

HOUSE TAXATION COMMITTEE MEETING MINUTES
April 13, 1981

A meeting of the House Taxation Committee was held on Monday, April 13, 1981 at 8:00 a.m. in the Livestock Auditorium, Department of Justice. All members were present except Reps. Hart, Dozier, Williams and Zabrocki and Oberg. SENATE BILLS 344 and 356 were heard and EXECUTIVE ACTION was taken on SENATE BILLS 344, 200, and 283.

SENATE BILL 344, sponsored by Sen. Tom Towe, was the first bill to be heard. This bill deals with a tax on hard rock minerals. At present there are three separate taxes on these minerals, all of which are very small. The total combined is about 3% of the price of the product. This bill would provide for a graduated tax that would approximately add 3 - 3.5% more on the mining companies that would be affected. The bill will not affect any surface mining, which has a higher schedule. Also, small mines would be excluded. He explained the bill.

He pointed out that only a nominal tax would be in effect until January 1, 1983. The idea was not to put the tax on fully until the next Legislature so that the question could be addressed once more. The effective rate is 2% on the second schedule in the bill.

The Anaconda Company in Butte would be one of the mines that wouldn't be affected by the bill. He submitted that this language was clear; however, some Anaconda Company attorneys didn't agree with this. He added that he had an amendment that would make this even more clear; see Exhibit "A."

Subsection (b) on page 5 would in effect exempt the ASARCO mine. This mine moved into an area which had just geared down after the impact of the Libby dam, so there wasn't much impact. This same language will in effect exempt the Placer AMAX mine in Whitehall. Another AMAX mine might also be excluded. Perhaps the impacts from these mines should be addressed.

He supported the Senate amendment to the 125% credit, up to 150%. He submitted that this was an incentive and a benefit to everyone. There is a mechanism in the bill for taking care of front end impacts if they don't make any donation.

He had originally suggested the money go into the coal tax trust fund; now 100% of the money will go to an impact fund as provided for under Section 8.

He said Section 9 might be repealed because it was no longer necessary because another bill had repealed the material covered in the Section.

The Board set up by this bill would be very similar to the Coal Board. It may be as much as 1 1/3 to 1 1/2 year before any money comes in. This bill is needed because of impacts which will be substantial in the future if mining proceeds in the Stillwater Complex. These Counties

aren't even levying and collecting as much money each year for the Counties' operations at present as the impact would be. He added that there would also be tail-end impacts. There may be problems not foreseen: environmental, or adjustment problems.

He suggested that a tax on hard rock minerals is needed just as one is needed on other minerals. It is owed to the future generations of the State who won't have this resource in the economy. 225,000,000 ounces of platinum-group minerals are being talked about, 80% of which can be recovered and this amounts to about \$52.5 billion, 3 times all of the copper mined in Butte since 1882.

He submitted that HB 718 didn't address many of the things this bill addresses. He submitted that part of that bill would be unworkable. The statement that this bill will prevent mining in the State, he felt was not true. He submitted that this bill would make it clear that the company has to pay for the impacts. Profits are big if a mine is successful; they often exceed 50%. He submitted that they could afford 3 - 3.5%.

Sen. Max Conover then rose in support of the bill. He explained that the Stillwater Complex was just coming out from underneath the great impact of the mine that was done there a few years ago. As a Stillwater County resident he submitted that Columbus was the only incorporated Town in the County. HB 718 he submitted didn't have the ingredients this bill had. This bill doesn't apply unless more than \$1 million is taken in. HB 718 looks to be a hardship on small mines. A letter from Jim Bollinger and others was read; see Exhibit "B." Some background information was submitted on the bill.

Andrew Epple, Big Timber/Sweet Grass County Planning Boards, then rose in support of the bill; see Exhibit "C."

Doug Hart, Carbon County Planning Board, then submitted a letter in support of the bill; see Exhibit "D." Without the kind of assistance the bill encourages, property taxpayers will have to share the bulk of the burden of the impacts.

Bill Mackay, former State Senator, then rose in support of the bill. This impact that his area will be faced with should be a legitimate cost of doing business for the mining companies.

Linda Anderson, Statewide Advocacy for Senior Citizens with Low Incomes, then rose in support of the measure. She pointed out that the options and alternatives for younger people to raise more money weren't options for senior citizens.

Steve Logan, a Libby contractor, then rose in support of the bill. He would have wished that this bill would be in effect for the ASARCO mine, also.

Kurt Krueger, rising on behalf of himself and his experience as a

lawyer representing low income people in Butte and Anaconda, then rose in support of the bill. He discussed the effects a major mining corporation could have on a community. Cutbacks in mining can be very devastating. Communities could draw from the money generated by this bill to take care of these problems. It is imperative that Montana accept and encourage commercial and industrial growth.

Bill Mackay Jr., a member of the Absarokee School Board and the Carbon County Planning Board, then spoke, on behalf of himself; see Exhibit "E." He submitted several letters from other proponents of the bill; see "Bulky Testimony" file.

Mary Donohoe, Nye, Montana rancher and former Stillwater County Commissioner, etc., then rose in support of the bill; see Exhibit "F."

Paul Hawks, a rancher in Sweet Grass County, then rose in support of the bill. Ed Weber asked him to say that the Boulder Valley Association was also in support of the bill. See Exhibit "G."

Another Nye rancher rose in support of the measure. The one good point about the bill is the 150% credit for up front money being provided. That is what is really needed. He submitted several pieces of supporting testimony.

Jim Ellison, McLeod, then spoke in support of the bill. He submitted that the tax was merely an attempt to get the mining companies to be as civically responsible as the rest of the companies.

A rancher from Fishtail then rose in support of the bill. He stressed that he and others wouldn't have come up to Helena if they didn't feel the bill was both important and fair.

Helen Clark, a rancher and citizen of Sweet Grass County, spoke. She felt that the mining companies should pay for their own impacts, 100%. This tax would just be a drop in the bucket to these companies.

Tandy Riddle, McLeod, rose in support of the bill and added that Earl Adams and Tom Kelly were also in favor of the bill, although unable to attend the hearing. Pat Clark, Mary Mackay, and others rose and identified themselves as proponents of SB 344.

The OPPONENTS to SB 344 then testified. Ward Shanahan, Stillwater PGM Resources, introduced Jerry Simpson, also representing PGM Resources. They wanted to do business in Montana but the uncertainty of the severance tax is casting a shadow on this. The coal tax can be passed on to the consumer but this isn't the case in platinum and palladium, because the Russians control the market. Materials, labor and taxes have to be paid by these companies. The company he works for earns about 3 - 4%. The largest platinum and palladium refiner in the world earned only 2 - 3%. There is no big bonanza that is available. This tax is not a small amount when compared to profits. They all want to pay for impact and he submitted that they would be doubling the tax base of the community they were in. After the impacts are

taken care of he expected that the mill levies in the area would be reduced. This would make a fourth severance tax on mining. He questioned where things would go from here, and submitted that this weighed heavily on their business decisions.

Fred Owsley, ASARCO Manager, Northwest Mining Department, then rose in opposition to the bill; see written testimony Exhibit "H."

Rep. Bob Marks then rose in opposition to the bill. He submitted that there was another bill in the Legislature which would take care of front end impact. There may be some question as to the equity of asking mining companies to take care of tail end impacts when almost all are exempted that are now in existence. He drew the Committee's attention to the schedule on P. 4 of the bill. He questioned whether it was equitable to tax open mining 2 1/2 times more than underground mining. He questioned if the companies that were supposed to be exempt from the bill really would be. It is important to create a good economic climate in the State to provide jobs. The mining industry shouldn't have the doors shut on it.

Bill Thompson, General Manager of the Anaconda Co.'s Butte operations, then rose in opposition to the bill; see Exhibit "I."

Bill Porter, representing the Montana Chamber of Commerce, then rose in opposition to the measure. Basic economics teaches us that we are entirely dependent on farming, fishing, mining, and lumber. Increased cost reduces ability to compete. All of Montana's tax revenues are dependent on extractive business. To tax on adjusted sales volume seems as unrealistic as taxing a farm or a business on gross sales. He would also oppose a severance tax on large new farms. A severance tax is not cost effective for total tax income and would be counter-productive for the long term interests of people.

Jim Smolik, Project Manager for Placer Amex, Inc., then spoke; see Exhibit "J."

Several Whitehall residents then stood and identified themselves as opponents of the bill.

Dave Russell then submitted 475 signatures, 470 of which were residents of Stillwater County; see "Bulky Testimony" file.

James Mockler, Montana Coal Council, then spoke up against the bill. He pointed out where the funding was going to come from: the coal tax. He presented a listing of all major coal contracts negotiated since July 1, 1975; see "Bulky Testimony" file.

Don Peoples, City Manager of Butte, rose in opposition to the bill. The imposition that the bill would place would put the mining industry in Butte out of existence.

Bill Sternhagen, Northwest Mining Association, then testified; see Exhibit "K."

Mr. Ward Shanahan then testified; see Exhibit "L."

Pat Keney, Executive Vice President of the Butte/Silverbow Chamber of Commerce, then spoke up in opposition to the bill.

Several opponents of SB 344 rose and identified themselves, including George Johnson, who was violently opposed.

Gene Phillips, Canadian Superior, then presented written testimony in opposition to the bill; see Exhibit "M."

Questions were then asked. Rep. Nordtvedt submitted that the credit would be coming from the General Fund. Sen. Towe insisted that it was a tax credit. Rep. Nordtvedt wanted to know where the metal mines tax went, and Sen. Towe replied that it went to the General Fund. He submitted there was no reduction to the General Fund. Rep. Nordtvedt wanted to know what the 150% credit was against, and Sen. Towe replied that it was against the severance tax imposed by this bill only.

Sen. Towe said no interest was involved in the money from the Coal Board and added that the money would be repaid.

Rep. Harrington asked Mr. Thompson if he felt the new amendment proposed would take care of exempt mining in Butte. He said they would have to take a hard look at the amendment.

Rep. Brand asked Mr. Simpson where the 3 - 4% profit figure came from. He replied that it was 3 - 4% on the gross sales. 25% of their operations were mining over the entire world. Rep. Brand submitted that this didn't apply to only Montana. He submitted 3-4% didn't mean much to him unless the Committee could know exactly where it came from.

Rep. Harp asked Sen. Towe if he thought some people might be looking at the bill as a run on the coal tax money. Sen. Towe disagreed with this, and said it would only be a loan from the Coal Board. It is an assistance, and he submitted that the people in the Coal Counties wouldn't have objections to helping another Board get started.

Sen. Towe then closed. (1) He pointed out that coal was taxed seven times more if it was on a surface mine. He felt 2 1/2 times was therefore approximately correct for this bill, because there are more impacts and problems caused by open pit mining.

Most of the comments heard at the hearing, he submitted didn't apply to the bill. The ASARCO mine testimony should be excluded; he added that their attorney was satisfied that the bill wouldn't apply to them. He expressed disappointment with Mr. Thompson. He said that not once

had the Anaconda Company talked to him about the effect of the bill. He told Lloyd Crippen that he felt there would be no question that the Anaconda mine would be exempted and he had made up an amendment to take care of this. They have raised a bogeyman; it is unfair and unpopular and he was disturbed with the tactics. According to previous testimony, much more than the amount they mentioned would be taken in by the Anaconda Company in its Stillwater operations. He welcomed mining but insisted proper perspective be put on it and they should pay a 3% extra tax to make sure that the local populations wouldn't have to pay a higher property tax. He submitted that the facts spoke for themselves. He expressed agreeableness to submit any amendment that would clarify the language of the bill. He pointed out that at the Senate hearing there was a broader support from the Stillwater communities. In his opinion, the two bills that the Committee heard discussed weren't incompatible and that was why he agreed with the 150% credit. He submitted that HB 718 didn't take care of the rest of the problems. The hearing on SENATE BILL 344 was then closed.

SENATE BILL 356, sponsored by Sen. Chet Blaylock, was then heard. The Senate amended the severance tax down to 3%; line 15, p. 2 had mistakenly been changed and it should be left at 2.65%, he added. This bill exists because it will make up the difference for what would be lost if the Legislature were to adopt SB 355. It raises the tax from where it now is. He distributed a handout comparing State taxes on oil production; see Exhibit "N." He submitted that the increase from this bill should be modest. \$32 million would be needed if the upper levels on SB 355 were raised. \$35 - \$36 million would be needed if SB 355 was left where it is on the four categories of the licenses.

There were no further PROPONENTS to SB 356.

Don Allen, Executive Director of the Montana Petroleum Association, then rose in OPPOSITION to the bill; see Exhibit "O." He disagreed with the ranking of Montana as far as tax burdens. The Governor's Office had included some things they don't count as costs.

Ed VanderPas, Montana Oil and Gas Association, then spoke. They are sympathetic to the goals of SB 355, but they oppose SB 356's method of accomplishing the goals. This bill simply substitutes one form of property tax for another. He suggested that this wasn't fair. He passed out an income distribution sheet from one of the wells operated by their people showing the taxes paid in one month; see Exhibit "P." He didn't understand why the Governor ignored the net proceeds tax or the fact that other States don't have it. A royalty owner already pays 45% in taxes. These two bills would relieve some taxpayers of having to pay any tax at all.

Earl Cranston, a former member of the House of Representatives, then rose in opposition to the bill. He submitted that the Governor's figures were off by 3 - 4%. Montana has been underdeveloped compared to other States. If the capital can be gotten into the State, the opportunity is great because many areas haven't been developed.

In Montana, costs and taxes are higher and the labor situation is

poorer. Testimony that the oil industry can afford it he disagreed with. The marginal cost of an increased tax has sent independents out of the State in the past. From an independent's standpoint, the increase in one of their costs will marginally drive out some of them. It is an unfair tax against one industry for the benefit of the consumer.

Sen. Larry Tveit then testified in opposition to the measure. He appeared on behalf of Richland and Dawson Counties and the NE Montana Land and Mineral Owners Association. (1) The unfairness in taxing one entity for the benefit of the entire State is no more than the state of revenue sharing. (2) The purpose of this bill is to fund SB 355 and he didn't agree with taking cars and trucks completely out of the County tax base. The reappraisal system is going to double the value of the property tax and the cars and pickups would go free and this isn't an equitable approach.

Raising the severance tax will bring in \$10 million more than SB 355 needs, and he felt this was a windfall. Royalty owners, not being able to deduct or pass on the tax should be exempt from the increase if the bill passed. This bill will not help the arguments in the coal severance tax issue, either, he added.

Pete Sherwood from Dutton then rose in opposition to the bill. He submitted that as a small guy he was being way overtaxed and didn't want to pay for anyone's license plates for their cars. He wanted to know how it was he was ripping off the State of Montana.

Carl Iverson rose in opposition to the bill. John Augustin, Conoco, also rose in opposition to the measure, as did Jerry Branch, an independent oil operator from Shelby. Mr. Branch submitted that Sen. Blaylock was mistaken on his exemption; it was \$6,000, not 6,000 barrels. Several other persons rose and identified themselves as opponents of SB 356.

Questions were then asked. Sen. Blaylock stressed that the bill wasn't tax relief, it was the shifting of a tax. Mr. Allen submitted that the effective tax rate on oil was higher than any other State's effective tax rate on oil.

Rep. Brand wanted to know where this increase put the tax on oil compared to minerals and coal, and Mr. Allen said oil was in the middle, although that wasn't the most comfortable place to be.

Rep. Nordtvedt questioned Sen. Blaylock if this bill was to be contingent upon the passage of SB 200, and he confirmed this. Rep. Nordtvedt asked him if he was concerned that the State might be a "severance tax junkie" State. Sen. Blaylock said he was not.

It was brought out that if this bill didn't pass, SB 200 could still pass, but not vice versa.

Rep. Switzer wanted to know what kind of effect this bill would have on people drilling in Eastern Montana; he expressed concern that they might relocate in North Dakota. Sen. Blaylock pointed out that drilling costs were allowed to be reduced in Montana. An opponent of the bill submitted that Montana's rates were much higher. Terry Colby presented information, and pointed out that the effective tax rate in North Dakota was 11.5% of gross value.

Mr. Allen, in response to Rep. Harp, said that domestic oil production would be increasing, but if the windfall profits tax on oil was added on, oil was probably much higher than the other minerals and this has taken out the incentive for exploration. They are concerned about Montana getting its share of the activity taking place in the country. They don't want to discourage potential.

Rep. Nordtvedt asked Sen. Blaylock if the implication was that the Committee should be convinced that there were higher tax rates owed elsewhere (regarding the list comparing oil and other tax rates), so Montana should also impose them. He expressed concern over this kind of thinking. Sen. Blaylock agreed that the State should be reasonable. He said the consumers had paid their share when iron products were bought. Montana didn't do this with copper, and he felt this trend shouldn't be continued any longer. He didn't think it was unreasonable to ask for a 2.5% increase.

Rep. Vinger questioned since the school system was being funded by property taxes, why teachers should be exempted from a property tax which helps fund their jobs. Sen. Blaylock said they wouldn't be exempted from income taxation, and their cost would be deducted.

Sen. Blaylock then closed, and the hearing on SB 356 was closed.

The meeting was adjourned at 10:45 a.m. and reconvened at 5:15 p.m. the same day in Room 102 of the State Capitol. Upon reconvening, all members were present.

Rep. Williams moved that SENATE BILL 283 BE CONCURRED IN. Rep. Dozier rose in opposition to the motion because it would hurt local government revenues. Rep. Nordtvedt said that the local property taxpayer would pick up the burden. Rep. Vinger submitted that it was unfair to tax retail businesses because catalog businesses didn't have to pay the tax.

Rep. Harrington said that something had to be done for local government, and the burden couldn't keep getting passed on to the taxpayer. He said he could understand the argument that this wasn't the best tax ever, but submitted that the problem of the loss of revenue needed to be addressed.

Rep. Roth submitted that the local governments had picked up much more revenue than the Legislature was aware of over the past five years due

to State leases, mineral taxes, and reassessed valuations which were higher.

Rep. Burnett said natural growth would pick up the burden shortly. He submitted that the loss wouldn't be that great. Rep. Harrington said it was \$197,000 in his area. When growth isn't there, it can't pick up the burden.

Rep. Brand said he couldn't understand why there were so many tax breaks for small business people when the State couldn't afford it. He submitted that catalog sales could be taxed instead of taking inventory taxes off of retail businesses.

Rep. Underdal said the removal of the inventory tax wasn't going to hurt nearly as much as the opponents of the bill would have the Legislature think, because supply houses weren't keeping an inventory at present. He submitted that this would bring back supply houses that had moved out of State. He pointed out that 36 States didn't have an inventory tax.

Rep. Nordtvedt submitted that the tax was equivalent to what had been done with households and their contents several years ago, and that tax hadn't been workable.

Rep. Devlin said that in his thinking the businessman was being penalized enough for his inventory just from the high rate of interest to be paid on it. He said the Legislature could help them out with this bill and it would help the business keep a stock for the public.

Rep. Harp rose in support of the bill. Only 1.7% of the tax base will be affected by the inventory tax loss. This is probably the most minor tax relief bill that will do the most good.

Rep. Roth said when the country's economy was lagging, something was needed to stimulate business and this seemed to be one opportunity to help private enterprise and it might even benefit the State.

Discussion took place regarding the fiscal impact of the loss of the revenue in various Counties. Rep. Sivertsen submitted that the livestock tax would be eliminated if this bill passed. He did some work with the Department of Revenue, and submitted that there should be a replacement tax for this: a business license tax to cover all businesses. This tax would raise the same amount of money. He added that if this tax is eliminated now, it would be very difficult to get a tax put back on. He asked the Committee to consider where the State was going down the road. He stressed that the ad valorem concept was being completely destroyed; he rose in opposition to the bill, not because he didn't think the tax should be eliminated, but because he felt the Legislature was premature and maybe the individuals should have come up with an alternative proposal to make up for what the tax eliminated.

Rep. Asay said that the entire problem hadn't been looked at, and only one part was being solved. He submitted that it was a balance of increases and decreases in taxes that was left to talk about in Committee. Rep. Brand said previously there were other bills to reduce taxes for business people.

The question was then called for on the motion that the bill BE CONCURRED IN; motion carried 11 - 8; see roll call vote. Rep. Harp agreed to carry the bill.

Rep. Dozier then moved that SENATE BILL 344 BE CONCURRED IN. Rep. Sivertsen made a substitute motion that the bill be TABLED. He said he wouldn't support revenue sharing, or the auto fee bill, and therefore he wouldn't support this bill, either. Someone is being taxed so someone else can get relief. This isn't relief, it is a tax shift.

