

1 H BILL NO. 425  
2 INTRODUCED BY Katie Brody Waldron

3  
4 A BILL FOR AN ACT ENTITLED: "AN ACT TO REORGANIZE STATE  
5 PROGRAMS FOR THE ENCOURAGEMENT OF ENERGY CONSERVATION AND  
6 ALTERNATIVE ENERGY DEVELOPMENT; SHIFTING TAX INCENTIVES FROM  
7 THE PROPERTY TAX TO THE INCOME TAX; PROVIDING FOR ENERGY  
8 CONSERVATION ANALYSIS IN SUBDIVISION REVIEW; PROVIDING FOR  
9 DISSEMINATION OF INFORMATION AND AWARDS FOR INNOVATIVE  
10 RESEARCH; AUTHORIZING LOW-INTEREST LOANS FOR SOLAR  
11 COLLECTORS UNDER THE RENEWABLE RESOURCE DEVELOPMENT PROGRAM;  
12 AMENDING SECTIONS 84-7401, 84-7403, AND 89-3603, R.C.M.  
13 1947."

14  
15 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

16 Section 1. Section 84-7401, R.C.M. 1947, is amended to  
17 read as follows:

18 "84-7401. Statement of purpose. (1) The purpose of  
19 this act is to encourage the use of alternative energy  
20 sources and the conservation of energy through incentive  
21 programs. Such incentives are to be made available to the  
22 energy user on a basis which requires him to take the  
23 initiative in obtaining a particular incentive. This act is  
24 not intended to require an assessor to revalue property  
25 except upon receipt of a properly documented and approved

1 application. This act allows but does not require a public  
2 utility to extend credit for energy conservation  
3 investments.

4 (2) The legislature finds that Montana's need for  
5 natural gas will substantially exceed available supplies in  
6 future years and that the consequent shortage may endanger  
7 public health, safety, and welfare. Therefore, a purpose of  
8 these incentives is to reduce dependence on natural gas and  
9 mitigate the harmful effects of the anticipated shortage."

10 Section 2. Section 84-7403, R.C.M. 1947, is amended to  
11 read as follows:

12 "84-7403. Tax treatment of certain energy-related  
13 investments. ~~(1)~~ Upon application by a taxpayer, approved  
14 under ~~section~~ 84-7404, a capital investment by the taxpayer  
15 in a recognized nonfossil form of energy generation shall be  
16 treated by the department of revenue as:

17 ~~(a) (1)~~ property exempt from taxation, to the extent  
18 the appraised value of the investment does not exceed ~~one~~  
19 ~~hundred thousand dollars~~ (\$100,000), or

20 ~~(b) (2)~~ class seven property, as defined in ~~sections~~  
21 84-301 and 84-302, for such portion of the appraised value  
22 of the investment that exceeds ~~one hundred thousand dollars~~  
23 ~~(\$100,000).~~

24 ~~(2) Upon application by a taxpayer, approved under~~  
25 ~~section 84-7404, a capital investment in a building or the~~

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~~taxpayer for an energy conservation purpose shall be treated by the department of revenue as class eight property, as defined in sections 84-301 and 84-302, to the extent the appraised value of the investment does not exceed twenty percent (20%) of the appraised value of the building in which the investment is made."~~

Section 3. There is a new R.C.M. section that reads as follows:

Certificate of compliance with state energy conservation standards — new buildings. (1) The appropriate local or state permit-granting authority under the state building code shall issue a certificate of compliance with state energy conservation standards to a person who constructs a new building after the effective date of this act if such building is shown to meet the standards set forth in [section 4 of this act].

(2) A certificate of compliance shall be issued upon a duplicate form supplied by the department of administration. The permit-granting authority shall forward the second copy to the department of revenue. Certificates shall be individually numbered or otherwise printed with unique identifying characteristics.

(3) The person who constructs a new building for which certification is sought shall arrange for the permit-granting authority to inspect the building during

those phases of construction when compliance with the standards can be readily ascertained.

Section 4. There is a new R.C.M. section that reads as follows:

State energy conservation standards — new buildings. (1) As used in this section, the character "U" is the thermal coefficient as employed in the "Handbook of Fundamentals" published by the American society of heating, refrigerating, and air conditioning engineers.

