

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Chairman Harrington, on February 15, 1989, at 9:00 a.m.

ROLL CALL

Members Present: 17

Members Excused: 1

Members Absent: None

Staff Present: Dave Bohyer, Legislative Council

Announcements/Discussion: None.

HEARING ON HOUSE BILL 564

Presentation and Opening Statement by Sponsor:

Rep. Lloyd McCormick, House District 64, stated his bill is a tax refund for the elderly. He said the people who live in low income housing pay rent the same as those in federal government subsidized housing. The rental is based on the tenant's income. Rep. McCormick stated those who live in state low income housing are entitled to the same refund as those in federal government housing.

Testifying Proponents and Who They Represent:

Greg Grepher, At the request of Rep. McCormick
Virginia Jellison, Low Income Coalition Lobbyist

Proponent Testimony:

Greg Grepher stated this was an income tax and a property tax problem together. Subsidized housing districts financed by government bonds are exempt from property tax. Mr. Grepher said that under the elderly homeowner credit refund plan, people applied for the credit, sending in their applications, and a refund would be paid with no confirmation as to whether or not they were in subsidized housing. As a result, there were people in tax exempt housing that still received the elderly homeowner credit refund while others did not. This legislation is to provide low income people in tax exempt housing with eligibility for the property tax refund. The legislative intent was to provide property tax relief but payment in lieu of tax was

not addressed.

Virginia Jellison stated her organization supports the bill. Ms. Jellison said she had an extensive background in public housing administration and housing authorities do pay in lieu of taxes. She stated public housing tenants were allowed to receive a portion of the property tax refund in Minnesota where she previously worked. She stated this was a good program and encouraged the committee to pass the bill.

Testifying Opponents and Who They Represent:

Jeff Miller, Department of Revenue

Opponent Testimony:

Jeff Miller stated the bill loses sight of the original intent of the elderly renter credit program. He said this bill extends the refundable credit program to elderly residents living in local housing authority homes. Mr. Miller stated these residents do pay rent but it is not connected in any way with the taxes paid in lieu of property tax by the housing authority. For this reason, Mr. Miller stated the DOR opposes the bill.

Questions From Committee Members: Rep. Raney asked Mr. Miller how much rent was paid by the people in the subsidized housing and how much the tax credit return would be. Mr. Miller replied that the formula used to calculate the rent starts with the gross income of the tenant minus \$400.00 times 30% divided by 12. This would equal their monthly rent. He stated the credit would be an average of \$200.00. Rep. Raney asked what was the average rental cost. Mr. Miller stated he did not know. Rep. McCormick replied it was \$150.00 per month.

Rep. Good asked Ms. Jellison what income guidelines were needed for qualification for the housing authority homes. Ms. Jellison replied each housing authority has different levels of maximum income. She stated the 30% was correct. Ms. Jellison stated her approximation of the average rent would be \$100 to \$150 per month. Rep. Good asked if this is \$125.00 per month, then the tax credit would be \$100 to \$110. Ms. Jellison concurred.

Closing by Sponsor: Rep. McCormick stated the Revenue Department base on the fiscal note was incorrect. He hoped the committee would pass the bill since the elderly people needed the credit.

DISPOSITION OF HOUSE BILL 564

Motion: None

Discussion: None

Amendments, Discussion, and Votes: None

Recommendation and Vote: None. Action will be taken in executive session at a later date.

HEARING ON HOUSE BILL 607

Presentation and Opening Statement by Sponsor:

Rep. Tom Hannah, House District 86, stated that under Montana law, if anyone files for a Subchapter S through the Internal Revenue Service, they are required to resubmit an application for Subchapter S in the state. Not everyone is aware this is the law and many problems have resulted. HB 607 is to eliminate the separate application to the state for this distinction by the IRS.

Testifying Proponents and Who They Represent:

Tom Harrison, Montana Society of Certified Public Accountants

Jeff Miller, Department of Revenue, State of Montana

Mike Holland, Montana Society of CPAs

Proponent Testimony:

Tom Harrison stated that his organization supports the bill. He said there have been problems in that the federal distinction may be made but overlooked at the state level. He stated this bill would correct the problem and up until the first filing of the tax return, will allow an indication to the state revenue department. Mr. Harrison stated SB 339 also contains this provision but it will be eliminated if this bill is approved.

Jeff Miller stated the Montana Subchapter S provision and requirements have been amended successively over time to be almost identical to the federal. He said the only remaining requirement that is unique to Montana, is that the corporation must elect within the first 75 days of the year in which the election is to become effective. If this election is missed, it is normally discovered when the first tax return is filed by the corporation. At this point, the shareholders have filed their individual returns and the corporation return is filed later. No election is found at this time and the corporation has to pay taxes at the regular corporate rate. Then amended returns must be filed. This does create difficult problems for the taxpayers and for the department. He stated HB 607 does provide a remedy in that if the election is missed, when the return is filed for the first time, if the federal form reporting the income under the Subchapter S is attached to the Montana tax

return, this allows the individuals to perfect that election for state of Montana purposes. The committee may want to consider a 60 day latitude to remedy the effect if the corporation neglects to attach the federal form to the Montana state return.

Mike Holland mentioned several technical matters in the bill he would like addressed. One was the matter of a corporation under the Subchapter S losing their election, they must then file two different returns, one for the Subchapter S time and one for the prior time. He stated he would like to have the Montana law conform to this. The second problem deals with the time period for the corporation to prove their Subchapter S status. He stated his organization would like to work with the DOR on the language for these two amendments and report back to the committee. Chairman Harrington suggested to Mr. Holland that he work with Mr. Bohyer on this matter.

Testifying Opponents and Who They Represent:

None.

Opponent Testimony:

None.

Questions From Committee Members: Rep. Raney asked Rep. Hannah if this covered first time corporation Subchapter S applications only. Rep. Hannah replied this was correct.