Rep. Nordtvedt rose in support of Rep. Sivertsen's motion. (1) He was satisfied that HB 718 could in principle address the problems of hard rock impact; at least it should be given a try. (2) When translated into cost vs. ultimate price for the product, the tax can end up being 25 - 100% of previous gross income and it can convert a positive gross income into a negative one. He didn't see any reason why this new tax should be rushed into.

Rep. Harrington said the Legislature had failed to address the negative impact and this bill didn't address it. He had problems in voting against the bill. (1) The statement that the Company wouldn't continue operations if the bill were enacted, he was inclined to agree with. He cited several instances where the Company's threats to lay people off were followed up. The problem is, he didn't think whether or not this bill passed would make any difference on how they acted, but it might probably rush the process of layoffs along. There are real problems in this area, and none of the bills addressed them and the Legislature hadn't addressed them. He submitted that neither HB 718 nor this bill addressed the real problem.

Rep. Harp said that some of the things that HB 718 addressed dealt with local government costs. Also, there was a mechanism to keep the mill levies constant. HB 718 tries to address that the mining companies will pay for the impacts. The State needs to change its attitude and start to see that the impact from an industry is often positive and not negative at all. HB 718 addresses the mistakes of the past and also is the future of mining in Montana and he submitted that the severance tax was no longer the solution.

Rep. Dozier stressed that nonrenewable resources were being talked about. HB 718 addresses the local impact, but this bill addresses the fact that when the resource is gone, it is gone for good from the State. It is necessary that some kind of tax be kept on these minerals.

Rep. Brand rose in support of the bill. He didn't like the existing company exemptions portion, however. Also he took exception to the PGA Resources representative's testimony. He disagreed with the statement that coal didn't compete on the world market. (1) He didn't see where the mine metals were different from coal. (2) The tail end impacts that happen. It has always been felt that the State wholeheartedly supported the coal severance tax. If that is true and the tax stands, he thought that kind of tax was what was needed in the State. Mr. Allen said that the severance tax on oil was in the middle between metal mines and coal; if that was true, mine metals would be paying the smallest tax of the three. He said he didn't have much compassion for the larger mines because they hadn't treated the State fairly. Rep. Burnett questioned if there weren't some amendments to the bill offered by Sen. Towe. Rep. Brand said the exclusion wasn't needed.

Rep. Dan Kemmis, Minority Leader of the House, spoke up. He questioned why the Committee wanted to Table the bill rather than to dispose of it one way or another. Rep. Sivertsen said he had made the motion to do away with the bill. Rep. Kemmis said that it should be the responsibility of the Committee to get the bill before the full House. He submitted that the rules required that action be taken and bills be sent to the Floor of the House. Rep. Burnett said the Committee could table the bill for the time and pass it out before the end of the Session and still be within the 10-day rule. Rep. Harrington felt the bill should be brought to the Floor.

Rep. Sivertsen said it had been the practice in the past to table bills and he wanted the issue clarified. If Rep. Kemmis was correct, he submitted that he was out of order and everyone else had been out of order the entire session. Rep. Nordtvedt submitted that Committee was certainly free to table the bill for the time.

The question was called for on the motion to TABLE SB 344; motion carried 11 - 8; see roll call vote.

SENATE BILL 337 was then considered. Rep. Harrington moved that it BE CONCURRED IN. He brought up the possibility of changing the income requirement to "adjusted gross income," and possibly changing the dollar amounts somewhat.

Rep. Asay said that as the bill was, this would be the first time in the U. S. where Social Security and its recipients would be taxed.

Rep. Nordtvedt said at present, all sources had to be reported in addition to taxable sources, to find out if a person qualified. This is establishing the principle that Social Security is subject to taxable income. He found this objectionable and setting a bad precedent. He suggested that several Committee members work on changing the language from "income from all sources" to "adjusted gross" and changing the brackets accordingly, so they would have the same average

impact.

Rep. Oberg said he understood the concern about Social Security but pointed out that people could use a lot of tax advantages because of the fact that they didn't have to list all sources of income.

Rep. Nordtvedt submitted that the income reporting presently required in the bill wouldn't be enforceable and it was agreed to postpone action on the bill till the following day.

Rep. Harrington then moved that SENATE BILL 200 BE NOT CONCURRED IN.

Rep. Nordtvedt made a substitute motion that the bill BE CONCURRED IN. In the past several years there has been an explosion in the market price of oil and the net proceeds tax has been going up according to the full market price of that oil. However, that full market price isn't going to the producers or the royalty owners and unless the State wants to make a tax claim to the federal government, a bill like this is needed to allow the people producing this oil to subtract off the windfall profits tax before they arrive at net proceeds. The net proceeds are less the windfall profits tax, clearly. All the bill does is say the windfall profits tax is deducted. Even with the deduction, the tax on a barrel of oil will still be going up dramatically because some share of the rapid rise in price is going to the producers and royalty owners. It is basically a matter of whether revenues from the net proceeds tax, whether local or State, go up by 200% or 300% in the coming years. In either case, these governments will get a substantial increase in revenue.

Discussion took place regarding the Senate amendment on P. 5, lines 24 and 25. Rep. Nordtvedt said basically, every time the price of oil went up \$1, somewhere between 30 and 70% of the additional dollar went to the federal government. The question is, should the State continue to live in the false world of claiming that that money going to Washington is income to any of the parties subject to the net proceeds tax.

Rep. Vinger submitted that the passage of this bill would rob would-be profit from the producing Counties. Instead, it will go to the oil companies and the Counties will be getting less. Rep. Nordtvedt confirmed this. Rep. Roth submitted that the bill wouldn't reduce the revenue of the Counties.

Rep. Sivertsen agreed that this was true, but the Counties wouldn't get as much as they normally would have gotten; he said he would oppose the bill. It was part of a package that was being considered in the Summit, and he submitted that if the Committee didn't agree with what was going on in the Summit, a signal should be sent to the leadership that it didn't go along with what had been going on, and the bill should BE NOT CONCURRED IN.

Rep. Harrington submitted that \$70 million was being looked at. How many of the people back home would say, "That is how much tax relief is given to the people, and look at how much went to the oil companies,"

he questioned.

Rep. Williams rose in opposition to the bill. He saw no reason why the windfall profits tax should be deducted from the Montana net proceeds tax. He submitted that it was a federal tax, and the federal government's responsibility; the federal government should worry about it, and Montana should worry about its net proceeds tax.

Rep. Bertelsen asked Rep. Nordtvedt if he saw any similiarity between this tax and the amount paid to the federal government. Rep. Nordtvedt said the taxpayer was allowed to deduct federal income taxes from what was left to be taxed at the State level.

Rep. Asay submitted that if this bill went to the Floor it would affect other parts of the tax package. Also, the Counties are being asked to pay the windfall tax.

Rep. Nordtvedt submitted that this bill had nothing to do with the package and stood on its own right. Under present law, if the price of oil gets high enough and the windfall profits tax gets high enough, he submitted that it was conceivable that a producer could owe a tax more than his net proceeds. If taxes are taxed, they can be taxed more than 100%.

Rep. Williams said that Montana should wait until 1990, when the windfall profits tax runs out, to see what happened.

Rep. Switzer said that if the same logic was applied to all areas instead of just this bill, it would encourage growth.

Rep. Harrington submitted that, regarding the net proceeds tax, everything is being deducted out of that, so the companies are getting their costs deducted. This bill will give them even more costs to be deducted. A double tax break will be given if the bill passes.

Rep. Dozier submitted that this was a windfall profits tax put on by the federal government for a reason. For the State to forgive them for their sins after the federal government has taxed them for them is ridiculous.

Rep. Nordtvedt said the typical County would, even with the passage of the bill, often get a 200% increase in its taxable value, due to the escalating price of oil. Without this bill, it would go up even higher.

Rep. Harp asked what effect there would be on the severance tax if this bill died. Rep. Nordtvedt said the way SB 356 was presently constructed, it couldn't go into effect as long as this bill was dead. This bill's death would cause the death of SB 356, also.

The question was then called for on the motion that SENATE BILL 200 BE CONCURRED IN. Rep. Switzer suggested an amendment changing the

HOUSE Taxation COMMITTEE

RILL SB 344

Date _____

SPONSOR

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPO
- Paul Hawke	Melville, MT	myself, BDA.	/	
William R Mackay	Roscoe mt	Self	/	
W R Mackay Jr	Roscoe mt	NPRC	/	
Larry Ann Mackay	Roscoe mt	SPA	/	
John Hanson	Whitehall MT	Self		X
John Olson	Whitehall mt	Self		X
Kate Olson	Whitehall MT	Self		X
Dorinda Fennell	Whitehall, MT	Self		X
Jean Brown	Whitehall, MT	Self		X
Carmen West	Belp, MT	PGM		X
John Barry	"	"		X
Nellie Peterson	Whitehall, Mont	Manager Business Assoc.		X
Veronica	Whitehall "	Whitehall Sp. Services		X
Joe P. E.	Whitehall, MT	Rep. Whitehall		X
Joe P. E.	Betha	Betha Silver Bar		X
Rep. Bob Marks	Clancy #80			X
Anthony Fletcher	Rt. 2 Box 57	PGM		X
Maryann Prescott	Rosaboke MT	PG M & Self		X
John J. Brown	Betha	" "		X
Elizabeth Jahn	Whitehall	Self		X
Don Corbinis	Whitehall	Pharmacist		X
Jim Smalley	"	"		X
Joe Taylor	Pony mt	Self		X

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE

Taxation

COMMITTEE

BILL

513 374

Date

SPONSOR

NAME	RESIDENCE	REPRESENTING	SUPPORT	O
Hugh Moore	Deer Lodge	Canadian American		
John F. Carter	Helena	Self		
PT Kline	Butte	Butte Chamber		
Don Kennedy	Butte	Butte "		
Gail Peterson	Deer Lodge	Self	X	
A. Close	Helena	"	X	
Linda Peterson	Helena	(LISC) Low Income Service	✓	
W R Hansen	Billings	SELF		
Constance	Helena	Mont. Chamber		
W. H. Banta	Helena	Kenn. Cement		
Kurt Kuegler	Butte	Self	X	
GENE PHILLIPS	KALISPELL	CANADIAN SUPERIOR		
Mike Zumbach	Helena	MT. Mining Co.		
Mike Stephen	Helena	MT. Anglo	X	
P. R. Cannon	Helena	Self		
Harold Jensen	Helena	Self		
Frank M. Smith	Helena	MT. Coal Council		
Andy Epple	Big Timber	Sweet Grass Co.	X	
Joseph R. Annan	Marion	Exxon Minerals Co.		
Jim E. Olson	McClelland	Self	X	
Walter Clark	McClelland	Self	X	
Robert B. Murphy	Fishhook	Self		
GILES E. WILKES	HELENA, MT	AMAR ENCL		

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

COMMITTEE

Date 7-1-61

SPONSOR

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

4/12/81

Ann Hope

Some time ago we and a few
others signed a petition for appointment
of a revenue tax on the land, growing.

Now especially in view of the reduced rate of taxation, we wish and appreciate any word being struck from said petition.

John. A. Brown

John - Jans
- Jans - Jans

Jim Bollinger

NELS LARSEN
BEEHIVE ROUTE
NYE MT 59061

Mailgram

4-027701S101 04/11/81 ICS IPMMTZZ CSP HELB
4063288249 MGM TDMT ABSAROCKE MT 73 04-11 0819P EST

SENATOR MAX CONOVER
CAPITAL STATION
HELENA MT 59601

IN JANUARY MY WIFE AND I SIGNED A PETITION TO ALLOW ANACONDA TO GO
AHEAD WITH THEIR PLANS FOR MINING IN THE STILLWATER COMPLEX. HOWEVER
WE DID NOT READ THE WHOLE PETITION BUT WERE LEAD TO BELIEVE THAT A
HARD ROCK SEVERANCE TAX WAS PROPOSED IN THIS PETITION. I WISH TO HAVE
MY NAME STRUCK FROM SAID PETITION AND I SUPPORT SENATE BILL 344

NELS LARSEN

2019 EST

MGMCOMP MGM

What is it?

The bill would levy a severance tax on hard rock minerals and set up a mechanism similar to the coal board to meet the impacts of large scale hard rock mineral development.

The tax would be 3% until January 1, 1983 at which time the following schedule would be in effect for underground mines:

First million dollars is exempt	
\$1 - \$5 million	3%
\$5 - \$10 million	4%
\$10 - \$25 million	5%
Over \$25 million	6%

The tax for strip mined hard rock minerals would be double the above rates.

All state, local and federal taxes will be deductible therefore the effective tax rates will be approximately 1%, 2%, 3% and 4% respectively.

Who does it affect?

Since the first million of production is exempt from taxation the tax will not affect small miners. Existing mines are 'grandfathered' out of the tax. SB 344 will not affect the Butte, Phillipsburg, Landusky or Troy operations. Only mining operations which receive permits after July 1, 1981 will be affected by SB 344.

Will it work?

The bill allows for the hard rock impact board to borrow from the coal board and then repay the loan as funds accrue to meet the front end impacts of hard rock development.

The money generated by the tax will be used to help meet the impacts caused by hard rock mining in local communities. These impacts include: the increased need for school facilities, roads, health services and police and fire protection. Local residents should not be expected to bear the costs of providing these increased services.

The bill also allows for a tax credit of 150% for any monies that the corporations will pay in front end impact payments. This should be a very positive incentive for the corporations.

Is it fair?

The total taxes levied on hard rock production in other states are shown on the following table.

With the additional taxes on a mine producing \$25 million yearly Montana would be in mid-range tied with Wisconsin at 7%. This position is very competitive.

"There is a question as to whether imposition of a severance tax affects competition between mining firms in different areas significantly enough to affect expansion and growth of mining in one state relative to another. First, it is difficult for a mining firm to migrate from one state to another with mineral deposits occurring as they do. Second, severance taxes are generally such a small part of overall cost that they are not likely to be an overriding factor in a firm's decisionmaking."

"Generally speaking, it is unlikely that a reasonably based severance tax would have an adverse effect on mining expansion. If a mining operation cannot bear all the costs involved in bringing forth its product, including taxes, it is a submarginal operation and it is probably a mistake to continue to invest resources in continuing it."¹

¹ Taxation, Mining and the Severance Tax, Bureau of Mines Information Circular/1979

WITNESS STATEMENT

Name Andrew C. Epple Date April 13, 1981
Address P.O. Box 1052 Big Timber, MT 59011 Support ? XX
Representing Big Timber/Sweet Grass County Planning Boards Oppose ? _____
Which Bill ? SB 344 Amend ? _____

Comments:

Senate Bill 344 would do several very important things that current statutes and pending legislation fail to do:

1. By levying a reasonable severance tax on new hard rock mining operations, it would provide local Montana communities with a source of funds for planning and coping with rapid growth associated with mineral development.
2. It would provide the necessary funding to deal with ongoing and rear end impacts rather than just the front end impacts of a project.
3. It would provide an economic incentive for companies to mitigate impacts in a community by allowing a 150% severance tax credit for all money paid up front.
4. Trust fund money from a hard rock severance tax could be used at some future date to finance new growth industries in the state, or to provide low interest loans to small businesses, or to fund any number of other beneficial programs designed to pick up the slack after the ore has played out.

In no way do I want to see the hard-rock mining industry taxed out of the state, and with the sliding scale tax rate proposed now in SB 344, I don't think this will happen. Past experience indicates, however, that Montanans need a severance tax on nonrenewable resources like hard rock minerals, since once these resources are gone, they will never be available for future generations to benefit from.

A. C. Epple

Please leave prepared statement with the committee secretary.



TAXATION 4/13/81
EXHIBIT "D"

CARBON COUNTY PLANNING OFFICE

P.O. Box 460 Red Lodge, Montana 59068

April 3, 1981

"To Be Human Has Always Meant To Be Concerned"

Senate Taxation Committee
Attention: Senator Goodover
Helena, Montana 59601

Dear Sirs:

This letter is intended to indicate to those of you forced with making a decision on the proposed Hard Rock Mining Severance Tax, that the Carbon County Planning Board is in favor of such a Tax.

In as much as our neighbors in Stillwater County and to some degree our own County, stands to be significantly impacted by the proposed mining operation in the Stillwater Complex, we feel it is appropriate that those groups generating the impact contribute towards softening the strain on Government - Taxpayer services.

We hope that you will accept this letter of support of the proposed Severance Tax, and try to use your best judgment in your vote on this issue.

Thank you.

Sincerely,

Ernie Strum, Chairman

CARBON COUNTY PLANNING BOARD

DSH/ld

cc Senator Max Conover
cc Representative Jim Burnett

Mr. Chairman and Members of the Committee:

For the record, my name is Bill Mackay, Jr., and I'm from Roscoe, Montana. My father and I operate the same ranch my Grandfather did. I am a member of the Carbon County Planning Board and the Absarokee School Board. While I am authorized to speak for both of those organizations, I am speaking to you today on behalf of myself.

The issue before you today is purely economic. It is not whether or not mines will operate in this state, but how these operations will proceed. I am not opposed to the Anaconda project on the Stillwater, but I do want to see it done in such a way that those of us who have business interests in the area do not have to pay for the Company's profits.

As a member of the Absarokee School board, I can tell you that a project of this size will have a substantial impact on that school system. Taxes for the impacts will be collected. The question is from whom? Does the existing agriculture base, which has no economic interest in the mine; support the Company, or does the Company pay their share? This issue may now be focused on the Stillwater Complex, but in the future, it will become a state-wide problem. Mineral exploration will and should continue in Montana. But it should be done so that all segments of society can live with it. No entity should have the right to move into a community and seriously threaten the existing economic base.

The Anaconda Company has convinced its employees that S B 344 will preclude its operations on the Stillwater. As a result, you will undoubtedly see petitions which were indiscriminately circulated by people who were unfamiliar to local businessmen. One of the people asked to sign those petitions lives in Sheridan, Wyoming. That kind of attitude has created a real conflict in our community that I have not seen before. And yet the Company says it wants to be a good neighbor. It seems to me that a good neighbor should not cause those kinds of conflicts and should be willing to take up its share of the tax burden.

If indeed the Company cannot pay for its own impacts, then it should postpone the project until it can. Those minerals will still be there and will undoubtedly be worth more money. The last thing any community needs is a major industry that is so unstable that it cannot pay its own way.

S B 344 is a paltry tax when compared to the coal tax. Moreover, the hard-rock industry is the only extractive industry in this state that pays no severance tax. I urge you to support S B 344.

Testimony before the House Taxation Committee, April 13, 1981

bl

*Transcript of 4/11/81
L. R. R. R. R.*

and Fairview, members of the Committee.

My name is Jerry Decker. I am a rancher from Nye, Montana and a former Stillwater County Commissioner, a member of the Stillwater County Planning Board and the Stillwater, Sweet Grass and Carbon Counties' Tri-County Planning Board.

Stillwater and Sweet Grass are small counties and the primary economic base of both counties is agriculture.

The population of Stillwater County is 5,500. The taxable valuation for the 1980-81 fiscal year is \$14,159,199.00. One mill will raise \$14,159.20. County levies for 1980 were: General Fund 25 mills, maximum 27 mills; Bridge Fund 6 mills levied, 6 mills maximum; Road Fund 14 mills, 15 maximum. One particularly ^{interesting} millage is the Poor Fund. Stillwater County levies 1.45 mills for this fund compared to Silver Bow County which levies 13.5 mills. A mill in Silver Bow County will raise \$53,494 (1979-80).

The aforementioned figures clearly indicate that three basic services; bridges, roads and services provided by the General Fund such as law enforcement county offices, etc. are near the maximum limit.

School district financing in the impacted area is another problem and one of the most expensive, with bonded indebtedness being one of the most serious. Bonded indebtedness becomes a heritage of the land and it cannot be relieved until it is paid no matter who comes and goes.

The people of Stillwater County have worked hard to provide good schools. It seems unfair for these schools to become overcrowded and understaffed because of outside impacts and lack of funds.

Stillwater County has been an economically viable county paying its own way, not asking the state for help. However, excessive taxation at the county level will spur delinquent taxes, ^{which is a problem} for both the county and the state. There is no way a county the size of Stillwater can absorb large impact costs.

There are two similarities between agriculture and mining. Both are natural resource industries and neither agricultural land or mineral deposits

deposits will not move because of taxation.

21 344 is not a partisan question but rather an issue of tax stability for two small counties.

Mr. Chairman, Members of the Committee:

My name is Paul Hawks. I ranch at Melville in Sweet Grass County.

Everyday I can pick up the paper to read about this Legislature's struggle to approve a budget while keeping taxes down. Today you have a chance to approve a bill which would prevent this same problem from happening in my county. The population of Sweet Grass County is expected to double in a very few years after mining begins, requiring an estimated \$5.5 million in capital improvements for social services. In addition, the budgets will be greatly increased to provide these services for 500 new mining families.