(2) State energy conservation standards for a new home's resistance to heat flow are:

- (a) roof, 0.053 U;
- (b) walls, 0.065 U;
- (c) doors, 0.30 U;
- (d) floors, 0.025 U;
- (e) windows, 0.54 U.

(3) The state energy conservation standard for air infiltration in a new building is 0.5 changes per hour.

Section 5. There is a new R.C.M. section that reads as follows:

Tax credit for builders of buildings meeting state energy conservation standards. A Montana taxpayer who holds a certificate of compliance with state energy conservation standards may deduct \$100 from his tax liability, as a credit, for each of the 5 tax years beginning with the year

1 the certificate is issued to him. The tax liability is  
 2 either tax owed under the state income tax or, at the  
 3 taxpayer's election if it is a corporation, under the  
 4 corporation license tax. These credits may be taken only by  
 5 the person to whom a certificate is issued and may and not  
 6 be transferred, bequeathed, or assigned for the benefit of  
 7 another. A person may take as many deductions under this  
 8 section as the number of certificates he holds which are  
 9 less than 5 years old.

10 Section 6. There is a new R.C.M. section that reads as  
 11 follows:

12 Credit — insulating materials. An individual may  
 13 credit against his tax liability adjusted gross income not  
 14 more than 25% of his expenditures for insulation materials  
 15 installed to conserve energy used for space heating in a  
 16 building occupied on the effective date of this act by the  
 17 individual, his predecessor in title, or his tenant. This  
 18 credit is limited to \$100 a building a year and to a total  
 19 of \$500 a building. The department of revenue may by rule  
 20 provide for the carrying forward of this deduction and for  
 21 the documentation of expenditures and proof of installation.

22 Section 7. The preceding section shall be codified as  
 23 part of the state income tax law, Title 84, chapter 49,  
 24 R.C.M. 1947, and incorporates terms and procedures as they  
 25 are employed in that chapter.

1 Section 8. There is a new R.C.M. section that reads as  
 2 follows:

3 Energy conservation planning in subdivisions. In  
 4 addition to the subdivision environmental assessment factors  
 5 enumerated in 11-3863 (4), the department of community  
 6 affairs shall establish energy conservation criteria for  
 7 every subdivision containing five or more housing units.  
 8 These criteria shall require the subdivider to consider and  
 9 discuss in his environmental assessment:

10 (a) the insulation standards proposed for each housing  
 11 unit;

12 (b) the extent to which winter space heating  
 13 requirements can be minimized by aligning the structures to  
 14 receive the most afternoon sunlight on walls and roofs;

15 (c) the extent to which summer cooling and winter  
 16 heating requirements can be minimized by landscaping or  
 17 designing south-facing windows to maximize the entry of  
 18 winter sunlight and minimize the entry of summer sunlight;  
 19 and

20 (d) the feasibility of installing solar energy  
 21 collectors for space heating and other purposes; or

22 (e) the feasibility of installing plumbing which would  
 23 be compatible with a solar energy collection system if the  
 24 homeowner should wish to install such a system at a later  
 25 date.

1 Section 9. The preceding section shall be codified as  
2 part of the Montana Subdivision and Platting Act and  
3 incorporates terms and procedures as they are employed in  
4 that act.

5 Section 10. There is a new R.C.M. section that reads  
6 as follows:

7 Energy conservation information in public libraries.  
8 The state library commission may purchase, with moneys  
9 appropriated to it from the alternative energy research  
10 development and demonstration account or other sources,  
11 books and periodicals for public libraries on the subjects  
12 of energy conservation and the development of alternative  
13 renewable energy sources.

14 Section 11. Section 89-3603, R.C.M. 1947, is amended  
15 to read as follows:

16 "89-3603. Renewable resource development loans. (1)  
17 The board of natural resources and conservation is  
18 authorized upon proper application and upon recommendation  
19 of the department of natural resources and conservation to  
20 make loans from the renewable resource development account  
21 established by this act to farmers and ranchers of the state  
22 of Montana who, without regard to their form of business  
23 organization:

24 (a) are citizens of the United States and are citizens  
25 and residents of the state of Montana;

1 (b) have sufficient farming or ranching training and  
2 experience which, in the opinion of the department, is  
3 sufficient to assure the likelihood of the success of the  
4 proposed operations; and

5 (c) are or will become owner-operators of farms or  
6 ranches.