Closing by Sponsor: Rep. Hannah stated he would support the proposed amendments by the CPA Society but he would suggest they should be done as quickly as possible so the bill can be acted upon right away.

DISPOSITION OF HOUSE BILL 607

Motion: None

Discussion: None

Amendments, Discussion, and Votes: None

Recommendation and Vote: None. Executive action will be taken at a later date.

EXECUTIVE SESSION

DISPOSITION OF HOUSE BILL 420 HEARD ON FEBRUARY 3:

MOTION: DO PASS by Rep. Koehnke.

DISCUSSION: Rep. Koehnke submitted information to the committee from Brelsford Engineering. (Exhibit 1). He stated alcohol is taxed 20% so there is only a 10 cent difference between the incentive and the tax. Rep. Koehnke stated this bill will help the small business people in the industry.

Rep. O'Keefe expressed concern with alcohol going out of the state. While this is still good for Montana, the end product, after blending, is not available in Montana. He also suggested an amendment on page 4, line 4, where reference is made to 2.5 million dollars in any consecutive period. Rep. O'Keefe stated that the most that has been used under this exemption is \$720,000.00 in a twelve month period. He asked why this was so high and could it be cut by half and still build the new plant planned for Butte. Rep. Koehnke replied this is high because two years ago, a plant was to be started in Hardin and the figures are based on this.

Rep. Schye stated this was a perfect example of value added to products going out of the state. He stated there was a gasohol station in Great Falls and this is a good project.

Rep. Patterson stated gasohol was available in Billings and Laurel. He stated he supported the bill.

Rep. Gilbert expressed his concern with the fact that he can only buy gasohol four months out of the year in his area. He said 60% of the manufactured amount currently is going out of the state. Rep. Gilbert also stated there were two gasohol plants built with grants that went out of business. He stated he would support the bill if it were a two year limit and if the 2.5 million could be cut.

Rep. Koehnke stated export of the product is certainly good for Montana.

Rep. Raney stated he had received information from Brelsford Engineering on this matter. He said they are considering using wood alcohol as well as grain alcohol. Rep. Raney stated this would eliminate much of the wood product waste problems. He said possibly the incentive could be extended to July 1, 1991 and cut the monetary amount to 1.5 million.

Rep. Gilbert proposed an amendment changing the effective date to July 1, 1991 on page 2, line 4 and on page 4, line 4, strike \$2,500,000.00 and insert \$1,125,000.00.

The amendments were PASSED by a voice vote of 11 to 6 with Reps. Rehberg, Stang, Koehnke, Elliott, Schye and Chairman Harrington voting no.

The motion to DO PASS AS AMENDED was passed 16 to 1 on a voice vote. Rep. Cohen voted no.

DISPOSITION OF HOUSE BILL 442 HEARD ON FEBRUARY 7:

MOTION: DO NOT PASS by Rep. Giacometto.

DISCUSSION: Rep. Giacometto stated this should be handled by state officials and the law left as it is currently.

The committee voted unanimously to DO NOT PASS.

DISPOSITION OF HOUSE BILL 444 HEARD ON FEBRUARY 8:

DISCUSSION: Rep. O'Keefe stated the program, which deals with the senior citizen mock legislature, was very good but he had some problems with the fiscal note.

MOTION: DO PASS by Rep. Raney. DO PASS on amendments by Rep. Schye.

Rep. Raney asked Dave Bohyer to explain the effect of the amendments. Mr. Bohyer stated 15% of the money will be used for administration in the first five years of the program.

The amendments were PASSED by a 12 to 5 voice vote. Reps. Rehberg, Good, Giacometto, Koehnke, and Hoffman voted no.

Rep. Giacometto spoke to the bill stating he felt the bill was unnecessary and the gray power organization could well afford to raise money themselves.

The committee PASSED AS AMENDED HB 444 by a 10 to 7 voice vote. Reps. Ream, Gilbert, Hoffman, Rehberg, Giacometto, Good and Hanson voted no.

DISPOSITION OF HOUSE BILL 456 HEARD ON JANUARY 31:

DISCUSSION: Rep. Hoffman stated the bill provides that half of the personal property taxes be paid the same date as the real property taxes. He said that after discussing this with Mr. Bohyer, they concluded that the county treasurer could collect taxes within 90 days under the existing codes and there are protections against people moving property out of the state to evade taxation so he withdrew his reservations concerning the bill and moved DO PASS.

Rep. Patterson made the motion to STRIKE 30 DAYS AND INSERT 90 DAYS on page 3, line 20 of the bill.

Dave Bohyer commented that HB 12 was amended to provide this change and the bill has already passed.

Rep. Gilbert stated since this had been done in HB 12 so there was no need for a further bill.

Mr. Bohyer commented that HB 12 addressed only mobile homes. This bill relates to all personal property taxes.

Rep. Stang opposed the bill. He stated there were many businesses that would prefer to pay their property taxes at the end of May and the end of November for cash flow reasons. If they must pay them all at once, it will create financial difficulties.

Rep. Ream spoke against the amendments. He stated the 90 days was excessive.

The committee voted DO NOT PASS on the amendments by a 16 to 1 voice vote. Rep. Patterson voted no.

The committee returned to the bill. Rep. Gilbert made a substitute motion to TABLE.

The committee voted 14 to 3 by voice vote to TABLE the bill. Reps. Giacometto, Elliott and Koehnke voted no.

DISPOSITION OF HOUSE BILL 457 HEARD ON FEBRUARY 2:

DISCUSSION: Rep. O'Keefe, who was on Rep. Driscoll's subcommittee on HB 457, stated there were amendments to the bill that combined SB 17 and HB 457. Copies of the amendments were distributed to the committee.

Rep. Gilbert questioned the amendment concerning the classification of expensive foreign cars stating there were older foreign cars of low value, would they be included under the \$150,000.00 value classification. Rep. O'Keefe said yes, but the owner can appeal the taxation to his county appeals board.