So who picks up the tab? The local taxpayers? The State coffers? This will only exasperbate the problem we are all grappling with. The mining of Montana's minerals should not only provide jobs, but it should provide the revenues needed for the workers' social service needs.

I realize that HB718 addresses this issue. Submittal of an economic impact plan will be a great help to the counties in planning for mining impacts. But what happens, if, after the impact plan is approved and the upfront money is spent, other unexpected costs should crop up a few years down the road? Who would then pay these costs? This is where SB344 would dovetail nicely with HB718 by generating money from the minerals and not the local property owner.

The passage of SB344 would not be an additional burden to the companies as the upfront money required by HB718 is allowed a 150% credit against this severance tax.

I, therefore urge your support of SB344.

14

Opinion & comment

 **The Montana Standard**

Official newspaper of Butte-Silver Bow
Founded in 1876

DONALD W. BERRYMAN
General Manager

BERT GASKILL
Editor

JEFFREY B. GIBSON
Editorial Page Editor

Arco's pullout shows severance tax need

The Anaconda Copper Co.'s decision to shut down the Anaconda smelter and the refinery in Great Falls is the best argument we've seen for letting states set their own mineral severance taxes.

Montana's congressmen should invite their unenlightened colleagues — those who want to limit state severance tax powers — to travel to Anaconda with them. The tax foes could talk with hundreds of workers who have lost their jobs, and to the workers' wives and children, and find out what a sudden loss of livelihood does to a family's standard of living, its future, and its peace of mind. They could talk to local government officials, and find out what happens to long-term tax revenues and government services and planning when a community's major industry suddenly pulls out.

Anaconda business people could tell them about the indirect impact of major layoffs — about how employees who never drew an Anaconda Co. paycheck eventually may find themselves "fired" by Arco.

The tax foes would find the opinions of suddenly unemployed home-buyers interesting. The opinions of lenders who hold the mortgages would be worth listening to, also.

And, of course, the slag dumps, the environmental degradation in the Deer Lodge Valley and all the other physical scars left by 80 years of industrial activity should be examined, too.

That's what is left after Arco's decision to pack up and leave.

The copper firms have gotten by easy all these years. State Sen. Tom Towe of Billings points out that the Anaconda Copper Co. paid only \$40 million in taxes on \$3.5 billion worth of copper taken from Montana between 1923 and 1976. The state now collects twice that amount each year from the coal severance tax.

The \$5 million the company now proposes to drop on the doorstep as it leaves is only a token gesture, compared to the what the coal companies pay. That doesn't mean the coal firms are overtaxed. It does mean the Anaconda Copper Co. and its predecessors got virtually a free ride.

If the state's severance tax powers are eliminated or restricted by Congress or the courts, the coal-mining communities of Eastern Montana may someday be in the same boat as Anaconda and Great Falls.

State and federal regulations now require coal miners to follow certain reclamation rules and environmental protection laws.

But without coal severance tax money, the day-to-day effects of coal mining could not be dealt with adequately. And someday, when the coal runs out or no longer provides the mining companies with enough profit, and the companies pack up and leave, trust fund money built up by the severance tax will be there. The people and communities affected will have something to show for what the corporations have taken.

Without the severance tax, mining company shutdowns elsewhere would have much the same impact as the shutdowns in Anaconda and Great Falls. For many Montanans, the impact is nothing short of personal disaster.

The severance tax means that companies can't stop operations and walk away, leaving nothing but mucky footprints.

The coal severance tax is Montana's way of getting fair value for the mining of its coal, and Montana's way of protecting itself against the day the coal runs out.

And Arco's announcement Monday shows why the tax is so necessary.

Opinion & comment

The Montana Standard

Official newspaper of Butte-Silver Bow
Founded in 1876

DONALD W. BERRYMAN
General Manager

BERT GASKILL
Editor

JEFFREY B. GIBSON
Editorial Page Editor

Arco's 'pledges'

The Atlantic Richfield Co. has some explaining to do, according to some Montana labor leaders and elected officials.

If these people have their way, Arco's executives will be put under oath to explain exactly what considerations led to the shutdown of the smelter in Anaconda.

And Rep. Pat Williams and Lt. Gov. Ted Schwinden want to know why Arco "pledges" to invest hundreds of millions of dollars in the old Anaconda Co.'s Montana properties were not kept. Schwinden says the pledges, made in federal court in Alexandria, Va., by Arco chief executive Robert O. Anderson, were important in persuading the court to allow the Arco-Anaconda Co. merger, over Federal Trade Commission opposition. Williams wants the FTC to re-open its files so commitments Arco made at the time of the merger can be reviewed.

Butte-Anaconda labor officials and others say they'll ask the federal Environmental Protection Agency to hold public hearings, and to subpoena Arco records if necessary, to determine exactly what caused the smelter closure. The company's Monday announcement said it would be too costly to retrofit the smelter to meet federal and state air standards. That explanation has aroused skepticism in some quarters because the company almost certainly could have obtained air quality variances that would have allowed it to keep the smelter going until late in this decade, at least.

So, the question is how heavily other considerations might have influenced the decision to shut down now. The goal is not just to find out why the smelter was closed, but to give Butte a clearer idea of what Arco intentions might be toward the Berkeley Pit.

The EPA hearings should begin as soon as possible.

The questions about Arco's pledges to invest huge sums of money in upgrading old Anaconda mining properties in Montana are more specific.

Anderson of Arco told the federal court four years ago, "It will take two or three hundred million a year over the next four or five years to bring that

company anywhere near up to where we think it will be...."

The amounts Anderson was talking about apparently astonished those in the courtroom. A questioner asked him if he was talking about a total of \$200-300 million over four or five years. "I would say a billion dollars in five years," Anderson clarified.

According to reports, Anderson was then asked where the money would go. Anderson replied that "a lot" would go to improved smelting techniques, "a tremendous amount" toward meeting safety standards and EPA rules. Then, Leonard Powell, head of Anaconda's Montana Mining Division, itemized the areas where the money might be spent. Powell's list included \$150 million to upgrade the Great Falls refinery, \$45 million in additions to the Weed concentrator, and well over \$100 million to improve the smelter, re-open the Leonard Mine and for other activities.

Whether this testimony can be construed as specific promises by Arco to invest mammoth amounts of money in Montana copper operations may be debatable.

But it sure sounded like it then. And the talk in Butte in those pre-merger days generally took an optimistic view of the future with Arco. The Crane Co. had taken an interest in the Anaconda Co. some time earlier, and there was concern that the Crane Co. only wanted to acquire Anaconda's ore, then to shut down everything until copper prices went up. Arco's interest was widely viewed as a happy alternative to this callous sort of corporate action.

And when top Arco officers went into federal court, and said that only Arco's awesome money could save the Anaconda Co., there was a real belief in Butte that better days were ahead, because Arco was going to modernize the copper industry in Montana.

Apparently on the basis of such testimony, Arco got the go-ahead to merge with the Anaconda Co.

But the company has not spent anything like a billion dollars modernizing anything in Montana.

We agree with those who have a few questions about this.

The sooner Arco's executives are put on the stand and required to explain, the better.

The Billings Gazette

Opinion

Publisher
George D. Remington

Editor
Richard J. Wesnick

Opinion Editor
Duane W. Bowler

Severance tax? Of course!

Of course, Montana should have a severance tax on hard rock minerals. It should have had one many years ago.

There is no reason why others should pay the freight in community impact while someone else walks off with the gravy.

If the minerals can't be developed without paying a legitimate tax on them, then it is just as well they be left in place until their development does allow for it.

That's an old and familiar cry, the one that a severance tax will bring industry to a halt in the areas that levy one. There is always a chance that the deposits involved are so marginal that they don't merit the effort. Those aren't the places where companies are willing to invest millions of dollars. They pretty well know the payoff is there before they start.

However, minerals are peculiar. They are where you find them. You can't develop a mine where the stuff doesn't exist in commercially valuable deposits.

There was a day when the

mining companies could lock up shop in a given area and invest their money overseas with the incentive of low-paid labor and government officials who were more interested in acquiring personal wealth than the welfare of their nation.

Few of those places exist in the modern world. Countries have begun to value their natural resources. Where they haven't been nationalized, there is always the threat that they will be. The have-resources countries also have acquired a knowledge that those who would exploit them must pay for the privilege.

Mining companies are in business to make money. Arco's recent actions in Montana should be sufficient demonstration of that rule of business. If they can jawbone a legislative body out of taxing them, that's part of the game.

Most Montanans have no intention of crippling the mining industry. Neither should the industry be extended charity. All they want them to do is pay their fair share. A severance tax is part of that picture.

Western Montana Missoulian

Vol. 107, No. 132
Founded May 1, 1873
(USPS 354-760)

Missoula, Montana, Thursday, October 2, 1980

Single
Copy 25¢

Anaconda closures may belie Arco pledges

By Don Schwennesen
Staff writer

Lt. Gov. Ted Schwinden said Thursday night he will initiate a full review of a pledge made by Arco in federal court four years ago to invest \$1 billion in the Anaconda Co. within five years.

The pledge, from Arco's chairman of the board and other officials, helped persuade the court to approve the takeover of Anaconda by Arco.

In a related development, Rep. Pat Williams, D-Mont, has reportedly asked the Federal Trade Commission to reopen its files on the Arco-Anaconda merger so the commitments made at the time of the merger can receive a full review.

The \$1 billion investment pledge is

contained in hearing testimony taken during a review of the merger, the Missoulian has learned. Other testimony indicates that the bulk of the money was to go toward upgrading smelting operations and meeting environmental and occupational safety requirements.

Specifically, \$150 million in improvements were indicated as necessary in Great Falls and nearly \$145 million in the Butte-Anaconda area.

Schwinden said he had learned Arco stood to gain a potential \$300 million tax writeoff as a result of the merger.

"I intend to find out whether they got that tax writeoff," he said. "I do not see why they should get the benefit of this merger without honoring their commitments to the federal court."

According to excerpts of the Arco-Anaconda merger review obtained Wednesday by the Missoulian, Arco's chairman of the board pledged that \$1 billion would be invested over five years to modernize Anaconda operations.

At the time, the FTC was in federal district court in Alexandria, Va., seeking a temporary injunction to halt the merger on the grounds that it would inhibit competition.

But top Arco and Anaconda executives apparently persuaded the court that the takeover was the only way that Anaconda could come up with the money to modernize its smelter operations and meet environmental standards.

At one point, Arco chief executive officer and board Chairman Robert O.

Anderson testified, "It will take two or three hundred million a year over the next four or five years to bring that company anywhere near up to where we think it will be. My personal opinion is the company has some very serious problems and I just do not know how they are going to get there from here on their own steam. I really do not."

"If I heard you correctly, you said you envisioned two to three hundred thousand?" he was asked.

"Two to three hundred million," Anderson replied.

"Two to three hundred million dollars capital investment in (the) Anaconda (Company) over the next five years," the questioner rejoined.

"I would say a billion dollars in five years," Anderson corrected.

"We have no idea what it is all going to go into. The Montana mining division, a year ago they almost closed the entire thing down. If they could have taken the \$300 million writeoff, I suspect they would have done it. They could not do it. That whole operation, which is the heart of the old Anaconda Company, is not in the best shape. People are well aware of it."

Asked what the investment would pay for, Anderson said: "A lot of it would be in improved smelting techniques, a tremendous amount of it is going to have to go to meet OSHA (Occupational Health and Safety Administration) and EPA (Environmental Protection Agency) specs to keep those."

Other testimony by Leonard C.

Powell, president of Anaconda's Montana Mining Division, listed company needs and opportunities as including:

- \$150 million to "improve and modernize" Anaconda's Great Falls refinery;
- \$45 million for a fourth division on the Weed concentrator in Anaconda.
- \$10 million for in-pit ore crushers and conveyors.
- \$15 million for reopening the Leonard Mine.
- \$25 million in improvements to "Anaconda's electric furnace and fluo-solids reactor systems."
- \$27 million for mine tailings reprocessing.
- \$22.5 million for retreatment of slag and a new lime plant.

Montana has been had

"Atlantic Richfield Co. (Arco) is aware of the importance placed on responsible behavior by the American public, and tries, in all of its operations, to satisfy, or exceed, public expectations. Its audit of socially responsible behavior extends beyond internal, day-to-day operations to public advocacy and community relations programs. Environmental conservation is a major concern in all Atlantic Richfield operations." — Atlantic Richfield Co. 1976 annual report.

Montana has been had, but the roars of grief from some throats leave a bitter ring.

The fact is that Montana's politicians supported Arco's 1976-77 takeover of the Anaconda Co. In December 1976, Gov. Tom Judge's office filed a "friend of the court" brief against a suit brought by the Federal Trade Commission to prevent the takeover.

At that time FTC attorneys said Arco planned to spend well over \$1 billion to improve Anaconda's competitive position. The

only hitch about that \$1 billion commitment is that never — then or later — did Arco say where or how it would spend the money.

After the FTC finally approved the merger, Sen. Max Baucus welcomed the action. He said:

"Without the merger, several hundred million dollars in improvements in Anaconda properties throughout the state of Montana would have to be halted. I now urge Arco to stand behind its pledges to improve and expand Montana Anaconda properties."

"It should announce now," Baucus went on, "substantial improvements to the Anaconda smelter, expanded mining operations for the Berkeley Pit, and finally, substantially expanded operations in the Great Falls and Columbia Falls Anaconda operations."

Tom Judge was had. Max Baucus was had. Montana was had when Arco recently announced closure of the Anaconda smelter

and Great Falls refinery, putting thousands of people directly or indirectly out of work.

K. Ross Toole, University of Montana historian, said that Arco was a "wrecking company" as far as Anaconda was concerned. That's true.

Doubters can read Arco's own statements, quoted above, about "responsible corporate behavior" and its "major concern" about environmental conservation.

If Arco wanted to be responsible, it would not have closed the smelter and refinery. If it wanted to show concern about the environment, it would not have blamed federal air pollution controls as one of the reasons for those closures.

When the Arco-Anaconda merger was in the works in 1976, editorials in this paper outlined the dangers and repeatedly pleaded with Montana politicians to detail what advantages, if any, the merger would bring the state.

Not a single reply was received. But they all supported it either actively or passively — Judge, Baucus, Mike Mansfield and John Melcher.

They supported it because, apparently, they were told that rich Arco would bail out the financially-strapped Anaconda Co. and invest in Montana. They were had.

The dangers of the merger were stated in an editorial here on Dec. 21, 1976. A little repetition in light of events drives home the point. The editorial warned against assuming that Arco would maintain Anaconda's Montana operations or willingly spend

money on pollution control. Then it said:

"Anaconda must keep open its Montana operations because it needs any real or potential cash profits it can get, however marginal."

"Arco isn't in that pickle. If the Butte-Anaconda operations don't return enough profit on investment, Arco might slam those operations down."

"So nobody knows what the takeover will bring. Not the governor's office, not our United States senators or representatives, and possibly not even Arco."

"What is known is that not a single public official in Montana has tried to warn the public that this takeover could be disastrous to the state."

Now Montana's politicians are bellyaching back to the FTC, trying to get it to reopen its long-dead fight to annul the Arco-Anaconda marriage.

Too late, too late. Where were they when their intervention could have mattered?

Anybody gullible to believe that the politicians' current gyrations will bring results is, again, being had.

— Sam Reynolds

Missoulian

Founded May 1, 1873

Tom Brown Publisher

Edward A. Coyle Editor

Sam Reynolds Editorial Page Editor

Alchemy's price

Medieval alchemists dreamed of transforming iron into gold. Modern technologists have a more utilitarian — but no less lucrative — dream. They wish to squeeze oil from rock using the philosopher's stone of modern technology.

As alchemists once did, the technologists harness fire — incredibly high temperatures — to transform one substance into another, in this case shale into crude oil. That kind of magic always kindles dreams of glory and superlative adjectives: some imagine shale oil as “our last hope for an energy panacea.”

Yet the alchemist often found something anonymous and smelly in the bottom of his retort. Sometimes his tools exploded in his face. The magic didn't always work — or it exacted a heavy price.

Shale oil glistens with the promise of greater U.S. energy independence over the next 30 years. Yet manifold economic and environmental difficulties surround the task of getting oil from shale, an industry still in its infancy. The shale has to be mined and seared in furnaces above ground or else pulverized and liquified in makeshift natural ovens underground, then pumped conventionally to the surface. These techniques require massive machinery and equipment, a veritable deluge of water, and a horde of workers. Within years an entire city could rise around a shale oil operation.

It would be a leviathan among industries. In Colorado Exxon has suggested digging six cavernous pits — each a half-mile deep, three and one-half miles long, one and three-quarters miles wide — to get shale out of the ground, according to Rocky Mountain magazine.

Yet the physical bulk of the technology shrinks in comparison with the heft of its possible environmental impact: tons and tons of potentially dangerous waste, curtains of air pollution, and the industry's quenchless thirst for water — two to four barrels of water for every barrel of oil produced — possibly at the expense of agricultural users.

Is it worth it?

Montana must ask itself that question soon. New surveys indicate a treasure of shale deposits mixed with valuable metals in central Montana. Shovels assemble quickly around buried treasure.

As the shale oil industry begins to mushroom on Colorado's vulnerable soil, Governor Richard Lamm admits his state has failed to enact laws to soften the impact of shale oil development.

Montana shouldn't have to hear those chagrined words from its own Governor some day. With its severance tax, it has managed to bank against the detritus left behind by the coal industry. Its air quality standards and strip mining laws also protect it against other industrial excesses. Nothing should stop it from playing watchdog over shale oil development in similarly appropriate ways.

When they absconded with their gold, alchemists often left their temporary landlords a basement lab tainted with poisonous by-products of their rituals. But the landlord could only blame himself — he knew what was going on down there and didn't keep an eye on it. He should have posted some rules.

So should Montana.

1/31/81

GT Falls

TRIBUNE

Taxing platinum back into the ground

Montana legislators who levied a 30% severance tax on coal mining in the state five years ago have introduced legislation to impose the nation's highest severance tax on hard-rock mining—30% for surface mines and 15% for underground mines. Mining companies argue that this hefty increase from 1.4% could thwart development of the nation's only two proposed platinum-palladium mines and force platinum users to rely on foreign sources for the metal.

Says an official of Anaconda Co., which will decide later this year whether to develop an underground platinum-palladium mine: "We are highly skeptical that this mine can stand the added tax and still be an economic operation." Since the bill allows for deduction of other taxes, such as those levied on property and corporate income, its effective cost to companies would be about 11% of the gross value of the minerals for underground mines—such as the proposed platinum-palladium mines—and 22% for surface mines. "Still, 10% to 15% makes a heck of a wallop on your discounted cash flow," says J. Michael Sharratt, vice-president of mining exploration for Johns-Manville Corp. JM, in a joint venture with Chevron USA Inc., is considering spending as much as \$100

rhodium, and ruthenium—lie buried beneath the Absaroka Range in the so-called Stillwater mineral complex. About 80% of these reserves can be recovered, experts say. But unless the mines open, U.S. users—notably manufacturers of autos and electrical products—will remain dependent on foreign sources, primarily Russia and South Africa.

Financial cushion. The users and mining companies are not the only ones concerned with the proposed Montana legislation, which will cover all new mines other than coal mines. Other states are watching closely and could follow suit as they did when Montana imposed the tax on coal. It was the success of this controversial tax (BW—Feb. 16) that prompted State Senator Thomas E. Towe to introduce his mining tax bill.

Towe scoffs at complaints that the tax will make mines unprofitable. "That is what the coal companies told us when the 30% severance tax on coal went in, and production has doubled since then," he says. The purpose of the tax, Towe contends, is "to make sure the mining companies pay their own way."

Like the coal severance tax, the mineral tax—which has the backing of labor and environmental groups—will be used

The mining companies dispute Towe's estimates of the potential tax revenue. Asarco Inc., for one, contends that it alone will pay as much as \$10 million when its \$83 million Troy mine in northwestern Montana comes on stream later this year. "It will make Montana a lot less attractive as a state to develop new mines," snaps a spokesman.

The Troy mine, which would be the first to pay the new tax if it passes, will produce 4.2 million oz. of silver and 20,000 tons of copper annually. The tax would put the Troy mine at a considerable competitive disadvantage because it would be the only copper mine in the state subject to the tax. Existing copper mines are exempted from the bill. Says an Asarco spokesman: "If the severance tax were in existence at the time we considered whether to develop the mine, we never would have proceeded with it." ■

States are scrambling to market overseas

State governors have long traveled to far-flung shores to chase smokestacks and hawk the advantages of foreign investment in their home states. They still do, but their pitches are acquiring a new twist: More than ever before, states are trying to build export markets for their wares as well as to lure foreign investment. As federal budget-cutting pares Washington's export incentives and foreign ownership of plants in the U.S. attracts political controversy, states are devoting more and more attention to finding foreign buyers for their products and services.