7 (2) The board of natural resources and conservation is  
8 authorized upon proper application and review thereof by the  
9 department to make loans from the renewable resource  
10 development account to homeowners for the purpose of  
11 installing solar energy collectors in their homes if such  
12 homeowners:

13 (a) are citizens and residents of the state of  
14 Montana; and

15 (b) propose to install workable, effective systems.

16 ~~(3)~~ (3) The department shall solicit and consider in  
17 its evaluation of proposed projects the views of  
18 interested and affected departments, boards, agencies,  
19 and other subdivisions of state and federal government  
20 and of other interested and affected persons.

21 ~~(4)~~ (4) The board may make the renewable resource  
22 development loans provided for by this section for any  
23 worthwhile project for the conservation, management,  
24 utilization, development, or preservation of the land,  
25 energy, water, fish, wildlife, recreational, and other

1 renewable resources in the state; and for the refinancing of  
2 existing indebtedness incurred in the expansion or  
3 rehabilitation of projects for those purposes.

4 ~~(4)~~(5) The board shall ~~may~~ make no renewable resource  
5 development loan which exceeds the lesser of ~~one-hundred~~  
6 ~~thousand dollars (\$100,000), or eighty-percent (80%)~~ of the  
7 fair market value of the security given therefor. In  
8 determining the fair market value for the security given for  
9 any loan, the department shall consider appraisals made by  
10 qualified appraisers and such other factors it considers  
11 important. In the case of loans for solar energy collection  
12 systems, no loan may exceed \$2,000.

13 ~~(5)~~(6) The period for repayment of loans pursuant to  
14 this act may not exceed ~~thirty (30)~~ years.

15 ~~(6)~~(7) The board shall from time to time establish by  
16 rule the interest rate at which loans may be made under this  
17 act, provided that in no case may the rate be greater than  
18 ~~one (1)~~ percentage point greater than the prevailing  
19 interest rate on the renewable resource development bonds  
20 provided for in this act. In the case of loans for solar  
21 energy collection systems, interest may not exceed an annual  
22 percentage rate of 2% less than the prevailing interest rate  
23 on the renewable resource development bonds provided for in  
24 this act.

25 ~~(7)~~(8) The state shall have a lien upon a project

1 constructed with money from the renewable resource  
2 development account for the amount of the loan, together  
3 with the interest thereon. This lien may attach to all  
4 project facilities, equipment, easements, real property, and  
5 property of any kind ~~of~~ or nature owned by the debtor,  
6 including all water rights. The board shall file either a  
7 financing statement or a real estate mortgage covering the  
8 loan, its amount, terms, and a description of the project  
9 with the county recorder of each county in which the project  
10 or any part thereof is located. The county recorder shall  
11 record the lien in a book kept for the recording of liens  
12 and it shall be indexed as other liens are required by law  
13 to be indexed. The lien shall be valid until paid in full  
14 or otherwise discharged. The lien shall be foreclosed in  
15 accordance with applicable state law governing foreclosure  
16 of mortgages and liens.

17 ~~(8)~~(9) The board may adopt rules as required to govern  
18 the terms and conditions for making loans, security  
19 instruments, and agreements pursuant to this act.

20 ~~(9)~~(10) No member, officer, attorney, or other employee  
21 of the board or the department shall, directly or  
22 indirectly, be the beneficiary of or receive any fee,  
23 commission, gift, or other consideration for or in  
24 connection with any transaction or business under this act  
25 other than such salary, fee, or other compensation as he may

1 receive as such member, officer, attorney, or employee. Any  
 2 person violating any provision of this section shall, upon  
 3 conviction thereof be punished by a fine of not more than  
 4 ~~two thousand dollars (\$2,000)~~ or imprisonment for not more  
 5 than ~~two (2)~~ years or both.