MOTION: DO PASS on the bill and moved the amendments by Rep. O'Keefe.

The committee PASSED the amendments by a voice vote of 16 to 1. Rep. Elliott voted no. The committee voted DO PASS AS AMENDED on HB 457 by a unanimous voice vote.

DISPOSITION OF SB 17 HEARD ON FEBRUARY 1:

MOTION: TO TABLE by Rep. Giacometto.

The motion TO TABLE was passed by a unanimous voice vote.

DISPOSITION OF HOUSE BILL 30:

MOTION: TO TABLE by Rep. Raney.

The motion TO TABLE was passed by a unanimous voice vote.

DISPOSITION OF HOUSE BILL 472 HEARD ON FEBRUARY 7:

MOTION: DO PASS by Rep. Raney.

DISCUSSION: Rep. Raney stated the bill assists low income

elderly people by deferring their property tax payments. This will be funded by a million dollars from the Education Trust Fund.

Rep. Hoffman asked how the bill would be administered, through the county or the Department of Revenue. Rep. Raney responded it would be administered by the DOR. Rep. Hoffman stated he was concerned with this since he feels this should be handled through the income tax division of the DOR and he hoped this would be handled this way. Rep. Raney replied that is exactly the way it will be administered. Rep. Hoffman asked why the elderly people could not mortgage their homes to pay their property taxes and their heirs could pay the mortgage. Rep. Raney replied they are having trouble paying their property taxes because of financial concerns. If they mortgaged their homes and could not pay, they could lose their homes. This is the primary object of the bill to prevent the elderly poor from losing their homes.

Rep. Raney stated there had been concern with taxes and mortgages on the elderly's homes exceeding the house value. He proposed adding an amendment to clarify this point. The amendment would state the accumulated mortgage and taxes could not exceed 90% of the appraised value of the property. Rep. Raney moved the amendment and moved the bill DO PASS AS AMENDED.

Rep. Ellison asked if 90% would be too high and upsetting to the lien holders. Rep. Raney replied the taxes are paid after the mortgage payment.

By unanimous voice vote, the committee PASSED the amendment. By unanimous voice vote, the committee DO PASS AS AMENDED HB 457.

DISPOSITION OF SENATE BILL 117 HEARD ON FEBRUARY 1:

MOTION: DO NOT PASS by Rep. Raney.

SUBSTITUTE MOTION: DO PASS by Rep. Giacometto.

DISCUSSION: Rep. Giacometto stated he agreed with Rep. Raney but said this should be brought before the house. He said the state is in the middle of changing times and there are many differing opinions of the people as to whether or not the coal tax mechanism currently in place should be continued. He stated there should be debate on this issue.

Rep. Raney stated it would be debated on the Adverse Committee Report.

Rep. Gilbert stated all of the opponents to the bill said this was bad policy. He said Rep. Raney had stated the people did not understand the complexities of the coal tax fund and it should not be left to the people's decision. Rep. Raney responded that any tax measure that will lower taxes is voted for and any tax measure that will raise taxes is voted against and it would be very difficult to explain all of the complex aspects of the coal

tax trust fund.

Rep. Hanson disagreed. She stated bond issues are tax increases and people vote for them.

Rep. Ellison stated he would like this to go to the people for their decision. He said his district is very conservative but he did not think they would vote for this constitutional amendment.

The DO PASS motion failed by a roll call vote of 10 to 8. Rep. Cohen, who was excused, left his no vote on this bill. Rep. Raney moved to reverse the vote. The motion was CARRIED by a unanimous voice vote resulting in a DO NOT PASS on SB 117.

DISPOSITION OF HOUSE BILL 494 HEARD ON FEBRUARY 9:

MOTION: DO PASS by Rep. Raney.

DISCUSSION: Rep. Gilbert stated this was bad tax policy. He objected to taxing a small minority of the citizens. He stated this bill puts the tax burden on the distributors and could create cash flow problems for them.

Rep. Raney stated he thought it was excellent tax policy. He said tobacco is a habit forming drug that causes terrible cancers. Other drug usage carries jail penalties. This bill will help to control use of this drug and at least, use the tax money for health and research purposes.

Rep. Elliott stated he was a life long tobacco user and this bill would directly affect him but he still supports the bill.

Rep. Giacometto stated if this was a bad drug, then it should be outlawed. He said it should not be condoned and then taxed.

Rep. Patterson stated the money from this tax will not solve the education funding problem.

The motion DO PASS failed by a roll call vote of 10 to 7. Rep. Stang made the motion to TABLE the bill. The motion TO TABLE was carried by a 11 to 6 roll call vote.

DISPOSITION OF HOUSE BILL 603 HEARD ON FEBRUARY 14:

MOTION: DO PASS by Rep. Raney.

DISCUSSION: Rep. Gilbert expressed concern with the cities and towns passing their own law to supercede the law in HB 603. He suggested an amendment to this effect.

Rep. Raney stated he did not see this as a problem since he doubted very much if the cities and towns would do this since they would be receiving environmental cleanup under this program.

Rep. Gilbert asked Rep. O'Keefe if he thought the cities and

towns would enact more stringent legislation. Rep. O'Keefe replied he did not and he concurred with Rep. Raney's statements.

Rep. Raney stated the cities and towns could pass more stringent control over placement of tanks but the tank removal and hazardous release provisions mirror the EPA regulations. Rep. Raney stated he did not think the towns and cities would consider themselves more knowledgeable in this area than the EPA.

Rep. Gilbert then suggested that the bill be passed with the current language and then reviewed in two years.

Rep. Raney stated that there will no doubt be problems since this is major legislation but the loss of many small service stations and distributors to the state would be very bad economically.

Rep. Patterson asked about page 10, section 3 regarding exemptions which did not include the State of Montana. He still thought the state should be exempt under the bill.

Rep. Raney replied the state buys their gasoline from distributors and he did not see any reason for an exemption in their case.