A report to be released in March by the National Governors' Assn., in fact, says that state expenditures on overseas promotion have quadrupled from 1976 to \$25.7 million in 1980, and states now have 66 overseas offices, compared with 19 in 1976. Pennsylvania, for example, had one overseas office in mid-1979. Within weeks, it plans to have five foreign offices in operation. New York expects to beef up its exports significantly, thanks to a 10,000-product index in four languages published in December.

Continuing tradition. States use traditional means of generating business as well: New York Governor Hugh L. Carey solicited both investments and export trade when he visited the Far East early this month, and Virginia Governor John N. Dalton is taking local coal operators when he visits the Orient in April. He is also taking poultry farmers along, although Virginia's export push in that



Sharratt: Gauging tax obstacles to Johns-Manville's plan for a \$100 million mine.

million to open a mine not far from the Anaconda site. Notes Sharratt: "We are trying to run some models to see the effect of the tax."

The developers estimate that about 225 million troy oz. of the platinum group metals—including palladium,

to cushion the financial shock to local communities that become boom towns following the influx of new industry. The \$5 million to \$15 million that Towe estimates will be collected annually will go for construction of new roads, schools, and sewage and water systems.

NAME DR. JOE TAYLOR BILL No. SB 344
ADDRESS Box 641 PONY MT DATE 4/3/71
WHOM DO YOU REPRESENT SELF
SUPPORT _____ OPPOSE _____ AMEND ☒

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

Amend definitions etc. —

Norothy Eck said I could speak on
agreements between proponents &
opponents —

1. All references to other legislation should be ruled out of order. The hearing before the taxation committee is only on SB 344, other legislation is not being heard.
2. If ARCO pledges to be a good corporate neighbor, as they have been in the past, the question should be asked if these pledges are as good as the pledge of ARCO president Robert Anderson in federal court in Virginia concerning Federal Trade Commission opposition to the ARCO/Anaconda merger. Anderson gave the impression that ARCO would spend \$1 Billion over a five year period to modernize operations. The money was never spent and the Company pulled out.
3. If Johns Manville/Chevron (Stillwater PGM) promises to be a good corporate neighbor they should be asked if this pledge is consistent with their refusal to obtain a water discharge permit for the exploration activities on the Stillwater side of the mountains and their fine of \$10,000 by the Water Quality Bureau.
The JM record concerning worker safety should also be examined in light of promises to be good citizens. As of December 31, 1980 the company was a defendant or co-defendant in 5,087 asbestos/health suits brought by approximately 9,300 individual plaintiffs.
4. If it is claimed that the severance tax would affect the Placer Amex mine near Whitehall and the AMAX mine near Hughesville it should be asked how close these operations are to getting their mining permits. All indications are that they will have their permits by the effective date of the act, hence they would be grandfathered out of the tax.
5. If the argument about strategic minerals and their importance to the national defense is raised, two points or questions should be raised in response-
 - a. If there is truly a national emergency the war powers of the President would overshadow any concerns of economic influences of the tax - if its truly a national emergency the metals would be mined with a govt. subsidy.
 - b. If there is truly a national urgency to the development, the private companies that are doing the developing should be willing to forego their profits, or they might be guilty of profiting on the national defense.
6. If it is brought up that the money in the resource indemnity trust fund can be used for the impact costs, the question should be asked, how much does hard rock mining contribute to that fund? The follow up question should be, since hard rock minerals contribute only about 14% of the fund (with coal, oil and gas being the major contributors) why should the impacts for hard rock mining be paid for by the funds from other industries?
7. If the point is brought up that a tax rate that varies from approximately 1% to 4% will make mines unprofitable and subject to too much speculation, the question should be asked how much does the metal market fluctuate in one year? how much does it fluctuate on a monthly basis? Is a 1 to 4% fluctuation in metals prices unusual on a day to day check of the metals market?
8. If the example of the Hughesville mine is used, (all legislators received a blue folder entitled "Mining 1981 Legislature State of Montana" in January from the Northwest Mining Association) the question should be asked of AMAX if its economic figures show a rate of return for a 4% tax to be 14% and for a 2% tax to be 15%? The figures indicated that a 30% tax would not allow this mine to open, a 10% tax would allow a return of 11.2% and a payback period of 6.5 years. Current taxes allow for a 15.9% rate of return and a payback of 4.9 years. The point is that the taxes in SB 344, by the mining co's own figures, will not be that bad; i.e. currently a 15.9% rate of return, a tax of 2% would mean approximately a 15% rate of return.
9. The questions regarding what is an acceptable profit margin for the mining co's should be strong. Just exactly what is a good profit margin? Just exactly how much money do they expect to make out of the Stillwater operations? JM has indicated a potential worth of the recoverable reserves of \$52 Billion they should be pinned down to indicate how much a capital investment their mine will require and how much operating costs will be.. Certainly somewhere in between the investment and potential recoverable wealth is room for a tax,

10. If there are problems raised with using coal tax money to meet front end impacts the following points should be raised in response
 - a. the hard rock board will repay the coal board for the use of the money
 - b. the premise of the tax is that there will be impacts and hence money will be generated to pay back (Section 17, (6))
 - c. the hard rock board can award grants based on the "availability of funds" Section 18 (1) (c), if there are no funds available, no grants will be given
 - d. the coal board "may . . . (5) loan money, at no interest, to the hard rock mining impact board." Under this language (page 16, senate 3rd reading copy of the bill) the coal board will have final say so and ultimate discretion on whether or not to loan the money to the hard rock board.

There should be no problems, both boards are designed and conceived to help communities that face massive problems, not to squabble amongst themselves.
11. If the claim is made that Montana's taxes are currently the highest in the country the party making that claim should be asked to prove it in explicit detail.
12. If the claim is made that the imposition of this tax will force companies to go elsewhere, the question should be asked if the minerals migrate to more favorable climates as well. Minerals are where you find them, they won't move and go away.
13. If the claim is made that with the imposition of the tax a mine or mines would not develop in Montana the person making the claim should be asked if they are willing to swear to that, under threat of perjury? Also, remembering ARCO's pledges in court, if they would be willing to post a bond (say \$100 million) and submit their proposals to an independent third party for an evaluation, with the bond to go to the general fund if it is found that their claims of shutdown are nothing more than intimidation.
14. If the claim is made that the passage of the tax will create a bad business image for the state of Montana in regard to mining, the question should be asked about the extraordinary grant of eminent domain to hard rock mining companies - since hard rock mining companies can condemn and take private land for private profit - is this a bad business image for mining in Montana?
15. The higher the national importance of the mineral in question the greater the demand will be. the greater the demand the more money the seeker of the mineral will be willing to pay. The more money that means the more the companies have the ability to pay a miniscule tax.

NAME TERRY SIMPSON BILL No. SB 390
ADDRESS Douglas Co. Kans DATE 4/13/51
WHOM DO YOU REPRESENT PGM Resources
SUPPORT _____ OPPOSE X AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

No prepared statement

TESTIMONY OF FRED D. OWSLEY, ASARCO MANAGER,
NORTHWEST MINING DEPARTMENT, IN OPPOSITION TO
SENATE BILL 344 BEFORE THE
MONTANA HOUSE LEGISLATIVE TAXATION COMMITTEE
APRIL 13, 1981

* * * * *

Chairman Nordtvedt and members of the House Taxation Committee, I am Fred Owsley, the Manager of the ASARCO Northwest Mining Department and the person responsible for ASARCO's new mining project located near Troy and called the "Troy Project". I was born and raised in Phillipsburg, Montana and educated at the School of Mines in Butte.

ASARCO is a metals mining, smelting and refining company which has been in Montana for almost 100 years.

Montana has been called the "Treasure State" because of its mineral resources and the minerals industry, along with agriculture, forest products and tourism, will continue to be a basic primary industry in Montana only if the economics of the mineral industry is fully understood by Legislators.

As Legislators you are understandably concerned about what happens when a new mining project is undertaken in a community, the environmental effects of the mining project itself and what will happen when the ore reserves have been depleted and the mining operation ceases.

As to the environmental considerations, Montana has some of the toughest environmental laws of any state and ASARCO has and will

continue to comply with any reasonable requirements concerning the environment. In addition Montana has a resource indemnity trust fund supported by a tax, paid by ASARCO and other mining companies, for the purpose of taking care of the economic problems which will occur when the ore bodies play out and the mining stops.

There are two bills (HB 718 and SB 344) before this Legislature, both directed at the problem of so-called "impacts" which occur when a mining company moves into a new area. However, a new mining operation often causes only beneficial economic impacts, not adverse. If the area has a shrinking population and high unemployment then a new mining operation can be beneficial. If, on the other hand, the community has a static population, then the addition of a new work force may have adverse economic impact.

It is ASARCO's position, however, that the problem of adverse economic impact which might be caused by the entry into an area of a new mining project can best be addressed by the mining company dealing directly with the affected local governmental units and working out an impact plan which is acceptable to all concerned persons. Under the chief sponsorship of Representative Orville Ellison, Speaker Robert Marks and others, House Bill 718 has set up the legal machinery for just such an approach to impacts. HB 718 requires the mining company, before it can obtain a mining permit, to work out an impact plan with the local governmental units while a Hard Rock Mining Impact Board acts as a referee. This bill is far superior in addressing the impact problem than a severance tax. It provides for the "front-end"

costs on a rational basis. The impact plan is tailored to the specific needs of the area affected and the local area receives the money immediately, thus providing the right amount of money at the right time. On the other hand, the severance tax will not provide any revenue until after the mine is in production and too late to address the immediate impacts which cannot be carried by the local area. In addition, the severance tax monies, in an uncertain amount, are paid out by a board in a manner which might benefit one to detriment of another. Thus, we at ASARCO feel that a severance tax is totally inappropriate as a means of addressing the problem of immediate impacts and that House Bill 718 provides the only logical way to make available the right amount of money at the right time tailored to the needs of the specific area or areas affected.

Not only is a severance tax totally inappropriate as a tool to use for addressing economic impacts in areas with new mining projects, it is also the type of tax which has a severe inhibiting and detrimental effect upon the mining industry and Montana generally.

Mining has been one of Montana's principal industries from the early gold rush days. An abundance of rich low cost ores, in addition to the gold, caused the opening of many mines in Montana. Even though the high grade easily accessible ores are now for the most part gone, mining still plays an important part in the economy of Montana. However, we must adjust our thinking to the economics of the present situation. Rich ore bodies such as once existed in Butte no longer exist. Thus, as we speak of metal mining in Montana, in the future

we will be talking about lower grade ores with a higher cost of mining. The mineral business is cyclical over long term cycles with periods of profits for two to five years and periods of no profits or actual losses for an equal number of years. The fact that metal mining in the United States has not been particularly profitable over recent years is demonstrated by a look at the earnings of the major mining companies such as Anaconda, Kennecott, Phelps Dodge and ASARCO, to mention a few. In fact, Anaconda was purchased by ARCO for less than its asset value and recent news articles indicate that Kennecott is a so-called "take over target".

The Troy Project is a copper-silver mine. Ten years ago the price of copper was running in the area of 50 cents. Today it is in the neighborhood of 85¢ and everyone knows what has happened to costs. The price of silver did shoot up, but is down presently. In contrast, 10 years ago a barrel of oil was selling for about \$3.00 and is now at about \$40.00 per barrel. This points out the difference between the petroleum industry and the metal mines industry in Montana. While the United States imports oil the price is held up by OPEC. With copper quite the reverse is true. The foreign competitors, with mines principally in South American and Africa, are mining and producing all of the copper they can, which depresses the world market.

Also metal mining in Montana cannot be compared to coal mining. The recent large scale, highly mechanized coal mining operations in eastern Montana, which involve huge seams of coal mined with large equipment, are opened and developed based upon long term contracts

with the buyers. Almost without exception, the coal mines in eastern Montana are not developed until a substantial portion of the production is committed by long term contracts for purchase by contracting customers. These coal contracts require the customers to pay the taxes, including the severance tax. In direct contrast, metal mines are totally dependent upon a world market which sets prices on a very volatile basis.

Mining companies already pay the income and property taxes paid by other businesses and in addition pay three types of taxes which are essentially severance taxes. These are the resource indemnity trust tax, the metal mines tax and the metal mines gross proceeds tax. If the state of Montana were to add an additional severance tax as is proposed in Senate Bill 344, then this adds another fixed cost which must be born by the mining industry and must be paid whether or not the company is making money. This is not good either for the mining company nor for the State of Montana from a revenue point of view. Both the company and the State want as a common goal a long term steady income stream which will provide profits to the company and taxes to the State in the long term. In addition, it is very detrimental to the areas in which mining is located to have a "stop and start" mining operation.

When we speak of mining as a basic industry we mean that it creates a need for secondary and tertiary businesses. As to the minerals industry itself, in addition to the mining operation there must be exploration, testing, construction of mine facilities and related or associated facilities -- the transportation of ores, milling, crushing,

processing, smelting, refining and marketing. Obviously this type of an operation must obtain goods and services from a large number of different types of businesses.

In 1974 the Department of Intergovernmental Relations, now the Department of Community Affairs, did a study entitled "The Economic Impact of the East Helena Smelter, the American Smelting and Refining Company (ASARCO) (A With and Without Analysis)", and I have delivered a copy of that study to the Secretary of this Committee. This study indicates how the metals industry as a basic, primary component of the economy causes a multiplier effect in any area in which it operates. This study indicated that for the year 1974 while ASARCO was providing 330 full and part-time jobs with \$3,803,748 in earnings for 1974, the indirect or multiplier effect was such that:

"The economic impact on the Lewis and Clark/Jefferson County area and the State for 1974 would be a projected reduction of 1,023 full and part-time jobs and \$10,232,082 in earnings without the ASARCO smelter and related facilities in the economy." (Page 1 of the Study.)

This same study pointed out the fact that wages in the metal industry and related businesses are higher than wages in other businesses stating:

"Annual earnings per worker for the firms affected by the presence of ASARCO averaged about \$9,810 while for the two-county economy as a whole, the corresponding average is \$7,110 or \$2,700 less per worker."

This is one of the important factors relating to mineral industry economics and that is that the wages not only for those engaged in the mining and associated activities are higher but also those businesses

which provide goods and services to the minerals industry are also higher. While it is difficult to determine the number of operating mines in Montana at any given time ASARCO has received ores from some 15 or 20 counties in the last decade and it is clear that currently a number of counties in Montana are affected by mineral exploration, development or actual operation. Thus we are talking about employment or possible employment in a number of areas and a wide spectrum of different types of businesses which are related to, contribute to, or are dependent upon the minerals industry.

Turning now to the ASARCO Troy Project as an example of what mining can do for Montana, ASARCO has invested in excess of \$82,000,000 in this project. This investment was made on the premise that Montana's taxes would remain the same and upon assurances from political leaders that Montana wanted no new taxes, did not want to increase existing taxes and wanted to broaden its economic base and encourage industry to locate within the State.

Lincoln County, where the Troy Project is located, has had dramatic population growth and shrinkage. From 1960 to 1970 the population grew from approximately 12,000 to 18,000 or nearly a 50% increase. Following 1970 the population declined by some 1,700 persons. Construction of the Libby Dam started in 1966; employment peaked in 1969; and declined thereafter. Lincoln County is significantly impacted by the depressed forest products industry. In contrast the ASARCO Troy Project can, depending upon the price of metals and the tax climate in Montana, provide steady employment over

the life of the mine, which is estimated at approximately 20 years.

As of April 1, 1981 the Troy Project has 105 hourly employees, 95.23% of them being local persons. In addition ASARCO has 37 salaried employees with 51.4% being local persons. The monthly gross wages paid to hourly employees totals \$150,438 or a gross pay of \$1,920 per employee. The net monthly pay to hourly employees is \$107,600 or a net monthly average pay for each hourly employee of \$1,380. Lincoln County had a work force in 1979 of 6,380 persons and in 1980 of 6,344 persons; to date ASARCO has received 2,072 applications for employment with 1,554 of these applications being from local persons. Turning to unemployment the average annual unemployment rate in Lincoln County for 1979 was 10.5% or 747 persons unemployed. For 1980 the unemployment rate was 14.5% with 1,072 persons unemployed. ASARCO has been repeatedly told by civic leaders and others that their project in Lincoln County has been highly beneficial to the entire area.

ASARCO owns or controls other mining properties in Montana which it would like to bring "on line" if the economic climate will allow.

The ASARCO smelter in East Helena was established in 1888. ASARCO has been a part of Montana ever since. ASARCO feels that it has been a good tax-paying citizen in the State of Montana and would like to continue to play that role as it develops its mining properties or those which it may in the future acquire in Montana. ASARCO feels that the Montana Legislature now has in House Bill 718 a piece of legislation which can address those problems which might arise in impacted areas.

On the other hand Senate Bill 344 which purports to be a severance tax to be used for impacts is totally inappropriate for that purpose, and, in any event, a severance tax can only have the effect of inhibiting if not stopping mineral activity in the State of Montana. On behalf of ASARCO I would therefore respectfully urge this Committee to recommend that the House do not concur in Senate Bill 344.

TESTIMONY PRESENTED
By
THE ANACONDA COPPER COMPANY

To
THE HOUSE OF REPRESENTATIVES
COMMITTEE ON TAXATION
REGARDING
MONTANA SENATE BILL No. 344
APRIL 13, 1981

MR. CHAIRMAN, AND MEMBERS OF THE COMMITTEE, MY NAME IS BILL THOMPSON AND I AM THE GENERAL MANAGER OF ANACONDA'S BUTTE OPERATIONS. WE THANK YOU FOR HEARING US TODAY.

S.B. 344, WHICH IS NOW IN YOUR HANDS, COULD HAVE A BIG IMPACT ON MY COMPANY. BUT THIS LEGISLATION ALSO STANDS TO HAVE A BIG IMPACT ON THE STATE OF MONTANA. WE BELIEVE THAT IF IT IS PASSED, S.B. 344 WILL CHANGE THE FUTURE OF HARDROCK MINING IN THIS STATE.

IF THE MONTANA LEGISLATURE DECIDES THAT THIS BILL IS IN THE BEST INTERESTS OF THE STATE, THEN ANACONDA WILL CERTAINLY ABIDE BY THAT DECISION. BUT, JUST AS CERTAINLY, IT IS OUR RESPONSIBILITY TO GIVE YOU ALL OF THE FACTS WE CAN THAT MIGHT HELP YOU MAKE THAT DECISION. ESPECIALLY, WE WANT TO GIVE YOU THOSE FACTS THAT MIGHT NOT OTHERWISE BE READILY AVAILABLE TO YOU, OR THAT MIGHT NOT BE READILY APPARENT ON THE SURFACE OF THE BILL.

OF THE MINING INDUSTRY, ANACONDA PROBABLY HAS A UNIQUE RESPONSIBILITY -- TO IDENTIFY THE PROBABLE IMPACTS OF THIS BILL, NOT ONLY ON FUTURE MINING ACTIVITIES IN MONTANA, BUT ALSO ON OPERATIONS WHICH ARE ALREADY IN PLACE, SUCH AS OUR BUTTE OPERATIONS.

IN FEBRUARY, JIM MARVIN, THE PRESIDENT OF ANACONDA, TESTIFIED BEFORE THE MONTANA SENATE ON THIS LEGISLATION. ABOUT TWO WEEKS AGO, I GAVE A PRESENTATION ON THIS SUBJECT TO THE BUTTE/SILVER BOW DELEGATION. THROUGHOUT THE DEVELOPMENT OF THIS BILL, WE HAVE ATTEMPTED TO MAKE THE FACTS CLEAR, AS WE KNOW THEM. OUR POSITION HAS NOT CHANGED. WE ARE OPPOSED TO THIS BILL.

I'D LIKE TO OUTLINE THE MAJOR PROBLEMS FACING THE MINING INDUSTRY, AS WE SEE THEM.

FIRST, THE DAYS OF MINERAL BONANZAS IN THE UNITED STATES ARE OVER. THE ECONOMICS OF A PRESENT-DAY MINING OPERATION MUST BE FIGURED VERY CLOSELY. OUR OPERATIONS IN BUTTE CERTAINLY FALL WITHIN A VERY MARGINAL CATEGORY. WE ARE CURRENTLY CONSIDERING 2 NEW OPERATIONS IN THE BUTTE DISTRICT: AN OPEN PIT SILVER OPERATION AND AN UNDERGROUND COPPER PRODUCTION. THE PURPOSE OF THESE POTENTIAL ADDITIONS IS TO WIDEN THE MARGIN OF WHAT IS NOW A VERY TIGHT OPERATION IN BUTTE. THE MOLYBDENUM CIRCUIT THAT WILL GO INTO OPERATION THIS FALL IS THE FIRST OF THESE NEW PROJECTS.

