finance Director/City Clerk

EXHIBIT 7
DATE 2/3/89
HB 435
Rep. L. Giacometto

MONTANA CITIES AND TOWNS USING 15-7-122 MCA TO EXCEED GENERAL/ALL PURPOSE MILL LEVY LIMITS

CITY OR TOWN	1987-1988 ALL PURPOSE OR GENERAL LEVY	1988-1989 ALL PURPOSE OR GENERAL LEVY	PERCENT CHANGE FY88 - FY89
BAKER	67.75	101.61	50.0%
BELT	70.00	70.00	0.0%
BIG TIMBER	84.13	84.13	0.0%
BILLINGS	68.57	68.44	-0.2%
BOULDER	75.00	75.00	0.0%
BOZEMAN	75.37	79.57	5.6%
BRIDGER	65.00	74.00	13.8%
BROADUS	66.78	73.58	10.2%
BROADVIEW	62.00	68.00	9.7%
CASCADE	80.00	65.00	-18.8%
CHINOOK	98.00	102.00	4.1%
CIRCLE	96.55	114.23	18.3%
COLUMBIA FALLS	76.12	69.00	-9.4%
COLUMBUS	76.76	80.76	5.2%
CONRAD	65.00	102.92	58.3%
CULBERTSON	60.00	78.87	31.5%
DEER LODGE	65.02	60.29	-7.3%
DENTON	81.96	83.20	1.5%
DILLON	78.32	65.00	-17.0%
DUTTON	91.00	91.00	0.0%
EAST HELENA	62.00	80.25	29.4%
EKALAKA	65.00	76.17	17.2%
FORSYTH	91.43	109.29	19.5%
FORT BENTON	90.54	90.07	-0.5%
FROMBERG	70.50	68.00	-3.5%
GLASGOW	119.10	133.82	12.4%
GLENDIVE	88.40	95.36	7.9%
GREAT FALLS	67.27	95.07	41.3%
HAMILTON	65.74	65.00	-1.1%
HARDIN	65.00	65.58	0.9%
HARLEM	144.09	154.75	7.4%
HARLOWTOWN	90.95	90.95	0.0%
HAVRE	75.30	74.54	-1.0%
HOBSON	66.65	65.00	-2.5%
HOT SPRINGS	87.00	92.00	5.7%
HYSHAM	79.00	86.50	9.5%
KALISPELL	82.03	76.39	-6.9%
KEVIN	82.67	65.00	-21.4%
LEWISTOWN	83.55	84.80	1.5%
LIMA	92.20	111.20	20.6%
LIVINGSTON	92.63	94.98	2.5%
MALTA	61.12	111.39	82.2%
MANHATTEN	66.30	63.00	-5.0%
MEDICINE LAKE	65.00	75.75	16.5%
MILES CITY	87.54	96.69	10.5%
MISSOULA	92.75	93.34	0.6%
NASHUA	98.56	119.69	21.4%
NIEHART	53.00	67.00	26.4%
PLENTYWOOD	89.20	95.85	7.5%
POLSON	55.00	95.59	48.6%
POPLAR	65.00	68.25	5.0%
RED LODGE	88.54	97.48	10.1%
RICHEY	65.00	75.00	15.4%
SACO	80.00	159.25	99.1%
SHELBY	90.85	90.85	0.0%
SIDNEY	68.50	68.50	0.0%
ST. IGNATIUS	73.00	73.00	0.0%
SUNBURST	121.80	121.80	0.0%
SUPERIOR	65.00	73.26	12.7%
TERRY	89.78	106.60	18.7%
THOMPSON FALLS	79.81	89.44	12.1%
TROY	86.17	85.62	-0.6%
WESTBY	191.00	106.00	-44.5%
WHITEFISH	84.25	84.25	0.0%
WIBAUX	65.00	69.00	6.2%
WINNETT	70.93	65.00	-8.4%
WOLF POINT	65.00	67.24	3.4%
AVERAGE	80.48	86.58	7.6%
# OF CITIES OVER 65 MILLS	51.00	59.00	15.7%

SOURCE: PROPERTY TAX MILL LEVIES 1988-89. MONTANA TAX FOUNDATION. (HELENA. MT: 1989) VARIOUS PAGES.
PROPERTY TAX MILL LEVIES 1987-88. MONTANA TAX FOUNDATION. (HELENA. MT: 1988) VARIOUS PAGES.