Rep. Good stated she thought the bill was going to create unfunded liability. Rep. Raney replied that was true and possibly, in the next legislature, the monetary amount may have to be increased, but the alternative is to do nothing. Rep. Good asked why the fund cannot be funded adequately in the beginning.

Rep. Stang spoke in favor of the bill stating there may be unfunded liability, but he did not see any point in increasing the tax before knowing if that step will be necessary.

Rep. Driscoll asked Rep. Raney what he thought the cost would be for each site where there is a release. Rep. Raney responded approximately \$20,000.00 to \$30,000.00 on the average. Rep. Driscoll then asked how much the state would pay of this amount. Rep. Raney replied the fund does not begin to operate until there is a hazardous release and there is a \$25,000.00 deductible. Rep. Raney stated there is a two year amnesty period which will be costly since there will be no deductible for the owner/operator and the state will pay for all of the hazardous release. Rep. Driscoll stated he did not think the 3.3 million dollars designated for this program would be needed. Rep. Raney stated that is why the 3/4 cent tax was agreed upon since it is believed this will be sufficient to cover the first two costly years, however, there may be many more releases that are unknown at the present time.

Rep. Gilbert stated this was a good bill and the funding will have legislative review every two years.

Rep. Raney stated the committee may not want to have the free amnesty period. This could be changed.

Rep. Elliott stated he was concerned that this would be directly passed on to the consumers. He asked what was the responsibility of the service station owner/operator who is making the profit from this. Rep. Raney replied the station owner/operator does not pay the tax; the distributors pay the tax. This is a protection fee for the small business since the large businesses are self-insured. He stated the tax will probably be passed on to the consumer but the benefit to the consumer will be the clean environment and the many small service stations will not have to close.

The motion to DO PASS was CARRIED by a voice vote of 16 to 1.
Rep. Good voted no.

DISPOSITION OF HOUSE BILL 268 HEARD ON JANUARY 27:

DISCUSSION: Rep. Elliott chaired the subcommittee on HB 268. He presented proposed amendments to the bill. (Exhibit 2). Rep. Elliott stated he and Rep. Rehberg concurred with the 5% penalty, and they raised the interest based on the prime rate according to New York banks.

Rep. Ellison stated he disliked the 5% penalty.

Rep. Elliott stated the intent of the penalty was to prevent people from paying their taxes late whether it is one day or a month. He stated the interest would be compounded annually.

Rep. Driscoll asked Rep. Elliott if the subcommittee had looked at the prime interest rate plus 5 or 6% interest and then no penalty. Why was this omitted? Rep. Elliott replied he disliked the idea of no penalty since it would allow people to go on being late. Rep. Driscoll stated if the prime rate was 10.5 plus 5% in the bill, the taxpayers would be paying 16% interest.

Rep. Rehberg stated that the subcommittee had disagreed and this was Rep. Elliott's suggestion. He stated he disagreed for the same reasons Rep. Driscoll had pointed out. He said he wanted to put this on a strict prime plus a percentage and do away with the penalty because it is an excessive burden for those people who miss the tax deadline by one or two days.

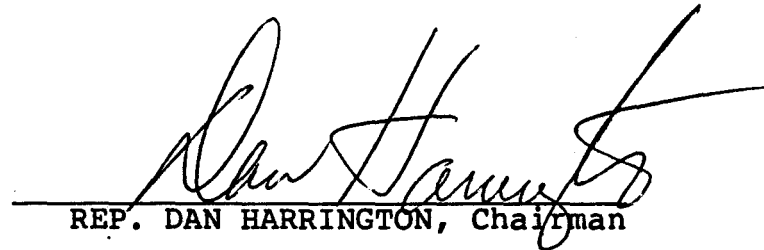
Rep. Raney suggested a thirty day grace period and then assess the penalty.

Rep. Ream urged the subcommittee to try to come to some agreement on the bill. Rep. Raney stated there would have to be a new subcommittee since they could not agree.

Chairman Harrington suggested holding the bill until a later date when all the amendments are ready for discussion. The committee concurred.

ADJOURNMENT

Adjournment At: 11:00 a.m.



REP. DAN HARRINGTON, Chairman

DH/lj

3915.min

DAILY ROLL CALL

TAXATION

COMMITTEE

51st LEGISLATIVE SESSION -- 1989

Date February 15, 1989

NAME	PRESENT	ABSENT	EXCUSED
Harrington, Dan, Chairman	✓		
Ream, Bob, Vice Chairman	✓		
Cohen, Ben			✓
Driscoll, Jerry	✓		
Elliott, 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	✓		

STANDING COMMITTEE REPORT

February 27, 1989

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that HOUSE BILL 420 (first reading copy -- white) do pass as amended.

Signed: 
Dan Harrington, Chairman

And, that such amendments read:

1. Page 2, line 4.
Following: "beginning"
Strike: "April"
Insert: "July"
Following: "~~1989~~"
Strike: "~~1993~~"
Insert: "1991"

2. Page 4, line 4.
Following: "exceed"
Strike: "\$2,500,000"
Insert: "\$1,250,000"

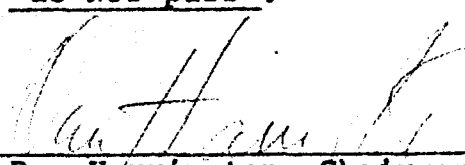
STANDING COMMITTEE REPORT

February 15, 1989

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that HOUSE
BILL 442 (first reading copy -- white) do NOT pass.

Signed: _____


Dan Harrington, Chairman

STANDING COMMITTEE REPORT

February 27, 1989

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that HOUSE BILL 444 (first reading copy -- white) do pass as amended .