IT IS NOT CLEAR WHETHER THE PROPOSED TAX WOULD APPLY TO OUR NEW BUTTE PROJECTS. WE FEEL THAT IT PROBABLY WOULD. IF SO, THIS TAX COULD,

AND PROBABLY WOULD, NEGATE THE ECONOMIC ADVANTAGE TO BE PROVIDED BY THOSE NEW OPERATIONS. IF THE NEW OPERATIONS ARE TAXED TO THE POINT WHERE THEY THEMSELVES ARE NOT ECONOMIC, THEY OBVIOUSLY CANNOT HELP BRIGHTEN THE ECONOMICS OF THE CURRENT OPERATIONS. THUS, THE TAX COULD MAKE OUR ENTIRE BUTTE OPERATIONS, OLD AND NEW, VERY QUESTIONABLE.

SECONDLY, AND GOING ALONG WITH THE MARGINALITY OF TODAY'S MINING OPERATIONS, YOU HAVE PROBABLY HEARD THAT THIS BILL ONLY IMPOSES A ONE PERCENT TAX. THAT STATEMENT IS ABSOLUTELY INCORRECT. THE TAX IMPOSED BY THIS BILL ON A NEW, LARGE MINING OPERATION COULD BE AN EFFECTIVE TAX OF 10.5% FOR A SURFACE MINE, OR 4.5% FOR AN UNDERGROUND MINE. THESE ARE THE EFFECTIVE PERCENTAGES, AFTER THE ALLOWED CREDITS HAVE BEEN FIGURED IN.

THAT 10.5% OR 4.5% TAX IS WHAT IS KNOWN AS A GROSS PROCEEDS TAX - IN OTHER WORDS, IT IS LEVIED ON THE VALUE OF THE MINERAL EXTRACTED AT THE MINE. A MINE WHICH HAS HIGH COSTS, AND IS THEREFORE ONLY marginally PROFITABLE, WOULD PAY THE SAME ABSOLUTE TAX PER POUND OF METAL PRODUCED AS A MINE WITH LOWER PRODUCTION COSTS. THE TAX IS NOT ON PROFITABILITY, BUT ON PRODUCTION. IN FACT,

THE TAX IS IMPOSED REGARDLESS OF WHETHER THE MINE IS PROFITABLE OR NOT. A SIDE EFFECT OF THIS KIND OF TAX IS TO ENCOURAGE MINING ONLY HIGH-GRADE ORE, AND LEAVING LOWER-GRADES IN THE GROUND - WHAT THE INDUSTRY CALLS "GUTTING."

THIRD, IMPOSITION OF THIS TAX WOULD GIVE MONTANA BY FAR THE HIGHEST TOTAL TAX BURDEN OF ANY OF THE MAJOR HARDROCK MINING STATES. SENATOR TOWE HAS ARGUED THAT OTHER STATES HAVE HIGHER EFFECTIVE SEVERANCE TAXES. BUT HE HAS NEGLECTED TO ADD THAT SEVERANCE TAXES ARE ONLY ONE FACET OF THE TOTAL TAX PICTURE, AND THUS HE FAILS TO ACCOUNT FOR MONTANA'S CORPORATE LICENSE TAX, PERSONAL AND REAL PROPERTY TAXES, AND THE EXISTING GROSS PROCEEDS TAX. WHEN THE TOTAL TAX CLIMATE IS CONSIDERED, WE REITERATE OUR ORIGINAL CONTENTION: THAT MONTANA STANDS ALONE, WITH THE HIGHEST TOTAL TAX BURDEN ON HARDROCK MINING IMPOSED BY ANY OF THE MAJOR WESTERN MINING STATES. WE WOULD BE HAPPY TO ANSWER ANY FURTHER QUESTIONS RELATING TO SPECIFIC TAXES, BECAUSE WE FEEL THAT THIS IS AN IMPORTANT POINT.

UNLIKE THE COAL INDUSTRY, THE METALS INDUSTRY CANNOT PASS THIS TAX BURDEN ON TO THE CONSUMER. METALS ARE TRADED IN AN INTERNATIONAL MARKET, AND

IF YOU AREN'T COMPETITIVE, YOU GO UNDER - IT'S THAT SIMPLE.

FINALLY, THIS TAX IS BEING PROPOSED, AND I QUOTE FROM THE BILL, "TO PROVIDE A SOURCE OF FUNDS TO ASSIST AFFECTED LOCAL GOVERNMENT UNITS IN PROVIDING ... ESSENTIAL PUBLIC FACILITIES AND SERVICES." IN OTHER WORDS, IT IS MEANT TO BE A "FRONT-END IMPACT BILL." I CANNOT OVEREMPHASIZE TO YOU THAT IF A FRONT-END IMPACT BILL IS WANTED, A FRONT-END IMPACT BILL SHOULD BE PASSED. A SEVERANCE TAX BILL IS NOT A FRONT-END IMPACT BILL, NO MATTER HOW DRESSED UP IT MAY BE.

ANACONDA COPPER SUPPORTS THE CONCEPT OF FRONT-END IMPACT ASSISTANCE, AND WE WILL GO ON RECORD WITH OUR BELIEF IN THE COMPANY'S RESPONSIBILITIES ALONG THOSE LINES. WE BELIEVE THAT IT IS THE COMPANY'S RESPONSIBILITY TO WORK WITH LOCAL GOVERNMENT TO HELP ALLEVIATE THE PROBLEMS CAUSED BY THE INFLUX OF WORKERS INTO AN AREA. OUR EMPLOYEES BECOME MEMBERS OF A COMMUNITY AND HAVE THE SAME CONCERNS AND DESIRES AS ANYONE ELSE IN THAT COMMUNITY.

AT OUR MOST RECENT DEVELOPMENT, THE NEVADA MOLY PROJECT NEAR TONOPAH, NEVADA, WE HAVE BUILT ROADS, PARKS, WATER AND SEWER IMPROVEMENTS,

SPONSORED A HOUSING DEVELOPMENT AND DONATED LAND FOR A NEW SCHOOL.

WHAT THIS PROPOSED LEGISLATION DOES DO IS TO SET UP ONE MORE COSTLY AND CUMBERSOME BUREAUCRACY, TO DO WHAT, IN MOST CASES, IS ALREADY BEING DONE.

AS I HAVE SAID, WE OPPOSE THIS BILL BECAUSE, AT THE PRESENT TIME, THE ECONOMICS OF EVEN A LARGE HARDROCK MINING OPERATION WILL NOT BE ABLE TO SUPPORT SUCH A LARGE TAX. IT IS NOT AN INSIGNIFICANT TAX! IT DOES NOT TAKE INTO ACCOUNT THE FACT THAT ONE MINE MAY BE MORE PROFITABLE THAN ANOTHER. AND IT WILL INCREASE MONTANA'S ALREADY HEAVY TAX BURDEN. EVEN UNDER PRESENT CONDITIONS, WITH THE EXISTING TAX STRUCTURE, OUR MONTANA OPERATIONS ARE MARGINAL.

WE CERTAINLY DO NOT DISPUTE THE NEED FOR MITIGATION OF SOCIO-ECONOMIC IMPACTS. BUT THE COST VARIABLES IMPOSED ON THE MINERALS INDUSTRY MUST BE CAREFULLY CONSIDERED IN THE LIGHT OF THE ENTIRE PICTURE, AND FROM A LONG-RANGE PERSPECTIVE.

IN SUMMARY, WE CAN ONLY URGE THAT YOU EXAMINE THIS BILL VERY CAREFULLY BEFORE ACTING ON IT. WE BELIEVE THAT THE BILL IS NOT WHAT IT APPEARS TO BE. ON THE SURFACE, IT PURPORTS TO ASK ONLY THAT THE MINING INDUSTRY CONTRIBUTE A REASONABLE SHARE

OF ITS PROFITS TO THE COMMUNITY OF WHICH IT IS A PART. BUT THE BILL DOES NOT TAX PROFITS - IT TAXES PRODUCTION. ON CLOSE EXAMINATION, THIS BILL WILL INDEED DISCOURAGE NEW MINING IN MONTANA! EVEN WORSE, IT WILL JEOPARDIZE THE EXISTENCE OF THE MINES MONTANA NOW HAS, INCLUDING OUR BUTTE MINE. I DO NOT USE THE WORD "WILL" ACCIDENTALLY.

WE UNDERSTAND THE GOAL THAT YOU ARE STRIVING FOR, AND WE SHARE THAT GOAL: THE MINING INDUSTRY HAS A COMMITMENT TO PARTICIPATE IN ITS COMMUNITY, TO HELP SOLVE COMMUNITY PROBLEMS AND TO HELP BEAR SOCIO-ECONOMIC BURDENS. BUT THAT COMMITMENT CAN ONLY COME FROM A HEALTHY INDUSTRY. IF THE COSTS OF DOING BUSINESS BECOMES SO HIGH THAT THE BUSINESS CANNOT SURVIVE, THEN ALL OF THE BENEFITS ARE LOST, TO EVERYONE - BUSINESS AND COMMUNITY ALIKE.

WE URGE YOU TO CONSIDER THIS BILL IN THE LIGHT OF ALL OF THE FACTS, INCLUDING THE FACTS WE HAVE PRESENTED TO YOU, AND ONLY THEN TO MAKE YOUR DECISION AS TO WHAT CONSTITUTES THE BEST INTEREST, IN THE LONG RUN, OF THE STATE OF MONTANA.

NAME William H Porter BILL No. 344
ADDRESS 1425 Wynn Plene DATE 4/13/81
WHOM DO YOU REPRESENT Montana Chamber of Commerce
SUPPORT _____ OPPOSE X AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

All taxes for helping the poor comes from extractive industries.

Taxing any business, especially extractive industries eg farming, fishing, mining, & lumbering makes them less capable of competing with our foreign competitors. This hurts the nation by reducing the materials available for our use. It hurts the poor by reducing total tax revenues available and the jobless (because of lower cost efficient operations)

STATEMENT OF PLACER AMEX INC. IN
OPPOSITION TO S.B. 344

My name is T. J. Smolik, Project Manager for Placer Amex Inc..
My home address is 105 E. Second Street, Whitehall, Montana.

Placer Amex Inc. is a medium-sized, San Francisco based mining company with offices in Whitehall, Montana. For the past 23 years, Placer Amex has been conducting an evaluation of a gold property known as the Golden Sunlight Mine 5 miles northeast of Whitehall. Since first acquiring the property in 1958, Placer Amex has conducted a continuing exploration and development program to prove the existence of a mineable reserve of gold mineralization. Operations which began in 1974 with the production of gold from a small open pit and heap leaching operation have continued intermittently until the present time. During the 23 year period of Placer Amex ownership of Golden Sunlight, Placer Amex has expended over 5 million dollars on the property and has obtained a return of less than 1 million dollars from the sale of gold production.

In 1975 the Montana Department of State Lands issued Placer Amex a permit under the Hardrock Mining Act for exploration, mining and milling of gold ore. An amendment to the permit is presently under administrative review.

Continued evaluation has now confirmed the presence of a medium sized low-grade ore body. It is anticipated that a Feasibility Study scheduled for completion by mid-1981, and based on current estimates of gold prices, ore grade and capital and operating costs, including present Montana taxes, will justify an estimated capital investment of 60 to 80 million dollars to expand the operations. This multi-million dollar investment will include development of an open pit mine, construction of a mill, ancillary buildings and a tailings disposal pond all located on private ground.

A major factor in our economic analysis of the project includes a projection of taxes to be paid as a cost of operation. It is evident that any moderate-sized operation such as ours will exceed the 25 million dollar Annual Value of Product mined and will therefore be subject to the proposed 12% severance tax rate. The following analysis demonstrates the average annual tax impact that S.B. 344 would have on an operation such as ours:

Type of Tax	Average Annual Taxes	\$/ounce Gold Produced	% of Sales Price	% of Pre-tax Cash Flow
Present Local, State and Federal	\$4,276,000	\$65	13	37
With Proposed S.B. 344	<u>\$6,755,000</u>	\$105	21	60
Proposed Increase in Taxes	\$2,479,000			

The effect of S.B. 344 will be to triple the state taxes and increase the total tax burden from 37% to 60% of the cash flow. This reduces the return on the investment to less than the minimum 15% required for a mining project such as the Golden Sunlight. The effect of the tax increase proposed in S.B. 344 is devastating to the economic viability of the Golden Sunlight Mine and renders the proposed project uneconomic.

Is there a need for an additional severance tax? Proponents and supporters of this bill are basically concerned about one situation in the Stillwater District. Granted, there may be a need for impact monies for this area if mining development occurs; however, the proposed severance tax would effect other areas in the state with different situations.

One of these areas is Whitehall, Montana. Our proposed mine will have a positive rather than a negative impact on the local community. Should our expansion proceed, we anticipate employment of about 120 persons on a year-round basis. The current mine employment is around 20. Most of the 100 new employees are now available in the Whitehall area labor market.

Schools in Whitehall are presently below capacity and any additional school-age students can be added to the present system without the requirement for additional facilities. Community services such as roads, sewer and water are already in place and no significant increase in services would be required by reason of our operation.

In summary, our proposed project expansion should have no major up-front negative impacts but will help the community achieve stable growth, will replace tax revenues lost through closure of the Milwaukee Railroad, will employ many local residents and will generate additional economic activities in the area.

S.B. 344 in its current form, would affect our mine even more severely than the prospective Stillwater mines because our mine is an open pit operation. Why discriminate against open pit hard rock mines which employ fewer people for the same mining rates and thus create less community impacts than underground mines? Why try to penalize operations which provide positive local economic benefits with a bill such as S.B. 344? There is no rational reason to do so!

Therefore, in our case, which is different from Stillwater, no up-front impact funds are needed, because essential public services and facilities are already in place. Yet the tax revenues proposed in S.B. 344 will kill this project and all of the benefits which would flow from this mine would be lost to the local and state governments. We respectfully urge that S.B. 344 be rejected.

PLACER AMEX INC LA
1 CALIFORNIA ST SUITE 2500
SAN FRANCISCO CA 94111

MAILGRAM

4-019178S098 04/08/81 ICS IPMRNCZ CSP HELB
4159860740 MGM TDRN SAN FRANCISCO CA 193 04-08 1156A EST

DENNIS IVERSON CHAIRMAN
NATURAL RESOURCES COMMITTEE
CAPITOL BLDG
HELENA MT 59601

PLACER AMEX INC IS EVALUATING THE ECONOMICS OF THE GOLDEN SUNLIGHT
MINE A LOW GRADE GOLD DEPOSIT NEAR WHITEHALL MONTANA SENATE BILL 344
PROPOSES TO LEVY SEVERANCE TAXES ON MINERAL PRODUCTION TO FINANCE THE
IMPACT OF NEW MINING OPERATIONS ON EXISTING COMMUNITIES SUCH
SEVERANCE TAXES ADD SIGNIFICANTLY TO THE COST OF PRODUCTION AND WILL
ADVERSELY AFFECT THE ECONOMICS OF A LOW GRADE DEPOSIT SUCH AS THE
GOLDEN SUNLIGHT POSSIBLY RENDERING IT UNECONOMIC

PLACER AMEX STRONGLY RECOMMENDS THAT SENATE BILL 344 BE REJECTED BY
YOUR COMMITTEE SINCE IT: #1 WILL HINDER BUSINESS AND INDUSTRIAL
DEVELOPMENT #2 DISCRIMINATES AGAINST THE HARD ROCK MINERAL INDUSTRY
#3 DISCRIMINATES BETWEEN SURFACE AND UNDERGROUND OPERATIONS #4
DISCRIMINATES BETWEEN SIZES OF OPERATIONS #5 IS NOT BASED ON THE
ABILITY TO PAY I.E. PROFITABILITY #6 IS PUNITIVE SINCE TAXES RAISED
EXCEED THE COST OF THE IMPACT

PLACER AMEX RECOGNIZES AND APPRECIATES THE REASONS BEHIND THE
SEVERANCE TAX BUT SUPPORTS HOUSE BILL 718 AS A BETTER APPROACH TO
ACCOMPLISH THE OBJECTIVE THAT THE INDUSTRY SHOULD BEAR THE FRONT END
COMMUNITY COST OF NEW DEVELOPMENTS

PLACER AMEX INC
A G HORTON PRES

1158 EST

MGMCOMP MGM

April 8, 1981

Mr. Dennis Iverson
Chairman, Natural Resources Comm.
Montana State Legislature
Helena, Mt 59601

Dear Mr. Iverson:

We are writing you to encourage you to vote against the proposed severance tax on hard rock mining. While we agree that the mining companies should be expected to cover the cost of whatever impact the mining and exploration should have on the communities, we want to discourage enactment of a severance tax so high that it will make mining unfeasible.

We feel that in view of the economic situation, a payroll is vitally important to the survival of the residents of the area.

Sincerely yours,

Clara B. Borland
Marci L. Borland
Barton W. Lawson
Robert W. Blum
Gay O. Borland
Shane Cortner

NAME DAVID A Russell BILL No. 344
ADDRESS N.Y.C. Mont. DATE 4-13-81
WHOM DO YOU REPRESENT Myself
SUPPORT _____ OPPOSE X AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

SENATE BILL 344

HARDROCK SEVERANCE TAX

Testimony of William Sternhagen, Northwest Mining Association

I am an Attorney at Law of Helena, Montana. My law practice has extended over 20 years in Montana. I was Assistant Attorney General for three years in the 1960's.

I represent Northwest Mining Association, which has about 2,500 members. About 500 of our members are Montana people and entities.

The Northwest Mining Association and its members, particularly the Montana members are against Senate Bill 344 which is Senator Towe's severance tax on hardrock mining.

A great number of reasons why Senate Bill 344 should not pass have been given to you in the testimony of the opposition. We are in agreement with those and respectfully ask that you carefully consider all of them in your deliberations.

We believe that a few of the points must be emphasized, as follows:

1. How can Montana mine products compete? Our production costs must be in line with (or below) those of neighboring states. This is because our Montana mine products must compete on world markets. I have attached hereto a copy of Senator Towe's tax study. This may or may not be correct.

We have not had time to have it checked by a tax expert, but taking it at face value, Senator Towe's own testimony (figured in percentages) is that Montana (at 3%) is already above Colorado (2%), Idaho (2%), New Mexico (2%), Wisconsin (2%), and North Dakota (.3%). Senate Towe has said that the effective rate of this tax (Senate Bill 344) is 2% and so (if that is correct) passage of Senate Bill 344 would bring Montana up to 5% ($3\% + 2\% = 5\%$). This would mean that our tax would be higher than Arizona, Colorado, Idaho, New Mexico, North Dakota, and Wisconsin. We ask that you help our metals compete by helping our costs compete. If you are willing to do that for our industry, then please vote against Senate Bill 344. Your vote against this (fourth) severance tax will allow our miners to challenge and compete with miners in the other states. Please do not kick our costs up again.

2. Montana already has three severance taxes that hard-rock miners are required to pay. They are: (A) Gross Proceeds Tax; (B) Metal Mines Tax; and (C) Resource Indemnity Trust Tax. This is too much. We cannot keep piling new taxes on hardrock miners and expect them to stay in business or open new mines.

3. The proposed Hughesville mine near Monarch (north of White Sulphur Springs), as an example will, if it can ever get into production, pay about \$500,000 per year in Montana state taxes alone. This Senate Bill 344 would just pile more taxes on the Hughesville mine. Please realize, this is just

a small proposed underground mine with only 80 employees.

4. House Bill 718 has passed the house by a very wide margin. The stated purpose of both of these bills is to provide for mining impacts. We believe House Bill 718 does so. Senate Bill 344 just creates another new - fourth - severance tax imposed upon hardrock miners --- a tax that will go on forever.

5. Mining is one of Montana's most important industries. Its symbol even looks at us from our state flag. Our state founders recognized its importance. The industry is not getting along very well. There is too much government imposition and regulation and too many taxes already.

6. Idaho legislators just struck down another 2% severance on hardrock (see attached Legislative analysis). (Idaho has only one severance tax, according to Senator Towe's study --- Montana already has three of them.) A 2% severance tax amendment to Idaho's House Bill 180 was dealt --- "At high noon, a resounding blow". The vote was 22-11. An interim study of mining taxation is provided for in Idaho's RS 7261. In Montana we have an interim study proposed by House Joint Resolution 66. We believe the matter requires more study. To pile on more taxes now is a grave proposition.

We respectfully request that your committee do not pass Senate Bill 344.