HB236
Richard Nelson

EXHIBIT 8
DATE 2/3/89
HB 236
Rep. R. Nelson

During the recent "initiative season" a valiant effort was made to do something about school funding. Numerous parent groups, with the aid of school boards, teachers, and administrators worked hard at getting C142 on the ballot & succeeded in getting about 25,000 of the 37,000 signatures needed, or about 80% — more than any other initiative except those that actually qualified.

HB236 is the "son of C142". As you will remember, the legislature last session raided the Education trust to balance the budget. The trust was reduced from about 80×10^6, providing about 8×10^6 to the foundation program, to a mere 8.5×10^6

EXHIBIT 0
DATE 2/3/89
HB. 236
Rep. R. Nelson

which provides the foundation ~~program~~ with less than $1x10^6 — a decrease of about 85%

In this session, the watch word is "education funding" HB 236 is one vehicle in a whole caravan of vehicles that will be needed for this #1 issue.

There are proponents present who can provide details far better than I. There is also an amendment in the form of a some "where ases" to show intent as to effect on other agencies ~~"statement of intent"~~ which we would ask you to ~~continue~~. consider.

EXHIBIT 8
DATE 2/13/89
HB 236
Rep. R. Wilson

Close -

I think C142 got caught in the flood of 'off the wall' iniatives + people were so fed up that they just quit signing anything.

I would urge a positive action on HB 236 at this time as it is a constitutional amendment + has to be voted on in 1990 before it can even start to have an effect.

To wait until the next election cycle and take a chance on another iniative try or take action in the next legislative session would just prolong the funding agony.

EXHIBIT 9
DATE 2/3/89
HB 236
Rep. R. Nelson

Amendment to HB 236
1st reading copy
Requested by Sponsor

1. Page 1, line 9,

Insert: "WHEREAS, the Legislature has placed coal tax money into the Education Trust to provide for the future funding of education,

WHEREAS, the 1989 Legislature appropriated most of the money in the Education Trust,

WHEREAS, a constitutional appropriation of coal tax money to the Public School Fund will not be able to be appropriated by future Legislatures,

WHEREAS, such an appropriation should not affect the funding of other recipients of coal tax money,

WHEREAS, amendments will be necessary in the next legislative session to the statutory distribution of coal taxes to insure that this bill is revenue neutral to other agencies,"

VISITORS' REGISTER

HOUSE TAXATION COMMITTEE

BILL NO. HB 420 DATE February 3, 1989

SPONSOR Rep. Francis Koehnke

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Kim Enkerud	MT State Grazing District MT Cattlewomen, MT Stockgrowers	✓	
Gordon Doig	White Sulphur Springs, mt.	✓	
Sherri Doig	" " " "	✓	
Don Sterhan	Helena, MT	✓	
[illegible]	[illegible]		
Chris Kaufman	MEIC	✓	
J. KELDLE	MAPP	✓	
Brant Quick	Northern Plains Resource Council	✓	
Kay Norenberg	WIFE	✓	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

CS-33

VISITORS' REGISTER

HOUSE TAXATION COMMITTEE

BILL NO. HB 435 DATE February 3, 1989

SPONSOR Rep. Leo Giacometto

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Dennis Burr	Clancy		✓
Chuck Stearns	City of Missoula	✓	
Gloria Hermanson	MT Cultural Adv	✓	
Eric Feaver	MEA	✓	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

TAXATION COMMITTEE

BILL NO. HB 236

DATE February 3, 1989

SPONSOR Rep. Richard Nelson

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Jess W Long	S.A.M	✓	
Bruce W. Moerer	MSBA	✓	
Harriett Meloy	MLWV		
Eric Feaver	MEA	✓	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.