# FISCAL NOTE

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|---|---|---|---|
| **Bill #:** | HB0674 | **Title:** | Ethanol production and use act |
| **Primary Sponsor:** | Waitschies, K | **Status:** | As Amended on the House Floor |

Sponsor signature Date David Ewer, Budget Director Date

## Fiscal Summary

| | FY 2006 Difference | FY 2007 Difference |
|---|---|---|
| **Expenditures:** | | |
| General Fund | $0 | $0 |
| **Revenue:** | | |
| General Fund | $0 | ($10,000) |
| State Special Revenue | $0 | $0 |
| **Net Impact on General Fund Balance:** | $0 | ($10,000) |

- [ ] Significant Local Gov. Impact
- [ ] Included in the Executive Budget
- [ ] Dedicated Revenue Form Attached
- [x] Technical Concerns
- [ ] Significant Long-Term Impacts
- [ ] Needs to be included in HB 2

## Fiscal Analysis

ASSUMPTIONS:

**Department of Revenue**

1. HB 674 provides that a gasoline retailer that converts gasoline tanks to allow the dispensing of ethanol-blended gasoline is entitled to a one-time tax credit of $300 for the year in which the conversion is completed. The credit may be claimed against individual income or corporation license taxes.
2. There is no effective date on the bill, so it is assumed that the bill will become effective October 1, 2005. Any tank conversions that would occur during the remainder of TY2005 would be taken as a credit on tax returns filed in FY2006 (individual income tax) or FY2007 (corporation license tax). Conversions after TY2005 would impact FY2007 (individual income tax) or FY2008 (corporation license tax).
3. It is difficult to say just what the fiscal impact of this proposal would be. According to the Department of Environmental Quality, there are 1,961 underground gasoline storage tanks and about 125 to 150 above ground gasoline storage tanks being regulated in Montana today. Almost all of these tanks and their associated piping are currently compatible with 10-15 percent ethanol-blended gasoline; a few are not. The impact that the tax credit will have on the state general fund will depend on a variety of factors. First, any legislation passed that mandates the use of ethanol-blended gasoline will probably act to accelerate the conversion of any remaining unconverted tanks; the conversion is likely to be slower in the absence of any such legislation. Second, for the tanks owned by corporations, the credit will impact the general fund only

to the extent that the corporation is in a net positive taxable income situation to begin with. Recent data indicates that about two-thirds of all corporations filing in the state do not have net positive taxable income, so the conversion of any tanks owned by these corporations would have little to no impact on the general fund.

4. It is likely that some tanks will be converted for which the credit will be claimed and will reduce general fund revenues; however, the impact to the general fund is likely to be very small.
5. The bill also provides that a gasoline refiner that builds, updates, or retrofits a terminal to allow blending of ethanol with gasoline is entitled to a one-time tax credit of $2,500 per terminal for the year in which the facility is built, updated, or retrofitted. There are just four petroleum refineries in the state. If each refinery took this credit, and assuming the credit could be fully used in the first year, this credit would reduce general fund revenues by $10,000 over the biennium. This fiscal note assumes all of this impact will occur in fiscal 2007.
6. There are no administrative impacts associated with this bill.

**Department of Transportation**

7. From the most recent information available to the department, there are no ethanol plants projected to start production in FY 2006 and three in FY 2007. Under present law, the projected dollars to be paid out under the alcohol tax incentive are zero in FY 2006 and $6 million in FY 2007.
8. Three ethanol plants are projected to start production in FY 2007: one in Hardin, one in Great Falls, and one in Miles City.
9. According to their recent projections, the Hardin plant would receive $2 million, the Great Falls plant would receive $2 million, and the Miles City plant would receive .9 million for a total of $4.9 Million in FY 2007.
10. The proposed amendments capping the alcohol tax incentive to $2 Million per producer would reduce the projected alcohol tax incentive payments made by the department in FY 2007 by $1.1 Million ($6 - $4.9 = $1.1).

FISCAL IMPACT:

| | FY 2006 Difference | FY 2007 Difference |
|---|---|---|
| Revenues: | | |
| General Fund (01) | $0 | ($10,000) |
| | | |
| Net Impact to Fund Balance (Revenue minus Funding of Expenditures): | | |
| General Fund (01) | $0 | ($10,000) |

TECHNICAL NOTES:

**Department of Revenue**

1. Section 4, provides the credit for conversion of gasoline tanks. It is not clear in that section if the $300 tax credit applies to each *tank* that is converted, or if the credit is limited to $300 for each *taxpayer*, regardless of the number of tanks that the taxpayer converts.
2. The legislation does not adequately address the treatment of the credit for pass-through entities (e.g., that the credit must be allocated in proportion to each owner’s income, etc.).

**Department of Labor and Industry**

3. In order to remain consistent with industry standards, Section 2 (1) should use the term “denatured,” rather than “anhydrous.”