Respectfully submitted,



W. G. Sternhagen
Northwest Mining Association
South Annex Power Block
Helena, Montana 59601
Telephone - (406) 442-0230

[illegible]

plus 58344
NEW TOTAL --- = 59%

10

	Montana	Arizona	Colorado	Idaho	Minnesota	New Mexico	North Dakota	South Dakota	Utah	Wyoming
Severance Tax			2.25% value of metal at mine	2% value of metal at mine	\$1.85/ton (chromite)	.125 - 2.5% value of metal at mine		6% value of metal at mine		2% value of metal at mine
Resource Indemnity Trust	\$25 + .5% of gross product over \$5000					.75% gross value of metal				
Metal Mines	.15% - 1.438% x value of refined metal				1% value + 2.5¢/ton (copper-nickel)					
Other Taxes	Gross proceeds: 3% value of metal x av. mill levy of 178 mills	Transaction Tax 2.5% gross proceeds	25% gross proceeds x av. 73 mills	25% net proceeds x av. 56 mills	6.74% net income (effective rate)	100% net proceeds x av. 36 mills	1-4¢ per ton on hard minerals		Occupation Tax 1% value of metal at mine	6.6-7.1% market value of ore
Real Property Tax	8.55% x value of property x av. 178 mills	52% value of property x av. 90 mills	25% gross proceeds or 100% net proceeds x av. 73 mills	Net profit x av. 1% market value of mine	40% value of property x av. 110 mills	33 1/3 % value of property x av. 36 mills	50% value of property x av. 170 mills	60% value of property x av. 56 mills	12% (av.) value of property x av. 65 mills	100% net proceeds x av. 24.5 mills
Personal Property Tax	11% market value x av. 178 mills	25% market value x av. 90 mills	30% 1973 value x av. 73 mills	20% market value x av. 56 mills	40% market value x av. 110 mills	33 1/3 % market value x av. 36 mills	mining equipment exempted	60% market value x av. 36 mills	12% (av.) value of property x av. 65 mills	35% market value x average 24.5 mills
Corporate Licensing Tax	\$1 + gross product levy (.15 - 1.5%)	1% gross receipts								
Sales and Use Tax		4%	3%	3%	4%	4%	3%	3-5%	4%	3%
Corporate Income Tax	6.5% net income	10.5% net income	5% net income	6.5% net income	12% net income	5% net income	3-8% net income + 1% local privilege tax	6% net income	2.3-7.9% net income (less depletion)	\$5 on 12¢ \$50,000 \$50 per cwt additional \$1 mn

PRODUCTION TAXES ON
HARD ROCK MINERALS

MINNESOTA	14%
WYOMING	9%
WISCONSIN	7%
SOUTH DAKOTA	6%
UTAH	6%
ARIZONA	4%
MONTANA	3%
COLORADO	2%
IDAHO	2%
NEW MEXICO	2%
NORTH DAKOTA	.3%

THE COMPANIES CAN AFFORD IT.

STILLWATER COMPLEX CONTAINS	225* million oz. platinum group metals. <u>80%*</u> recoverable 170.40 million oz. 292** per oz. - combined current price. \$52.56 billion
-----------------------------	--

\$52.56 billion on \$100 million investment for ARCO and
Johns-Manville Chevron each or
\$52.56 billion recovery on \$.2 billion investment
Profits will be huge-even with very generous operating costs.

Note: \$17 billion worth of copper is all that has been mined in
Butte since 1882. (At today's prices.)

* J. Michael Sharrett, Vice-President-Johns-Manville, quoted in
Business Week, 2 March 81.

** Mr. Kelland, Director of Operations, Stillwater PMG Organization-
December 1980.

Legislative Analysis

Published by
The Idaho Mining Association

Ninth and Tenth Weeks

March 20, 1981

By Susan E. Skog

Minerals Severance Tax Issues Last Breath at High Noon

Proponents of the severance tax tried to assail the minerals industry in a final, heart-stopping showdown March 19. At high noon, a resounding blow was dealt an amendment to House Bill 180 which would have imposed a severance tax on the minerals industry.

House Bill 180, which provides for a two percent tax on the market value of oil and gas, was up for final consideration by the full Senate. Proponents of a severance tax on the minerals industry astutely seized the opportunity to try again to amend HB 180 to embrace the mining industry. But the underpinnings of their assault were soon laid to waste.

Sen William Floyd, R-Idaho Falls, sponsored the amendment, a reincarnation of the Governor's bill, imposing a one percent tax on the gross value of metallic minerals and phosphate. Floyd's arguments were shored up by those of Sen. John Peavey, D-Carey, whose earlier attempts to pass a severance tax on mining were blocked in the House Revenue and Taxation March 13 and Senate Local Government and Taxation Committee.

After a 30-minute debate (which seemed like an eternity), the Senate voted not to amend HB 180 by a 22-11 vote and instead sent it unamended to the Governor's desk on a 25-8 vote.

Sen. Vern Lannen reminded his fellow Senators that the House Revenue and Taxation Committee had earlier in the day passed RS 7261 establishing an interim committee to study mining taxation. Thus, the strategic passage of RS 7261 in the morning effectively staved off the full threat of a severance tax this session.

NAME WARD SHANAHAN BILL No. SB 344
ADDRESS 301 FIRST NAT'L BANK DATE 4-13-81
HELENA, MT.
WHOM DO YOU REPRESENT STILLWATER PGM RESOURCES
SUPPORT _____ OPPOSE ☒ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments: ATTACHED STATEMENT -

SOME FACTS AND SOME QUESTIONS

ABOUT SENATE BILL 344

SPONSORED BY SENATOR TOWE

Senate Bill 344 passed the Senate on April 6, 1981, and Senator Towe made the following statements which were quoted in the Montana Standard on April 7, 1981:

"Hopefully, we will raise enough money to get all of the impact costs paid in five years and then start putting money aside for the future.

.

. . . it will . . . be awfully tough for the companies to get it repealed once it is on the books.", Towe said.

(Emphasis added.)

TAX FACTS: Hard rock mineral companies presently pay three "severance-type" taxes, in addition to their regular income and property taxes, these are:

i. Gross Proceeds Tax (15-23-801, MCA). Three percent of the gross value of the mine product is added to the County tax base.

ii. Metal Mines Tax (15-37-101, MCA). This tax is paid to the State general fund based on gross value of product.

iii. The Resource Indemnity Trust Tax. This is a State tax at one-half of one percent of the gross value of minerals produced. The moneys go into a trust and only the earnings can be spent until the trust reaches \$100,000,000. The earnings on the trust are presently about \$1,000,000 a year. The purpose of this tax was to cover "impacts" from mineral development. However, the legislature has not appropriated these moneys for such "impacts."

We Think the fair-minded Legislator should consider answering the following questions:

A. Why should the mining industry be burdened by an additional severance tax at this time?

B. Why should the mining industry be burdened by an additional severance tax for "impacts" when the Resource Indemnity Trust Tax is not being used as the legislature intended? (See Enclosure).

C. Why should the "impacts" of mining be financed through a new state tax, when existing "tax prepayment" laws will provide sufficient revenue?(15-16-201 MCA) For example using that statute Stillwater PGM Resources will pay about \$5,000,000.00 in advanced taxes to Sweetgrass county.

D. Why are State bureaucrats better at making local decisions than the local officials? SB 344 creates a new state planning bureaucracy which will dictate to local government.

SENATE BILL 344 makes no correlation between the size of the mine and the size of the impact. Mines elsewhere will pay for impacts in other communities. This is because the tax is on the value produced. A small high-grade operation might have a small impact but pay a high tax. A larger low-grade operation would have greater impact but would pay less tax.

SENATE BILL 344 uses "impact" as a sales gimmick, but fails to address the problem. In fact, it creates others:

1. The industry is forced to pay another tax and has no input into the planning process.
2. The community must go to the state bureaucrats for grants- -there is no direct payment of tax money under the bill.
3. The bureaucracy is the only winner-it will control the plans-the local tax levies-and the money. (See SB 344 Sections 17-18-19-20 and 21).

SENATE BILL 344 Masks the sponsors real intentions. It is not an impact bill at all, it is to put an additional tax on the books that the companies will find it "tough to repeal". This is not responsible legislation. This is clear if you recognize that the Resource Indemnity Trust Tax is not being used for the "impacts" it was intended to address, including "tail -end" impacts that we've heard so much about this session.

SENATE BILL 344 SHOULD NOT PASS.

ENCLOSURE: Legislative Intent-Resource Indemnity Trust Tax.

Stillwater PGM Resources
Box 1686 Helena, Montana
442-8560

Part 1

General Provisions

15-38-101. Short title. This chapter shall be known and may be cited as "The Montana Resource Indemnity Trust Act".

History: En. 84-7001 by Sec. 1, Ch. 497, L. 1973; R.C.M. 1947, 84-7001.

15-38-102. Legislative policy. It is the policy of this state to provide security against loss or damage to our environment from the extraction of nonrenewable natural resources. Recognizing that the total environment consists of our air, water, soil, flora, fauna, and also of those social, economic, and cultural conditions that influence our communities and the lives of our individual citizens, it is necessary that this state be indemnified for the extraction of those resources. Therefore, it is the purpose of this chapter to provide for the creation of a resource indemnity trust in order that the people and resources of Montana may long endure.

History: En. 84-7002 by Sec. 2, Ch. 497, L. 1973; R.C.M. 1947, 84-7002.

15-38-103. Definitions. As used in this chapter, the following definitions apply:

(1) "Department" means department of revenue.

(2) "Gross value of product" means the market value of any merchantable mineral extracted or produced during the taxable year.

(3) "Mineral" means any precious stones or gems, gold, silver, copper, coal, lead, petroleum, natural gas, oil, uranium, or other nonrenewable merchantable products extracted from the surface or subsurface of the state of Montana.

(4) "Total environment" means air, water, soil, flora, and fauna and the social, economic, and cultural conditions that influence communities and individual citizens.

History: En. 84-7003 by Sec. 3, Ch. 497, L. 1973; amd. Sec. 23, Ch. 52, L. 1977; R.C.M. 1947, 84-7003.

15-38-104. Tax on mineral production. The annual tax to be paid by the person engaged in or carrying on the business of mining, extracting, or producing a mineral shall be \$25, together with an additional sum or amount computed on the gross value of product which may have been derived from the business work or operation within this state during the calendar year immediately preceding at the rate of $\frac{1}{2}$ of 1% of the amount of gross value of product at the time of extraction from the ground, if in excess

of \$5,000. Unless otherwise provided in a contract or lease, the pro rata share of any royalty owner or owners may be deducted from any settlements under the lease or leases or division of proceeds orders or other contracts.

History: En. 84-7006 by Sec. 6, Ch. 497, L. 1973; amd. Sec. 1, Ch. 495, L. 1977; R.C.M. 1947, 84-7006.

15-38-203. Purpose of fund usage. Any funds made available under this chapter shall be used and expended to improve the total environment and rectify damage thereto.

History: En. 84-7010 by Sec. 10, Ch. 497, L. 1973; R.C.M. 1947, 84-7010.

M E M O R A N D U M

TO: MONTANA LEGISLATIVE SESSION
FROM: CANADIAN SUPERIOR MINING
DATE: April 10, 1981'

Canadian Superior Mining, U. S. Limited, a Nevada Corporation, currently undertaking mineral exploration in the State of Montana, stands opposed to Senate Bill 344. Canadian Superior holds that due to the excessive levels of tax set forth in this bill, the State will be greatly hindering the development of its mineral resources, and by so doing, will deny itself the very revenues it hopes to gain.

The Company feels a more reasonable method of taxation for both the industry and the local residents, is the one outlined in House Bill 718. Canadian Superior supports the principles embodied in this bill, but urges that further joint study, by industry and government, be undertaken to reach agreement on the terms most practical for and equitable to all concerned.

Montana is a state possessing an abundance of mineral resources. To unjustly tax the industries developing these resources will certainly not foster the economy and growth of the State. The mining industry should pay its fair share, but cannot be expected to carry on under punitive tax burdens, the ramifications of which will be felt for many years to come.

Canadian Superior, therefore, strongly urges that you reject Senate Bill 344.

TESTIMONY ON
S.B. 344
PROPOSED MONTANA HARD-ROCK MINERAL SEVERANCE TAX BILL

TO

MONTANA STATE HOUSE
COMMITTEE ON TAXATION

AT

HELENA, MONTANA
APRIL 13, 1981

BY

THOMAS A. BUTLER
DISTRICT GEOLOGIST
NORANDA EXPLORATION, INC.

MR. CHAIRMAN:

MY NAME IS THOMAS A. BUTLER. I AM DISTRICT GEOLOGIST FOR NORANDA EXPLORATION, INC. IN MISSOULA, MONTANA.

CURRENTLY, AT OUR LIVER PEAK PROJECT WE ARE EXPLORING A LARGE MOLYBDENUM DEPOSIT WHICH IS LOCATED NEAR THOMPSON FALLS, MONTANA. THE GRADE OF THIS DEPOSIT IS VERY LOW, BUT IT IS COMPARABLE IN GRADE TO OTHER LARGE MOLYBDENUM DEPOSITS IN THE U.S. SUCH AS MT. TOLMAN IN WASHINGTON STATE, AND QUARTZ HILL IN ALASKA. THESE OTHER TWO MOLYBDENUM DEPOSITS ARE SCHEDULED FOR PRODUCTION IN THE 1980'S BY AMAX AND U.S. BORAX.

OUR PRELIMINARY ECONOMIC STUDIES ON THE LIVER PEAK DEPOSIT INDICATE THAT THE DEPOSIT WOULD BE ECONOMIC TO MINE UNDER THE EXISTING MONTANA STATE TAXES. IF WE ARE SUCCESSFUL, AND ARE ABLE TO BRING THIS DEPOSIT INTO PRODUCTION, APPROXIMATELY 700 PEOPLE WOULD BE DIRECTLY EMPLOYED AT THE MINE FOR A PERIOD OF 20 YEARS, OR MORE. CONSIDERING THAT ONE NEW MINE JOB PRODUCES TWO NON-MINE JOBS IN THE LOCAL COMMUNITY, A TOTAL OF 2,100 NEW JOBS WOULD BE CREATED BY THIS MINE.

DIRECT TAXES PAID TO THE STATE OF MONTANA EACH YEAR WOULD BE APPROXIMATELY AS FOLLOWS:

MINING TAXES	-	\$3,000,000
MONTANA INCOME TAXES	-	\$3,000,000

DIRECT INCOME TAXES PAID TO THE FEDERAL GOVERNMENT WOULD BE APPROXIMATELY \$19 MILLION PER YEAR. THE PAYROLL FROM THE MINE WOULD TOTAL ABOUT \$16 MILLION PER YEAR, FROM WHICH, ADDITIONAL FEDERAL AND STATE INCOME TAXES WOULD BE PAID.

IF THIS SEVERANCE TAX BILL PASSES IN ITS PRESENT FORM LADIES AND GENTLEMEN, MAKE NO MISTAKE ABOUT IT ——— WE WILL

BE FORCED TO CURTAIL ALL EXPLORATION ACTIVITIES ON THE LIVER PEAK PROJECT, AND MOST LIKELY, ALL OF OUR OTHER PROJECTS IN MONTANA. THE TAX STRUCTURE IN THIS BILL IS SO HIGH, THAT ONLY THE HIGHEST-GRADE DEPOSITS IN THE STATE COULD POSSIBLY BE MINED. THIS WOULD ELIMINATE ABOUT 95% OF THE KNOWN MINERAL DEPOSITS FROM COMING INTO PRODUCTION.

NORANDA IS CURRENTLY SPENDING BETWEEN \$2-3 MILLION PER YEAR ON EXPLORATION IN THIS STATE. RIGHT NOW 16 PEOPLE ARE EMPLOYED FULL TIME BY OUR COMPANY IN MISSOULA. THIS NUMBER WILL SWELL TO ABOUT 40 PEOPLE WHEN WE HIRE OUR CONTINGENT OF COLLEGE STUDENTS THIS SUMMER. LADIES AND GENTLEMEN, THESE PEOPLE ARE GOING TO BE WITHOUT JOBS IN THE FUTURE, OR WILL BE FORCED TO MOVE TO ANOTHER STATE IF THIS BILL PASSES IN ITS PRESENT FORM. THERE IS JUST NO WAY OUR COMPANY CAN CONTINUE TO EXPLORE IN THIS STATE UNDER THESE PROPOSED TAXES.

PLEASE DON'T MISUNDERSTAND ME. I AM CERTAINLY NOT TRYING TO THREATEN ANYONE, OR SCARE ANYONE BY THESE STATEMENTS. IT IS JUST A SIMPLE FACT OF ECONOMICS, THAT THE TAXES, PROPOSED IN SENATOR TOWE'S BILL, WOULD MAKE DEVELOPMENT OF A NEW MINE IN THIS STATE IMPOSSIBLE. IF MINE DEVELOPMENT IS UNECONOMIC, THEN THERE IS CERTAINLY NO REASON TO CONDUCT EXPLORATION IN THE STATE.

THERE ARE SEVERAL OTHER NEGATIVE AND DISCRIMINATORY THINGS ABOUT THIS BILL THAT MAKES IT A BAD PIECE OF LEGISLATION. THE BILL IS DISCRIMINATORY AGAINST MINING, IN GENERAL, IN THAT IT APPLIES ONLY TO NEW MINE DEVELOPMENTS WITHIN THE STATE. SHOULDN'T ANY NEW DEVELOPMENT OR INDUSTRY THAT SETS UP OPERATIONS WITHIN THE STATE, ALSO BE REQUIRED TO PAY 6-12%

OF ITS GROSS REVENUES TO PAY FOR THE SOCIAL IMPACTS CAUSED BY THEIR OPERATION? IF 500 NEW FAMILIES MOVE INTO A LOCAL AREA, WHAT DIFFERENCE DOES IT MAKE WHETHER THEY WORK IN THE MINING INDUSTRY, THE TIMBER INDUSTRY, IN AGRICULTURE, IN MANUFACTURING, OR WHATEVER? WHY IS THE MINING INDUSTRY SINGLED OUT IN THIS BILL?

I SUBMIT, LADIES AND GENTLEMEN, THAT THIS IS NOT A "MINING IMPACT BILL" AT ALL. IT IS A BILL SPECIFICALLY DESIGNED TO KEEP ANY NEW MINES FROM BEING DEVELOPED IN THE STILLWATER AREA. THE PROBLEM WITH THIS IS, THAT IN THE PROCESS OF SHUTTING DOWN MINING IN THE STILLWATER AREA, THE BILL IS ALSO GOING TO SHUT DOWN NEW MINING DEVELOPMENTS ALL OVER THE STATE.

IF THIS BILL WAS TRULY DESIGNED TO RELIEVE SOCIAL IMPACTS TO LOCAL COMMUNITIES CAUSED BY NEW MINING DEVELOPMENTS, HOW DOES ONE EXPLAIN THE FACT THAT AN OPEN-PIT MINE IS TAXED AT TWICE THE RATE OF AN UNDERGROUND MINE? IF TWO MINES ARE SITTING SIDE BY SIDE AND THEY EACH EMPLOY 500 PEOPLE, WHY SHOULD THE OPEN-PIT MINE HAVE TO PAY A 12% SEVERANCE TAX AND THE UNDERGROUND MINE ONLY HAVE TO PAY A 6% TAX.

LADIES AND GENTLEMEN, THIS IS AN ENVIRONMENTAL BILL, PURE AND SIMPLE! IT WAS DESIGNED TO KEEP MINING OUT OF THE STILLWATER AREA ——— PERIOD.

ANOTHER ESPECIALLY BAD POINT ABOUT THE BILL IS THAT THE SEVERANCE TAX OBLIGATION ON A NEW MINE DEVELOPMENT KEEPS RIGHT ON GOING FOR THE LIFE OF THE MINE, LONG AFTER ANY SOCIAL IMPACTS TO THE LOCAL COMMUNITY HAVE BEEN PAID FOR MANY TIMES OVER. IN MOST CASES, THE SOCIAL IMPACTS WOULD BE PAID FOR DURING THE FIRST FEW YEARS OF OPERATION OF A MINE,

YET, UNDER THIS BILL, THE TAX OBLIGATION MIGHT LAST 30-50 YEARS, OR WHATEVER THE LIFE OF THE MINE IS.