Signed: 
Dan Harrington, Chairman

And, that such amendment read:

1. Page 3, line 2.

Following: "than"

Insert: "15% each fiscal year for the first 5 fiscal years after
[the effective date of this act] and, for fiscal years
thereafter, "

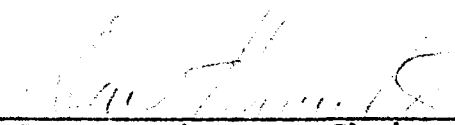
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STANDING COMMITTEE REPORT

February 27, 1989

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that HOUSE BILL 472 (first reading copy -- white), with statement of intent included, do pass as amended .

Signed: 
Dan Harrington, Chairman

And, that such amendments read:

1. Page 6, line 3.

Following: "in"

Strike: "subsection"

Insert: "subsections"

2. Page 6, line 4.

Following: "(b)"

Insert: "and (c)"

3. Page 6.

Following: line 8

Insert: "(c) The total combined amount of property taxes deferred under [sections 1 through 20] plus the outstanding mortgage on the property, if any, on which the taxes are deferred may not exceed 90% of the appraised value of the property on which the taxes are deferred."

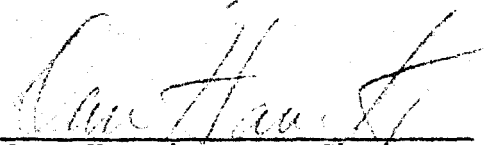
STANDING COMMITTEE REPORT

February 15, 1989

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that SENATE
BILL 117 (first reading copy -- white) do NOT pass.

Signed: _____


Dan Harrington, Chairman

(REPLACEMENT)

2/7/89
10:20am
ja

STANDING COMMITTEE REPORT

February 16, 1989

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that Senate Bill 117 (first reading copy -- white) be not concurred in.

Signed: _____

Dan Harrington, Chairman

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12/24/88
12.23.88
[initials]

STANDING COMMITTEE REPORT

February 27, 1989

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that HOUSE
BILL 603 (first reading copy -- white) do pass.

Signed: [Signature]
Dan Harrington, Chairman

EXHIBIT

DATE 2/15/89

HB 420

Rep. F. Koehnke



Brelsford Engineering, Inc.

8655 BRIDGER CANYON ROAD BOZEMAN, MONTANA 59715

(406) 586-2840

February 6, 1989

Representative Francis Koehnke
Montana House of Representatives
Helena, Montana

Dear Representative Koehnke:

I am providing you this duplicate of the letter I sent today to Chairman Dan Harrington, MT House Taxation Committee. It is sent in-order to encourage and request your support for Committee Approval of HB 420!

Lumber-mill wood wastes, i.e. saw dust and burned wood chips, can become excellent, profitable and reliable industrial raw materials for the production (and commercial sales) of Fuel Ethanol and Torula Yeast.

Brelsford Engineering, Inc. (BEI) has developed and demonstrated a wood and straw chemical hydrolysis process, under funding from MT DNRC REGAL Program, in 1982-83. The BEI Hydrolysis Process can be applied to yield fermentable sugars from the saw dust of Brand S Lumber in Livingston, Mt, for use by Alcotech, Inc. Ringling, MT to ferment and distill to it's Fuel Ethanol Product. Grain is too costly and in short supply; consequently the Alcotech Plant has been shut down for over 6 mo.

Currently, Plum Creek Timber - Belgrade and Brand S Lumber - Livingston are disposing of their saw dust by "Land-Fill", in the Gallatin and Paradise Valleys respectively. This is a serious waste and is not good for the environment. I'm confident that all of the other lumber-mills in Montana are doing the same, or are piling it and hoping for something.

Currently BEI is carrying-out a Preliminary Engineering and Economic Feasibility Study for the Townsend (MT) Timber Industries Lumber mill

toward the industrial production of Torula Yeast, not Fuel Ethanol.

Today's economics and demand for Fuel Ethanol are thin. A new industrial plant can't be started now on grain processing, nor wood-waste processing.

FOR ETHANOL

Alcotech of Ringling could open-up and profitably operate with wood sugars from Brand S saw dust to blend with grain mash sugars from barley and wheat, IF the very important Fuel Ethanol Producer Incentive funding is continued. In addition, new industrial development would occur in Livingston and Ringling, along with new related employment.

Please, sincerely consider assisting, supporting and encouraging the passage of HB 420 - ASAP.

I hope my effort is useful; it's not simple, but the potential in Montana is outstanding, and also in the Pac NW. Thank you for your sincere consideration of this request, and your efforts.

Sincerely,

Donald L. Brelsford
Brelsford Engineering, Inc.

Donald L. Brelsford, P.E.

President and Principal Engineer

EXHIBIT 1

DATE 2/15/89

HB 420

Rep. F. Kuehner

EXHIBIT 1
DATE 2/15/89
HB 420*Rep. F. Kachube*

Brelsford Engineering

8655 BRIDGER CANYON ROAD BOZEMAN, MONTANA 59715
(406) 586-2840

October 24, 1988

*10-24-88
BRL/MS*Gordon Doig, General Manager
ALCOTECH, INC.
White Sulphur Springs, MT**Brand S - Livingston Saw Dust: Processing to Fermentable Sugars**

Dear Gordon:

As we discussed, soft-wood composition is 2/3rds carbohydrate which can be hydrolyzed by chemical processing into readily fermentable sugars. The pine soft-wood saw-dust of Brand S - Livingston Lumber Mill can be efficiently and economically chemically processed to yield 1500 lbs of fermentable sugars per bone dry ton; 90% are hexose sugars and 10% are pentose sugars. The hexose sugars can be readily fermented, in your Alcotech Plant fermentors, to yield ethanol by Saccharomyces Yeast.

Fermentable sugars syrup, from a possible new Brand S - Livingston Saw-Dust Chemical Hydrolysis Processing Plant, would be particularly suitable for continuous fermentation to ethanol and/or to yeast. If the wood sugars are produced at the Alcotech plant, they could be combined and used for dilute acid liquefaction of added grain mash to the fermentor capacity. This would allow fast batch fermentation, probably one-half the normal time req'd now. Consequently the Plant's fermentation capacity would be doubled, and the distillation system would probably then be the limit to the Alcotech's Plant capacity.