6 ~~(40)~~ [11] The department shall administer the loans made  
 7 by the board pursuant to this act, and may accept and  
 8 utilize voluntary and uncompensated services, and, with the  
 9 consent of the agency concerned, utilize the officers,  
 10 employees, equipment, and information of any agency of the  
 11 federal government, or of any agency of Montana government,  
 12 or of any political subdivision within Montana."

13 Section 12. There is a new R.C.M. section that reads  
 14 as follows:

15 Annual award for most innovative alternative energy  
 16 systems. The department may award a cash prize of \$10,000,  
 17 from moneys appropriated to it from the alternative energy  
 18 research, development, and demonstration account, to the  
 19 Montanan who develops the most efficient, innovative, and  
 20 inexpensive alternative renewable energy collecting device.  
 21 If such prize is awarded in a year, it shall be awarded  
 22 before August 31.

23 Section 13. The preceding section shall be codified as  
 24 part of the act establishing the alternative energy research  
 25 program, 84-7408 through 84-7413, and incorporates terms and

1 procedures as they are employed in that act.

2 Section 14. Standards — new state buildings. All  
 3 buildings constructed by the state of Montana after July 1,  
 4 1977, shall comply with the state energy conservation  
 5 standards set forth in [section 4 of this act].

6 Section 15. Sunset limitation. This act expires 10  
 7 years after its passage and approval.

8 Section 16. Severability. If a part of this act is  
 9 invalid, all valid parts that are severable from the invalid  
 10 part remain in effect. If a part of this act is invalid in  
 11 one or more of its applications, the part remains in effect  
 12 in all valid applications that are severable from the  
 13 invalid applications.

-End-

## STATE OF MONTANA

REQUEST NO. 360-77

## FISCAL NOTE

Form BD-15

In compliance with a written request received February 4, 19 77, there is hereby submitted a Fiscal Note for House Bill 425 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly.

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

## DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 425 provides for the encouragement of energy conservation and alternative energy development. The bill provides for shifting the incentives from property tax to income tax; provides for energy conservation analysis in subdivision review; provides for dissemination of information and awards for innovative research; authorizes low interest loans for solar collectors under the renewable resource development program.

## ASSUMPTIONS:

1. Approximately 7,000 to 21,000 households in 1977; 7,700 to 23,100 households in 1978; and 8,500 to 25,500 households in 1979 will install \$300 worth of insulating materials and claim the 25% tax credit.
2. Each year 3,000 new residences will be completed and will meet the proposed state energy conservation standards.
3. Approximately 2,500 new single-family dwellings will be constructed outside of municipalities and will have to be inspected for energy conservation compliance. This will require four (4) additional positions.
4. Administrative costs for granting loans for solar collectors will be absorbed by the Department of Natural Resources.
5. Assume at least one inspection per single-family dwelling.
6. Assume, with great travel distances involved, that an inspector can make an average of three (3) inspections per day.
7. Assume that the state will not be training local inspectors and therefore no money will be needed to do so.

## FISCAL IMPACT:

## Revenue

	<u>FY 78</u>	<u>FY 79</u>
Tax collections under present law	\$123,732,000	\$140,093,000
Tax collections under proposed law	<u>121,834,000 - 122,872,000</u>	<u>137,695,000 - 138,866,000</u>
Decrease in Revenue	<u>\$ 1,898,000 - \$ 860,000</u>	<u>\$ 2,398,000 - \$ 1,227,000</u>

## Expenditures

	<u>FY 78</u>	<u>FY 79</u>
Department of Administration Inspection Costs		
Personal services	\$ 67,000	\$ 73,700
Operating expenses	24,000	26,400
Capital	<u>4,000</u>	<u>0</u>
	95,000	100,100
Cost to establish energy conservation criteria by Dept. of Community Affairs	<u>7,000</u>	<u>0</u>
Additional cost of proposed legislation	<u>\$102,000</u>	<u>\$100,100</u>

## TECHNICAL NOTE:

1. Section 4 deals with "nationally recognized standards" which have not been adopted to date; therefore, a conflict could exist when a national standard is established.
2. Line 13, page 5 is unclear.

*Richard L. Zaunger*  
BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-10-77