ALSO, IN AREAS WHERE THERE IS ALREADY A WELL-DEVELOPED INFRASTRUCTURE, SUCH AS AROUND OUR LARGER TOWNS AND CITIES, THERE WOULD BE VIRTUALLY NO SOCIAL IMPACTS OR INCREASED TAX BURDEN TO THE LOCAL COMMUNITY. IN NUMEROUS TOWNS AND CITIES THROUGHOUT MONTANA WHERE THE UNEMPLOYMENT RATE IS VERY HIGH, THE MAJORITY OF THE LABOR FORCE FOR A NEW MINE WOULD COME FROM THE LOCAL COMMUNITY. THE TYPE OF SOCIAL IMPACT A NEW MINE WOULD CREATE TO THESE COMMUNITIES, WOULD BE A VERY POSITIVE SOCIAL IMPACT, BY CREATING NEW JOBS FOR THE PEOPLE SO THEY CAN GET OFF OF UNEMPLOYMENT ROLLS AND MAKE A DECENT LIVING. HOWEVER, NEW MINING DEVELOPMENTS IN THESE COMMUNITIES WOULD BE TAXED AT THE VERY SAME RATE AS THE NEW DEVELOPMENTS IN THE STILLWATER AREA UNDER SENATOR TOWE'S BILL.

LADIES AND GENTLEMEN, WE CAN SUPPORT H.B. 718, WHICH IS TRULY A "MINING IMPACT BILL", DESIGNED TO RELIEVE SOCIAL IMPACT TO COMMUNITIES ON A CASE BY CASE BASIS.

ON THE OTHER HAND, WE FEEL THAT S.B. 344 IS A BAD PIECE OF LEGISLATION THAT WILL HAVE A VERY NEGATIVE EFFECT ON OUR JOBS AND ON THE ECONOMY OF MONTANA.

THANK YOU.

Whitehall Business Association
Whitehall, Montana 59759
April 11, 1981

Ken Nordtvedt, Chairman
House Taxation Committee
House of Representatives
Helena, Montana 59601

Dear Mr. Nordtvedt, and Committee Members:

We, the Whitehall Business Association present a resolution strongly urging you to reject Senator Towe's Senate Bill 344 on adding a severance tax to minerals. We realize this bill would help certain specific areas such as the Stillwater but it would do a great deal of harm to the people and businesses and the mining industry in the rest of the state of Montana. We especially feel the idea of taxing the gross proceeds is very detrimental to the industry.

Specificially, in Jefferson County near Whitehall, there is a possibility that the Placer Amex will open The Golden Sunlight Mine. The decision to open this mine is in the balance at this time and depends on many factors, including the price of gold, favorable tax treatment by the state and favorable acceptance by the area. Senator Towe's bill, if passed would certainly be an adverse factor and would surely keep the mine from opening.

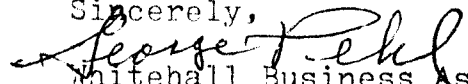
If this mine opens it would be an investment of over 50 million dollars. It would provide an annual payroll of nearly 2 million dollars. We need the taxes this investment would provide. We need the jobs it would supply to the many unemployed in our area. We need the business this mine would generate, in Whitehall and the surrounding area.

There are many other communities and areas in Montana that depend on the mining industry for their economy and even their existence. We need to encourage industry rather than cause it problems.

We know there are better ways to deal with the problems caused by the impact of mining in certain specific areas. We believe having the companies provide upfront impact money in each area as provided for in House Bill 718 deals with the problems much more effectively without harming the mining industry and the economy of the rest of the state.

We again strongly urge you to reject Senator Towe's bill as it is the wrong solution to the problem. We have attached a partial list of our members and their signatures for the Tax committee.

We thank you for your support.

Sincerely,

Whitehall Business Assoc.
George Pehl, Chairman

cc: Bob Marks
All members of House of Representatives

Walter Webster	Town Pump	Whitchell, Mont.
Jim Webster Sr.	Town Pump	Whitchell Mt
Ross Erickson	Whitchell State Bank	✓
Harold Diazola	Whitchell State Bank	✓
Mary E. Sadden	W. K. Hays Inc	✓
Bill Connor	Connor & Connor Insurance	Whitchell ✓
Dwaine Scott	Scott Funeral Home	✓
Robert Fischer	Green's Groc.	Whitchell ✓
Jan Fischer	Green's Groc.	" "
Kate Olson	Green's Groc.	" "
John Hansen	Green's Groc.	" "
Walter J. Davenport	Davis Sales & Service	✓
Richard F. Morris	Dick's Dept. Store	✓
Ernie McCafferty	Montreal Cheese Shoppe	Whitchell Mt.
Desiree C. Connor	Connor Expts - Connor Inc	Whitchell
Boyd M. Siemens	Forestry	Whitchell
George J. Schorrich	Manager Tolson Hotel & Hotel Credit Union	Whitchell
Jack Daman	Merchant Cams 5309	Whitchell
Cornel Speck	President Whitchell Planning Board	
George Pehl	Pehl Implement, Inc	
Charles J. Gipp	McGraw Hill Co. Inc	
Mildred J. Bolden	Business Assoc. Manager	
Joe Davis	Davis Excavation	Whitchell



UNION CARBIDE CORPORATION

2434 WEST CENTRAL, MISSOULA, MONTANA 59801
Metals Division

TELEPHONE (406) 549-5139

April 13, 1981

Honorable Chairman and Members of the House Taxation Committee:

Union Carbide strongly opposes Senate Bill No. 344, even as amended by the Senate, which would impose an additional severance tax of 6% (per Senate amendments) on metals and gems produced in Montana. Our northwest District Office, with 8 full-time employees, is based in Missoula and has invested over \$3 million over the past ten years in salaries, supplies and goods, and for local contractors who do our work. Our recent exploration budgets for tungsten and other commodities in Montana exceed \$1 million annually, mainly for the development of several mineral properties which are in various stages of completion. We are currently considering the development of one of these properties in Beaverhead County into a producing tungsten mine by the mid-to-late 1980's. Based on current market prices for tungsten, and on the current Montana tax level, the economic development of this property into a mine is marginal. The increased burden of inflation may make it uneconomic. Passage of Senate Bill No. 344 will make it uneconomic and preclude the development of this property, as well as the rest of our properties in Montana.

You are aware Montana is in a period of economic depression; this kind of legislation has contributed to the present situation and the anti-business feeling portrayed by the state. The net effect of this piece of legislation will not be to raise money to pay for impacts of mining development, but to drive the development to other states which will realize the eventual benefit of the jobs and revenue created. Recent drastic actions by industries have brought the economic picture into sharp focus and seemed to alert the Montana working people that development was necessary to alleviate economic depression. Senate Bill No. 344 contradicts its purported noble purpose to help in select areas of Montana.

Also, the tax purported to be collected would be too late to help the communities in the area of development as the mine would already have to be

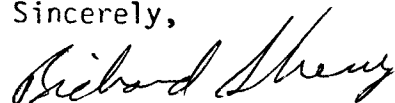
producing before any tax benefit would be realized. The development impact would be past by then. The limitation of the tax being applicable only to as yet undeveloped mines, might also tend toward discrimination and anti-development influences.

What is needed in communities or areas which would be affected by a mine development is a method whereby money could be borrowed from a present source, such as the coal tax fund, for the needed facilities and services, with provisions for repayment by moneys generated when a development is operating. Another alternative would be to require the company developing a mine to include in the mine impact plans a provision whereby a loan could be made directly to the community affected. Terms could then be worked out by those directly involved. Also, through the existing State agencies which regulate mining activities, regulations could be made to ensure that a company which planned to develop a mining property would provide, either by up-front money or actual construction, the necessary facilities in the area directly affected prior to scheduled operation date.

Mineral exploration and development is a high-risk business. Large amounts of time and money must be invested before any return is realized. Companies today strive to work within reasonable environmental regulations and federal and state laws; however, it takes a co-operative effort for business to survive in these areas of marginal returns. Senate Bill 344 is not a co-operative effort.

Thank you for your time and consideration of our request to eliminate Senate Bill No. 344 from passage.

Sincerely,

A handwritten signature in cursive script, appearing to read "Richard Sherry".

R. A. Sherry
District Geologist

DEFINITIONS OF MINERAL:

Manual of Mineralogy, 19th Ed., Hurlbut & Klein, 1977 p. 1, Wiley

"A mineral is a naturally occurring homogeneous solid with a definite (but generally not fixed) chemical composition and an ordered atomic arrangement. It is usually formed by inorganic processes."

Mineralogy, 3d ed., Kraus, Hunt & Ramsdell, 1936, p. 5, McGraw Hill

"A substance occurring in nature with a characteristic chemical composition and usually possessing a definite crystalline structure, which is sometimes expressed in external geometrical forms or outlines."

Dana's Textbook of Mineralogy, 4th ed., W. E. Ford, 1949, p. 1, John Wiley & Sons.

"A Mineral is a body produced by the processes of inorganic nature, having usually a definite chemical composition and, if formed under favorable conditions, a certain characteristic atomic structure which is expressed in its crystalline form and other physical properties."

CLASSIFICATION OF ECONOMIC MINERAL DEPOSITS (As used by the U.S. Government & the Society of Mining Engineers)

1. Metalliferous deposits: Includes all metals such as iron, gold, silver, platinum, zinc, etc.
2. Industrial or Nonmetallic deposits: Includes all nonmetallic deposits such as talc, vermiculite, graphite, corundum, garnet, etc.
3. Coal (and related combustibles):.
4. Petroleum and natural gas (or mineral fuels):.

DEFINITION OF MINERAL PURSUANT TO CHAPTER 12, TITLE 50, R.C.M., 1947

"'Mineral' shall mean and include any ore, rock or substance, other than oil, gas, bentonite, clay, coal, sand, gravel, phosphate rock or uranium, taken from below the surface or from the surface of the earth for the purpose of milling, concentration, refinement, smelting, manufacturing, or other subsequent use (emphasis added) or processing or for stockpiling for future usage, refinement or smelting."

DEFINITION UNDER TITLE 84, Chapter 20 "License Tax - Metalliferous Mines"

"... gold, silver, copper, lead, or any other metal or metals, or precious or semi-precious gems or stones of any kind . . ."

DEFINITION PER S.B. 344

"'Mineral' means gold, silver, copper, lead, zinc, chromium, palladium, platinum, molybdenum, or any other metal or metals or precious or semiprecious gems or stones."

RECOMMENDATIONS FOR CHANGE

H.B. 344

Add: To Title of Bill -- "tax . . . on the severance of metalliferous ores . . .

Add: To small mines paragraph -- "Mines operating under the 'Small Miner Exclusion Statement' pursuant to Section 50-1219, R.C.M., 1947, are fully exempt from all provisions of this bill."

Change: Definition of Mineral -- "Mineral" means any of the metalliferous ores but shall not include the Industrial or Nonmetallic ores, Coal, Petroleum and natural gas.

Add: Definition -- "Mine" shall mean any claim or group of claims whether patented or not, whether contiguous or not, which are worked as an economic unit.

SMALL MINER EXCLUSION STATEMENT

Definition: "Small Miner" means any person, firm, or corporation engaged in the business of mining who does not remove from the earth during any calendar year material in excess of 36,500 tons in the aggregate. (Section 50-1203 (15))

Restriction: The Small Miner will not conduct a mining operation which will result in more than five (5) acres of the earth's surface being disturbed and unreclaimed, and provide a map locating his mining operations.

Good morning Ladies and Gentlemen - I am Giles Walker, Helena resident and District Geologist for AMAX Exploration, Inc.

I am here to speak in opposition to Senate Bill 344 which seeks to impose a severance tax upon the hardrock mining industry.

There are three points that I would like to bring to your attention this morning:

Point No. 1 is that the proponents of this bill have publicly stated that this tax will not hurt the mining industry. We believe to the contrary; this is a progressive tax which will seriously impact the industry over the next few years, especially if inflation continues to proceed as it is now. The tax is also discriminatory as to type of mining, unfairly so.

The second point I would like to make is that if you will think back ten years, you will recall the 1971 Montana Legislature drastically redrafted the reclamation laws affecting the mining industry in the State of Montana. As you may, or may not be aware, much of the ensuing decade was characterized by very little new hard-rock mining development in this state. This, of course, was due partly to the general economy but equally by the increased costs and operating impediments imposed upon the industry by the reclamation laws adopted at that time. I am not speaking against those laws, I am merely pointing out that it was several years before improving costs in the world metal markets justified the additional cost of mining industry investments in this state. Within

the last two to three years, several companies (AMAX included) have begun serious new developments in the state which will offer, in our judgment, a considerable economic benefit to the state in years to come. The new tax being proposed today will slow things down once more and start a replay of ten years ago. Unfortunately, those properties currently in development are going to pay the price for having gambled on investing in Montana.

As a final point, I would like to laud HJR 66 which calls for an interim study committee to study the mining industry. We support that effort in every way and I would like to offer my assistance to each and every member of this Legislature who might at sometime or other wish to be placed in contact with mining industry people. I think, that if you will take the trouble to investigate the industry outside the State of Montana, you will be pleasantly surprised at what responsible companies are doing and undertaking with regard to community impact planning associated with major projects.

Montana, by virtue of its location, is a natural resource state. Careful management and encouraged development of these resources will provide the State with considerable benefits in years to come. Likewise, risk capital necessary for development will come to the State if an encouraging business climate is fostered. However, risk capital is not going to flow into the State if punitive taxation such as SB 344 or other onerous restrictions are advanced.

Thank you.

AMAY

ECONOMICS OF AN UNDERGROUND SILVER MINE
300 TONS PER DAY
CURRENT TAXATION VERSUS PROPOSED SEVERANCE TAXES
ON AN ANNUAL BASIS

PROJECTED INCOME

	Current Tax Rate	Severance Tax ¹	
		10%	30%
Net Smelter Return	\$7,604,000	\$7,604,000	\$7,604,000
less:			
Operating Costs	4,800,000	4,800,000	4,800,000
Depreciation	667,000	667,000	667,000
Income Before Tax	\$2,137,000	\$2,137,000	\$2,137,000
less:			
Present Montana Tax ⁵	579,000	527,000 ²	466,000 ²
Proposed Montana Severance Tax	---0---	760,000 ³	2,281,000 ⁴
U.S. Tax	400,000	219,000	---0---
Income After Tax	\$1,158,000	\$ 631,000	\$ (610,000)
Return	15.9%	11.2%	Negative
Payback Period	4.9 years	6.5 years	Never

¹Severance tax is calculated on the value of the metallic minerals FOB concentrator.

²"Present Montana Tax" is reduced because taxable income is reduced; deductibility of the severance tax from taxable income is assumed.

³"U.S. Tax" is reduced because taxable income is reduced and because state taxes paid are deductions on the U.S. tax return.

⁴It is assumed that the company operating the mine neither makes a consolidated return with other companies nor that it can utilize a tax loss on a carry forward basis.

⁵The five present Montana taxes are: (1) property taxes on a county level, (2) state corporation license tax, (3) metalliferous mines tax, (4) gross proceeds tax, and (5) resource indemnity trust fund tax.

Severance Tax

Net Smelter Return

4%

7,604,000

2%

7,604,000

less:

Operating Costs

4,800,000

4,800,000

Depreciation

667,000

667,000

Income before Tax

2,137,000

2,137,000

less:

Present Montana Tax

558,000

569,000

Proposed Montana Tax ^{Severance}

304,160

152,080

U.S. Tax

1,274,840

1,415,920

328,000

- 364,000

Income After Tax

946,840

1,051,920

Return

14%

15%

Payback Period

5.3 yrs.

5 yrs.

$$\text{Payback Period} = \frac{\text{Investment}}{\text{Annual Cash Flow}}$$

$$= \frac{4,800,000}{900,000} = 5.33 \text{ yrs.}$$

NAME STEPHEN J. BARAN BILL No. SB 314
ADDRESS 335 WYOMING AVE. DATE 4/13/81
WHOM DO YOU REPRESENT SELF
SUPPORT _____ OPPOSE X AMEND ?

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

TAX ON GROSS PROCEEDS IS UNFAIR TO ANY BUSINESS
IT DOES NOT TAKE IN ANY ACCOUNT OF ECONOMIC
CONDITTONS, COMPETITION OUT OF STATE, COUNTRY, ETC.,
STATIGIC MINERALS, THE BILL SHOULD ADDRESS A
TAX ON NET PROFITS INSTEAD IF A HARD ROCK
MINING BUSINESS IS TO BE ADDITIONALLY TAXED
AT ALL.

Stephen J. Baran

NAME William Ekworzel BILL No. 344
ADDRESS 97ye Montana DATE April 13, 81
WHOM DO YOU REPRESENT Myself
SUPPORT _____ OPPOSE 344 AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

I am a resident of 97ye Montana for 60 yrs. I oppose S.B. 344
I have worked for Mining co. for 20 yrs. I oppose this bill as being
unfair to the co. We all ready have enough tax on the minerals
as is. In the past the impact has not been that great. I have
watched 3 different mining operations & the mining co. have absorbed
the impacts. I am also a rancher in Stillwater co, operating at 97ye.
I also operate a small construction operation.

Thank you
Bill Ekworzel

NAME William G. Kelley BILL No. S.B. 344
ADDRESS Box 86, Absarokee, MT. 59001 DATE 4-13-'81
WHOM DO YOU REPRESENT myself
SUPPORT _____ OPPOSE Yes AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

As a resident of Southern Stillwater county for more than 50 years I have seen the mining of Chromium from the Stillwater Complex during the years between 1941 & 1944 by Anaconda Co. (for the U.S. Gov.) and between 1954 & 1963 by American Chrome Co. Particularly during the last period of mining the economy of the area benefited greatly. Most of the permanent Mine & Mill employees, after a short training period were people native to south central Montana.

We presently have an adequate force of workers in construction and related industries who work as much as 150 miles away from home because there is nothing closer that pays a living wage.

The Bill as written makes it very difficult for locally impacted areas to qualify for funds, and represents a very unfair tax since it places an excessive burden on only one segment of the states business.

No doubt, if passed, the Bill would face a Constitutionality Challenge

William G. Kelley

NAME Jeff Lauderdale BILL No. SB 344
ADDRESS Whitcomb, 117 DATE 4/13/81
WHOM DO YOU REPRESENT self
SUPPORT _____ OPPOSE X AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

we oppose unnecessary taxes
that have the effect of helping
make our industry non competitive
in the domestic or world market.

NAME Keith E Martin BILL No. SB 344
ADDRESS Nye, Mon. 59061 DATE _____
WHOM DO YOU REPRESENT Self
SUPPORT _____ OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

We already have laws on the books concerning hard rock minerals. This in my mind creates a new government department (Tax). As a taxpayer being impacted we would not have local it handled at home but at Helena etc. Bureau from the coal board etc. H.B 714 you know money from the industry.

I feel as though the Stillwater Complex is being discriminated against. Let's deal directly with Impact.

Public owned minerals?

When nation was settled all land was once public.

Under the Homestead Act, land patents were issued for homestead-deeded land.

Under the Mining Act, citizens of US were allowed to stake claims and upon keeping claims valid it is no longer open to the public.

VISITORS' REGISTER

HOUSE

COMMITTEE

BILL

22 356

Date

SPONSOR

NAME	RESIDENCE	REPRESENTING	SUPPORT	OP
Earl Cranton	Billings MT	own company		X
Pete Sherman	Helena MT	Independent		X
Alvin	Helena MT	MT. Telephone Co.		L
Ed Vander Poo	Oilmont Montana	Montana Oil & Gas Ass		L
Jack Heyman	Fishtail, Montana	self	✓	
Mary Donohue	Nye, MT	self	✓	
Jack Keogh	Nye, MT	self	✓	
Norma Kitch	Nye, MT	self	✓	
William T. Koller	Box 86 Absarokee	Self		L
Ward Smith	Helena	Ward Smith & Son Fortman Mining		L
Carl Jank	Terling	Sonnet Oil		X
Don Long Trust	Fairview	Northeast Montana Mineral Owners		X
St. Rep G. A. Bush	Cut Bank	MY SELF		X
Cindy Price	Helena	Self		X
John C. Smith	Denver	Conoco		X
P. H. Kyle	Denver	Gulf Oil Corp.		X

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Playbook

Taxation 7/13/81
EXHIBIT "N"

COMPARISON OF STATES TAXES ON OIL PRODUCTION*

SEVERANCE AND EXCISE TAXES ON OIL PRODUCTION

1. Louisiana - 12.5% of value
2. Alaska - 12.25% of value x economic limit factor
3. North Dakota - 11.5% of gross value
4. Oklahoma - 7.085% of gross value
5. Alabama - 6-8% of gross value
6. Mississippi - 6% of value
7. Florida - 5-8% of gross value (escaped oil 17.5-20.5%)
8. Michigan - 5-7.6% of gross value
9. Wyoming - 4-6% of gross value
10. Texas - 4.6% of market value
11. Kentucky - 4.5% of market value
12. South Dakota - 4.5% of sales price less royalty paid to federal or state government
13. Arkansas - 4-5% of market value plus 25 mills per barrel
14. New Mexico - 3.75% of value less certain royalties and transportation costs to first purchaser
15. Colorado - 2-5% of market value
16. Montana - 2.1-2.65% of gross value
17. Nebraska - 2% of value
18. Utah - 2% of value on production over \$50,000
19. Tennessee - 1.5% of sales price
20. Indiana - 1% of value

TOTAL TAXES** ON OIL PRODUCTION UNDER CURRENT LAW (2.1-2.65% Severance Tax)

1. Louisiana - 13.8% of value
2. Wyoming - 13.748-15.748% of value
3. North Dakota - 12.8% of gross value
4. Alaska - 12.25% of gross value x economic limit factor plus 5.125¢ per barrel
5. Montana - 10.102-10.652% of gross value
6. Oklahoma - 7.955% of gross value

TOTAL TAXES** ON OIL PRODUCTION UNDER SENATE BILL 356 (5% Severance Tax)

1. Louisiana - 13.8% of value
2. Wyoming - 13.748-15.748% of value
3. Montana (with 5% tax) - 13.002% of gross value
4. North Dakota - 12.8% of gross value
5. Alaska - 12.25% of gross value x economic limit factor plus 5.125¢ per barrel
6. Oklahoma - 7.955% of gross value

*Source: Commerce Clearinghouse, State Tax Guide and information from Department of Revenue in each state.