From the data you supplied me on 10-17-88, fermentor-fill grain mash cost is \$2500 ave. By-product credit is \$1300 ave. The net grain mash

sugar cost of \$2200 per fermentor fill; equivalent to \$0.786 per gallon of Fuel Grade Ethanol (FGE) produced.

As I told you, in 1984-85 I attempted to promote the new unique BEI - Belgrade FGE and Yeast Production from Wood Waste Production Plant. The saw dust was to be from Plum Creek Lumber-Belgrade at probable cost of \$25/tn. The BEI Belgrade Plant was to be the initiation of commercialization of the newly developed BEI Hydrolysis Process for soft and hard wood and straws. The plant was small-scale w/ FUEL ETHANOL. production of 340,000 gal/yr and 60 tn/yr Yeast product.

At \$25/tn for wood waste and this small-scale, the total raw material cost was 32¢/gal FGE, which is 40% of above discussed Alcotech grain mash sugar cost. At the assumed Brand S Livingston saw-dust cost of \$10/tn, raw material cost would be 12.8¢/gal FGE; 16% of the Alcotech grain mash sugar cost compared above.

EXHIBIT 1DATE 2/15/89HB 420

Rep. F. Kachube

EXHIBIT 1DATE 2/15/89HB 420

Rep. F. Kachuk

In the 1985 BEI Preliminary Engineering and Economic Analysis Report, with the assumed-then sales values, the BEI Belgrade Plant's Net Profit was estimated to be \$1.20 per gallon of FGE produced. Directly comparable w/ todays approximate sales values, the BEI Belgrade Plant's Net Profit is estimated to be \$0.68 per gal FGE.

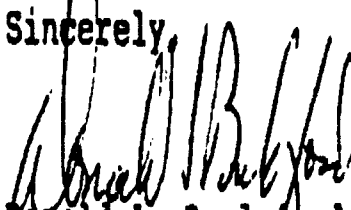
As you are well aware, equity capital invested in the Alcotech Plant is not working and is depreciating IF the Plant is not operating, producing and selling FGE and DDGS. In January 1989, EPA will require further reduction in leaded gasoline sales, which will undoubtly increase the market-demand for FGE.

However, barley and soft wheat may continue to be too high priced for Alcotech's economical and profitable production of FGE and DDGS.

I sincerely believe and request that you sincerely consider that FGE and Yeast from Brand S Livingston saw-dust could be very profitable and reliable on a long-term, non-commodity basis into the future.

If you and associates would be interested in discussing and reviewing the the BEI Belgrade FGE and Yeast from Saw Dust Plant Preliminary Engineering and Economic Analysis Report and inspecting and evaluating my chemical engineering processing pilot plant in Bridger Canyon, 8 mi NE of Bozeman, I would be enthusiastic in inviting you and meeting with you-all in my office-at-home and my pilot plant. Please call me if you wish to do so.

Sincerely,


Donald L. Brelsford, P.E.
Brelsford Engineering

In the Bozeman area, BEI designed, constructed and operated an industrial pilot-plant processing facility to develop, demonstrate and publically report the chemical processing hydrolysis of cellulose from straws and woods to produce highly fermentable sugars and uniquely high conversion efficiencies and recovery. The final project report was completed and submitted in March, 1983, to the grant-contract funding agency, Montana Renewable Energy and Conservation Program, MT DNRC. Since that time, Breisford and BEI has applied a particularly intensive effort to continue the MT DNRC RE&C fuel ethanol from biomass program to and through successful commercial demonstration.

**PROFESSIONAL RESUME OF
DONALD L. BRELSFORD**
Bozeman, Montana

EDUCATION:
Montana State University, Bozeman, Montana, 1962-1965. Pre-PhD studies in Bio-Engineering.
University of Denver, Denver, Colorado, 1960-1962, M.S. in Chemical Engineering.
Montana State University, Bozeman, Montana, 1962-1966. B.S. in Chemical Engineer, Biochemistry minor.

EXPERIENCE:
Present: Breisford Engineering, Inc., Bozeman, MT.; Principal Engineer and owner, Research, Development and Engineering Consultants, 1977-present.

Past: Montana Energy and R&D Research and Development Institute Inc. (MENDI), Butte, MT.; Manager, Engineering Division; 1975-1977.

Breisford & Associates, Bozeman, MT.; Industrial Development Consulting Engineer; 1968-1975.

Montana State University, Bozeman, MT.; Program Director, Center for Industrial Development, and Management Services; 1966-1968.

Archer Daniels Midland, Inc.; Minneapolis, MN.; Project Engineer, Corporate Engineering Dept. 1965-1966.

Montana State University, Research Engineer, Chemistry Research Department, 1962-1965.

PROFESSIONAL REGISTRATION & AFFILIATION

State of Montana, Professional Engineer, Reg. No. 1978E.
State of Colorado, Professional Engineer, Reg. No. 4586.
Montana Society of Engineers
National Society of Professional Engineers

EXHIBIT

HB

420

2/15/88

incorporated in
lineer of BEI is
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Montana from
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Bozeman (1956).
chemical engineer
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California; Dow

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prepared by BEI
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BRIEF HISTORY OF BEI

Brelsford Engineering, Inc. (BEI) a Montana corporation April, 1978. Donald L. Brelsford, President and Principal Engineer, a registered professional engineer in Montana and Colorado, practicing professional consulting engineering throughout Bozeman, Montana since 1968. Twelve years previous to the Chemical Engineering from Montana State University in During this twelve year period Brelsford was employed as a by several companies in the United States chemical process follows: ADM - Corporate Engineering, Minneapolis, MN Marietta - Adv. Programs, Denver, Colorado; Thiokol Chemical Brigham City, Utah; Aerojet General Corporation, Sacramento Chemical Corporation, Midland, Michigan.

In 1978, Brelsford organized and initiated Brelsford E Renewable Energy Systems professional consulting engineering a corporation, BEI began business operations with its first ning March 1, 1980. In addition to carrying out the initial energy site survey assessment in the Livingston area in 1 has particularly carried on a progression of chemical engineering development and demonstration projects related to industrial motor fuel ethanol from ligno-cellulosic biomass in Montana, directly and indirectly by the Montana Renewable Energy F financed by severance taxes on Montana coal production.

Initially, a detailed Technology Assessment of Fuels from Agricultural Crop Residues was carried out, which indicated that cellulosic fermentation showed the most promise for overall long-term energy Engineering Design and Economic Analysis reports were for private clients in Thompson Falls, MT and Lewistown, related to the industrial commercial processing of wood waste produce motor fuel ethanol and food or fodder yeast.

EXHIBIT
DATE 2/15/89
HB 430
Rep. F. K. K. K.

EXHIBIT
DATE 2/15/89
HB 420
Rep. T. Kohn

Major areas of expertise of Donald L. Breisford, Breisford Engineering, Inc., are in the fields of aerobic fermentation, biochemical engineering and industrial crop utilization.

Academic research effort of D.L. Breisford, at Montana State University in 1962-1965, was toward an equivalent Ph.D in Biochemical Engineering. The title of Breisford's aerobic yeast fermentation Ph.D research report was "Kinetics and Stoichiometry of Candida Yeast Growth". This intensive, pilot-scale, research work demonstrated optimum process conditions needed for exponential production of food and fodder yeast, which is single cell protein.

In 1968, D. L. Breisford initiated self-employment as a professional research development and engineering consultant, Breisford & Associates, with particular activities related to the development of industrial crop utilization in Montana. Representative reports on a variety of client-funded, related projects were as follows:

"Research and Feasibility Study - Producing Meat in Valley County and Eastern Montana"; for Valley County Development Council and Economic Development Administration, U.S. Dept. of Commerce, Washington, D.C., 1972.

"Market Potential and Prospects for Power Alcohol from Montana Grains"; "Process Improvements and Economics for Alcohol Fermentation from Barley"; for Montana Industrial and Commercial Utilization of Barley Council, Conrad, Montana, 1970.

"Process Improvement, Economics, and Market Research of Industrial Products from Cow Cocks Seed"; for Montana Agricultural Research Corp., Bozeman, Montana, 1970.

"Feasibility of Producing and Processing Safflower, Mustard and Crambe Seed"; for Economic Development Administration, U.S. Dept. of Commerce, Washington, D.C., 1968.

From January, 1975, to November, 1977, Breisford was employed by the Montana Energy Research and Development Institute in Butte, Montana, and was directly involved in research, development, and engineering on a variety of Montana, regional and national energy projects. He was Manager of the Engineering Division at his resignation in November, 1977.

EXHIBIT

DATE

2/15/89

HB 420

Rep. F. Kunkin

BEI BIOMASS PROCESS ENGINEERING REPORTS

1. Initial Evaluation of Technology for the Production of Fuels from Crop Residues, January 1979, including Bioconversion and Conversion Processes, Direct Combustion and Environmental Technology Assessment and Initial Evaluation, Hydrolysis and Fermentation of Crops and Crop Residues for Fuel Ethanol Production, A Montana Wheat and Barley Straw-Energy Production & Soil Conservation March 1980.
2. Preliminary Engineering Report - Commercial Fuel Alcohol from Custom Built Feed Center, Culbertson, MT, December 1980.
3. Conceptual Engineering Report - Plant Design and Economic Fuel Ethanol and Torula Yeast from Wood Wastes, Thompson January, 1980.
4. Preliminary Engineering Report - Continuous On-Farm Fuel Production Facility-Design and Economics, July 1981.
5. Preliminary Engineering Report on Fuel Alcohol from Barley Wheat, - Harvest Fuels, Inc., Belgrade, MT., May, 1981.
6. Preliminary Engineering Report - Fuel Alcohol and Torula Yeast Straw and Aspenwood - Farm and Forest Fuel Company, Lewiston June 1982
7. Demonstration of Solar-Assisted Vacuum Distillation for Fuel Production, - MT DNRC ARE 486-811, August 1982.
8. Development of Cellulose Conversion - The BEI Hydrolyses MT DNRC ARE 486-811, March 1983.
9. Conceptual Engineering Design - Anaerobic Digestion and Co-fermentation for the Top Acres Project, Great Falls, MT., February 1983.
10. Continuous Penicillin Fermentation by Pachysolen Yeast for Fuel Production - Application to MT DNRC REC, October 1983.
11. Preliminary Engineering Report - Fuel Ethanol from Grain or Stalk Commercial Plant in Belgrade, MT., BEI Promotion, September 1983

Amendments to House Bill No. 268
First Reading Copy

Requested by the House Taxation Subcommittee on HB 268
For the Committee on Taxation

Prepared by Dave Bohyer
February 13, 1989

1. Title, lines 5 and 6.
Following: "TO" on line 5
Strike: "A PENALTY BASED"
Insert: "5 PERCENT"

2. Title, line 7.
Following: "TAXES;"
Insert: "TYING THE INTEREST RATE CHARGED ON DELINQUENT PROPERTY
TAXES TO THE PRIME INTEREST RATE CHARGED BY MAJOR NEW YORK
BANKS;"

3. Page 1, lines 21 through 23.
Following: "rate" on line 21
Strike: the remainder of line 21 through "and" on line 23

4. Page 1, line 23.
Following: "2%"
Strike: "the appropriate penalty rate"
Following: "[section 3]"
Insert: ", and 5%"

5. Page 2, lines 3 through 5.
Following: "rate" on line 3
Strike: the remainder of line 3 through "and" on line 5

6. Page 2, line 5.
Following: "2%"
Strike: "the appropriate penalty rate"
Following: "[section 3]"
Insert: ", and 5%"

7. Page 4, lines 2 and 3.
Following: "rate" on line 2
Strike: the remainder of line 2 through "and" on line 3

8. Page 4, lines 3 and 4.
Following: "2%" on line 3
Strike: "the appropriate penalty rate"

9. Page 4, lines 4.
Following: "[section 3]"
Insert: ", and 5%"

10. Page 4, lines 8 and 9.

Following: "rate" on line 8

Strike: the remainder of line 8 through "and" on line 9

11. Page 4, lines 9 and 10.

Following: "2%" on line 9

Strike: "the appropriate penalty rate"

12. Page 4, line 10.

Following: "[section 3]"

Insert: ", and 5%"

13. Page 4, line 23.

Following: "3."

Strike: "Penalty"

Insert: "Interest"

14. Page 4, line 24.

Following: "taxes."

Insert: "(1)(a)"

15. Page 4, line 25 through page 5, line 6.

Following: "taxes" on line 25 of page 4

Strike: the remainder of line 25 through "10% of the increment" on page 5, line 6

Insert: "interest in an amount equal to the interest rate reported to him by the department as provided in subsection (3) and applied in the ratio that the number of days that the tax has been delinquent bears to 365.

(b) The most recent rate of interest reported to the county treasurer must be applied to all delinquent property taxes, regardless of the date of delinquency.

(2)(a) The amount of interest to be charged on the delinquency must be compounded every 6 months, beginning on the first day of delinquency, and added to the amount of delinquent tax.

(b) The interest due subsequent to compounding as provided in subsection (2)(a) must be calculated on all delinquent taxes and accrued interest.

(3) No later than November 15 in each year, the department shall notify each county treasurer of the rate of interest to be charged on delinquent property taxes. The rate of interest that the department must report is 3 percentage points above the prime rate of major New York banks as published in the Wall Street Journal on November 1 of the taxable year, or the first day of publication following November 1 if the prime rate or the Wall Street Journal is not published on November 1."

16. Page 5, lines 16 and 17.

Following: "effective" on line 16

Strike: "on passage and approval"

Insert: "July 1, 1989"

EXHIBIT 2

DATE 2/15/89

HB 268

Rep. B. Guthrie

17. Page 5, line 20.
Following: "after"
Strike: "November 30"
Insert: "July 1"

18. Page 5, line 21.
Following: "after"
Strike: "November 30"
Insert: "July 1"

19. Page 5, line 24.
Following: line 23
Strike: "November 30"
Insert: "July 1"

20. Page 5, lines 24 and 25.
Following: "after" on line 24
Strike: "November 30"
Insert: "July 1"

21. Page 5.
Following: line 25
Insert: "(3) For the purposes of implementing [this act], the department of revenue shall, on or before May 15, 1989, certify to every county treasurer the interest rate described in [section 3(3)] as of November 1988, to be used on and after July 1, 1989. On July 1, 1989, and thereafter, the interest calculation must be made by a county treasurer as provided in [section 3], except that the 6-month period for compounding interest required in [section 3(2)] does not begin until December 1, 1989, inclusive. Therefore, the date on which interest must be first compounded is June 1, 1990."

2.

COMMITTEE

DATE February 15, 1989

SPONSOR Rep. Mac McCormick

[illegible]

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE TAXATION

COMMITTEE

BILL NO. HB 607

DATE February 15, 1989

SPONSOR Rep. Tom Hannah

[illegible]

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

ROLL CALL VOTE

TAXATION

COMMITTEE

DATE February 15

BILL NO. SB 117

NUMBER

NAME	AYE	NAY
Cohen, Ben		✓
Driscoll, Jerry		✓
Elliott, Jim		✓
Ellison, Orval	✓	
Giacometto, Leo	✓	
Gilbert, Bob	✓	
Good, Susan	✓	
Hanson, Marian	✓	
Hoffman, Robert	✓	
Koehnke, Francis		✓
O'Keefe, Mark		✓
Patterson, John	✓	
Raney, Bob		✓
Ream, Bob		✓
Rehberg, Dennis	✓	
Schye, Ted		✓
Stang, Barry "Spook"		✓
Harrington, Dan, Chairman		✓

TALLY

8

10

LaHara John
Secretary

Dan Harrington
Chairman

MOTION: DO PASS failed.

ROLL CALL VOTE

TAXATION

COMMITTEE

DATE February 15 BILL NO. HB 494 NUMBER 1

NAME	AYE	NAY
Cohen, Ben		
Driscoll, Jerry	✓	
Elliott, Jim	✓	
Ellison, Orval		✓
Giacometto, Leo		✓
Gilbert, Bob		✓
Good, Susan		✓
Hanson, Marian		✓
Hoffman, Robert		✓
Koehnke, Francis	✓	
O'Keefe, Mark	✓	
Patterson, John		✓
Raney, Bob	✓	
Ream, Bob	✓	
Rehberg, Dennis		✓
Schye, Ted	✓	
Stang, Barry "Spook"		✓
Harrington, Dan, Chairman		✓

TALLY

John Harrington
Secretary

Alan Harrington
Chairman

MOTION: DO PASS failed.

ROLL CALL VOTE

TAXATION

COMMITTEE

DATE February 15

BILL NO. HB 494

NUMBER

2

NAME	AYE	NAY
Cohen, Ben		
Driscoll, Jerry	✓	
Elliott, Jim		✓
Ellison, Orval	✓	
Giacometto, Leo	✓	
Gilbert, Bob	✓	
Good, Susan	✓	
Hanson, Marian	✓	
Hoffman, Robert	✓	
Koehnke, Francis		✓
O'Keefe, Mark		✓
Patterson, John	✓	
Raney, Bob		✓
Ream, Bob		✓
Rehberg, Dennis	✓	
Schye, Ted		✓
Stang, Barry "Spook"	✓	
Harrington, Dan, Chairman	✓	

TALLY

LaHara John
Secretary

Dan Harrington
Chairman

MOTION: TO TABLE passed.