**Includes severance, excise, resource indemnity, property, conservation, and sales or use taxes. Texas and California could not be included in this comparison since local production taxes vary so markedly.

NET TAX INCREASE DUE TO SB356

SB356, as introduced, would raise Montana's oil severance tax to 5%. This would increase the severance tax on a \$35.26 barrel of oil from \$0.934 to \$1.763 per barrel - 82.9¢.

Since, however, state severance taxes are a deduction in computing net taxable income for both state and federal corporation taxes and in computing the windfall profit to which the windfall profit tax is applied, the proposed increase in oil severance tax would decrease oil companies' tax liabilities for these other taxes. The amount of decreased tax liability depends upon: 1) the oil producers' marginal tax rate under the federal corporation tax; and 2) the tax rate applied under the provisions of the windfall profit tax.

In the examples below, THE NET TAX INCREASE AFTER CONSIDERING THE REDUCTION IN OTHER TAXES CAUSED BY INCREASING THE OIL SEVERANCE TAX TO 5% RANGED FROM 21.8¢ TO 53.4¢ PER BARREL. IN OTHER WORDS, THE NET TAX INCREASE IN SB356 AMOUNTS TO 0.6 - 1.5% OF THE VALUE OF A BARREL OF CRUDE OIL. IN COMPARISON, THE SALES PRICE OF CRUDE OIL HAS INCREASED 300% IN THE LAST 2 YEARS.

Examples

I. The net tax increase per barrel for a major company producing oil from a well established before 1979 (Tier I) paying at the following federal corporation tax rates:

<u>Windfall profit tax rate</u>	<u>Federal Corp Tax</u>	<u>Net Tax Increase</u>
	<u>Rate</u>	<u>Per Barrel</u>
70%	46%	21.8¢
	30%	28.2¢
	17%	33.4¢

II. The net tax increase per barrel for an independent company producing oil from a well established before 1979 (Tier I) paying at the following federal corporation tax rates:

<u>Windfall profit tax rate</u>	<u>Federal Corp Tax</u>	<u>Net Tax Increase</u>
	<u>Rate</u>	<u>Per Barrel</u>
50%	46%	27.5¢
	30%	35.6¢
	17%	42.2¢

III. The net tax increase per barrel for a company producing new oil (Tier III) paying at the following federal corporation tax rates:

<u>Windfall profit tax rate</u>	<u>Federal Corp Tax</u>	<u>Net Tax Increase</u>
	<u>Rate</u>	<u>Per Barrel</u>
30%	46%	34.8¢
	30%	45.0¢
	17%	53.4¢

IV. The net tax increase per barrel for a major company producing stripper oil (less than 10 barrels per day per well - Tier II) paying at the following federal corporation tax rates:

<u>Windfall profit Tax Rates</u>	<u>Federal Corp Tax Rates</u>	<u>Net Tax Increase Per Barrel</u>
60%	46%	26.3¢
	30%	34.0¢
	17%	40.3¢

Testimony Before the Montana Senate Taxation Committee Regarding

SB 356, February 16, 1981

Mr. Chairman, members of the Committee, my name is Don Allen and I am the Executive Director of the Montana Petroleum Association; I live in Helena.

The Montana Petroleum Association is also a division of the Rocky Mountain Oil and Gas Association, a trade association whose membership includes over 750 individuals and companies of all sizes engaged in the various segments of the oil and gas business. I believe it is important to take a quick look at our crude oil situation today. We are currently obtaining (via month-to-month agreements) about 39% of the crude to run our six refineries from Canada, with about an equal amount from Wyoming.

Due to early field and pipeline locations, and the fact that our biggest refineries were originally built to process Canadian crude, much of our crude leaves the state, but is also utilized in exchange agreements for some of the Wyoming crude we import. However, if by some work of magic, all of the crude oil produced in the state could be piped to our refineries, there would still be an approximate 70,000 b/d shortfall of crude to keep our refineries running at capacity.

One additional troublesome cloud on the horizon is the announced plan (Oil and Gas Journal, February 2, 1981) of Alberta, in dispute with Canada's federal government, to cut its' production by 71,000 b/d on March 1, with later cuts during the year expected to bring the total to 180,000 b/d by September 1. The impacts on our Canadian purchases is not known, but the point is that with these developments and without any other plans in place to assure future crude oil for our refineries and thus petroleum products to our citizens, we should be taking steps to encourage more oil and gas exploration and production in the state.

To further increase the taxes on oil produced in the state would have a further chilling effect on many who might consider investing in Montana activity.

Recent nationally recognized reports have given credence to what I have heard for years from potential investors in oil and gas activity in Montana--namely, that an anti-business attitude exists in the state.

The petroleum industry has always been willing to pay it's fair share of the tax burdens and has not objected to increased taxes being levied against the industry when it could be demonstrated that the increase was fair, really needed, and would have a positive benefit for the citizens of the state. This was the case during a recent session when the Board of Oil and Gas Conservation desired to be able to double the conservation tax in order to build a new and badly needed building in Billings. The industry did not object and recently, the Board was able to reduce that tax back to a lower percent, which will still provide the needed dollars for carrying out the Board's responsibilities.

However, the Montana Petroleum Association opposes SB 356 for several reasons. I would like to call the committee's attention to the sheet which illustrates the comparison that we have made with the tax rate data which was distributed by Governor Schwinden's staff several days ago. Please note that the first low-high range in our Montana column illustrates the royalty owner rate while the other figures are for the industry statewide. While members of our Association's tax committee were here last week attempting to reconcile our data with that prepared by the Governor's staff, one of the first things discovered was that several errors had been made by the Department of Revenue

Feb. 16, 1981

in various calculations. We brought these errors to the Department's attention and they indicated that corrections would be made.

The remaining major discrepancy was that there existed a large difference in the average ratio of net to gross proceeds between our calculations and the figures prepared by the Governor's staff.

At my request and in response to the Governor's expressed desire, along with my own to not mislead the public and/or the members of this committee regarding the differences in the data, I met with the Governor and members of his staff last Friday afternoon to attempt to resolve the differences. It finally became apparent, as you have heard earlier today, that the Governor's staff, in preparing their data, excluded royalty interests in their calculations.

I would like to explain that the manner in which we calculated the ratios which resulted in our comparisons now before you were calculated in exactly the same manner as they have always been done. Also, the percentages for all the other states included in the comparison include the royalty interests also. Therefore, if the royalty interest portion were to be deleted in Montana's percentages, then the royalty interest portion would necessarily have to be deleted from all the other states' calculations, so the various states would still wind up in the same relative position as our figures illustrate--which show that oil produced in Montana has the highest effective tax rate in the U.S. If you examine the existing statutes (15-23-505 and 15-23-605) relating to the net proceeds tax, it is clear that the Department of Revenue is to assess and tax the royalties the same as the net proceeds of the mines (ie: oil and gas.)

As to the interpretation that the royalty interest is a property right and thus somehow different, I would point out that in California and Texas, for examples, all taxes on oil are considered as a tax on property, and the royalties are included in the effective tax rate totals.

Regardless of what is used to refer to the royalty interest, two things are clear:

1. The property (royalty interest) has no real value unless and until oil is actually produced and
2. If production occurs, all of the oil produced from a well is taxed.

Therefore, how can you exclude the royalty interest as if no tax is being paid on that portion of the produced oil?

Montana's high taxes on oil produced within the state have been a big factor in keeping many capital dollars needed for new exploration from flowing into the state--at least at the rate needed to keep pace with other Rocky Mountain States.

More drilling activity has been occurring in New Mexico, Wyoming, and Colorado, with North Dakota gaining on Montana since 1977. Since the successful deep well drilled near Sidney in 1976 in the Mon-Dak field (within the Williston Basin of Montana and North Dakota) much new activity has taken place, but with about twice as many rigs running in North Dakota, on the average, as in Montana.

Feb. 16, 1981

Incidentally, in 1979 the average depth of all wells drilled in Montana was only 3855 ft. compared to 8731 ft. in North Dakota and 6787 in Wyoming. This needs to be kept in mind in comparing the number of wells drilled. With decontrol of crude oil prices and the push to become less dependent on foreign sources and the hope for much success in the Overthrust Belt, drilling activity will continue to accelerate, but much of the concern we have about SB 356 is whether or not it will keep Montana from getting it's proportionate share of the new activity.

Record sales of leases on state lands are producing lots of new dollars not realized before. The \$15 million realized from the two-day sale which took place last spring came in too late to be reported in last fiscal year, but will boost the total estimated (by State Lands Dept.) revenue to over \$30 million in FY 81.

The rising interest in leasing lands--everywhere--for potential oil and gas exploration is real and we must not discourage new leasing. Evidence that the new interest in leasing is sincere and a good indication is that the new record sales are occurring here in spite of the fact that Montana has higher rates for leasing and retaining leases on state lands than neighboring states in the Rockies (see attachment.)

Only 36.6% of Montana's total acreage is productive or leased compared to 51.3% in North Dakota, 55% in Utah, and 63.7% in Wyoming.

Now, let me turn to perhaps more important reasons for opposing SB 356. I realize that most of us in Montana would welcome some relief from the high vehicle license taxes, and that it is politically popular to propose a plan to make that happen. However, as a concept, we feel that it would be a dangerous precedent to impose a new tax on one industry in order to fund any politically popular idea. When would the new ideas and the ways to fund them ever stop? History says not really ever. We have put together very up-to-date projections relating to revenues. If you will refer to the sheet titled "Projections of Revenue", you will see that due to decontrol (President Reagan has already decontrolled the price of crude oil ahead of the scheduled Oct. 81 date) and with adjustments for inflation (if this method is chosen to replace the license taxes lost to all the counties) enough money will be available without any increase in the tax on oil produced in the state.

Mr. Clyde Logan with Logan and Associates, representing the Association, or Mr. Weldon Summers, Shell Oil Co., chairman of the Association's tax committee, will be happy to explain the projected revenue handout in greater detail if you desire.

In view of these enormous expected revenue increases, I believe the question has to be asked: "If the severance tax is increased, what will those millions of new dollars be used for?"

One of the reasons for the tremendous growth in government spending in recent years is that when extra dollars become available via inflation or whatever, a way is found to spend the money.

I believe that the people of Montana, in adopting the tax indexing initiative this

Feb. 16, 1981

last year said that they want extra dollars that are available through inflation to be used to reduce taxes.

It is a truism that private individuals pay to fund the decisions of public officials. All of those who consume petroleum products--not just those who have to license their vehicles for use on the roads--will wind up eventually paying the increased severance tax. So why impose the increase if it is not needed?

Another dangerous trend could be to use revenues from natural resources in certain counties to pay for benefits in other counties. Should the counties with forest lands share the revenues they receive from the U.S. Forest Service with counties that have no forests? Or should a county with a mine share it's county revenues with other counties that have no mines?

In conclusion, Mr. Chairman and members of the Committee, for all the reasons outlined above, we would respectfully ask the Committee to give SB 356 a "do not pass."




#4.

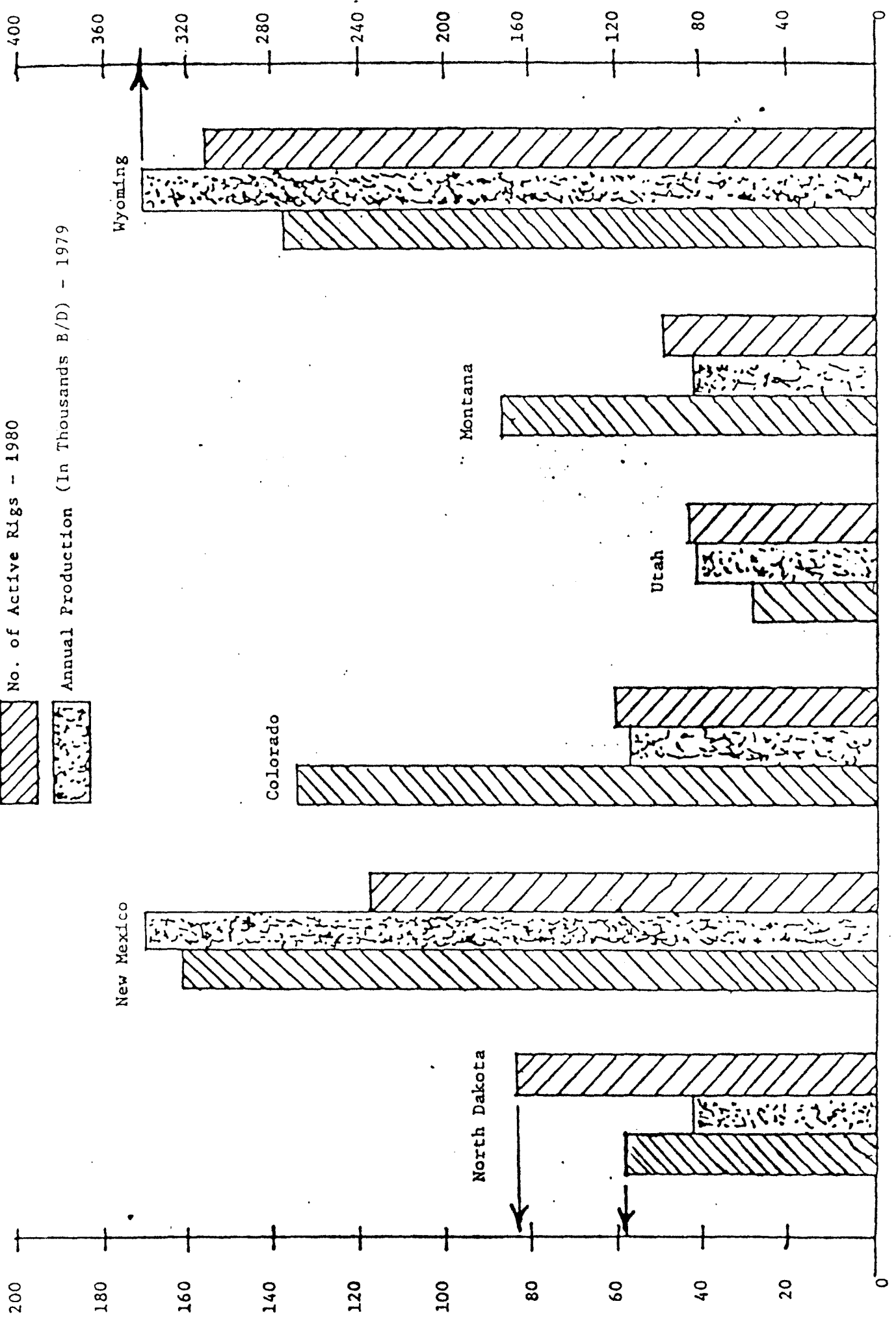
TOTAL EFFECTIVE TAX RATE

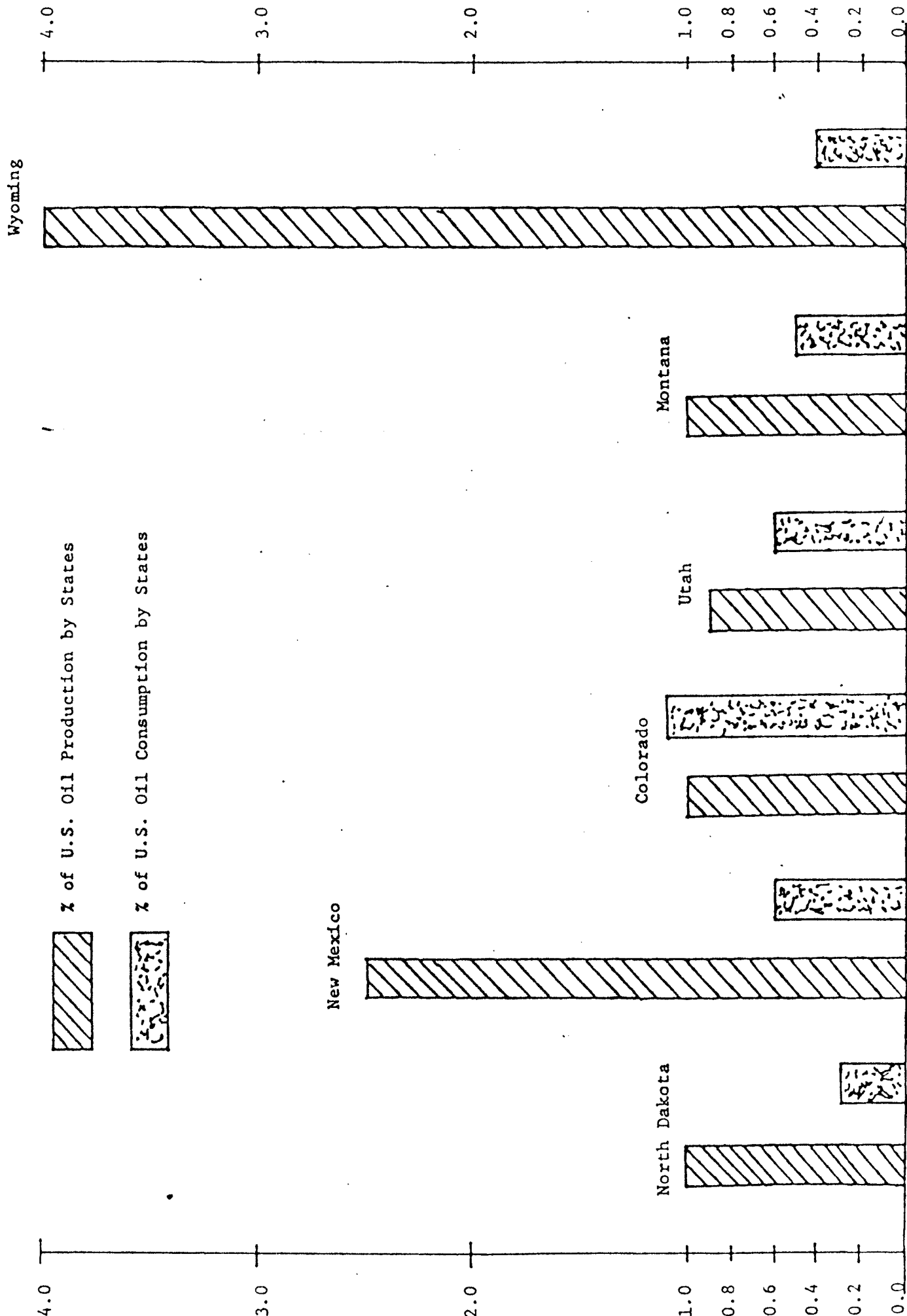
	Governor's Staff	Oil & Gas Industry's Correction to Governor's Staff Montana Effective Rate	Oil & Gas Industry (*)
1. California	- - -		2.6000
2. Colorado	- - -		5.9500
3. Louisiana	13.8		12.5550
4. Montana	10.002 - 10.652	13.7520 - 14.4020 (1) 16.4460 - 17.0977 (2)	12.8556 - 28.7475 14.9050 (3) 16.0065 (4)
5. North Dakota	12.8		11.5000
6. Oklahoma	7.955		7.1000
7. Texas	- - -		6.1000
8. Utah	- - -		5.2500
9. Wyoming	12.204 - 14.204		8.5200 - 10.5270
10. Alaska	12.25% of gross value x economic limit factor + 5.125 cents per barrel		12.25% of gross value x economic limit factor + 5.125 cents per barrel (Complicated formula reduces effective rate to a range of 4.7% to 12.25%)

* * * * *

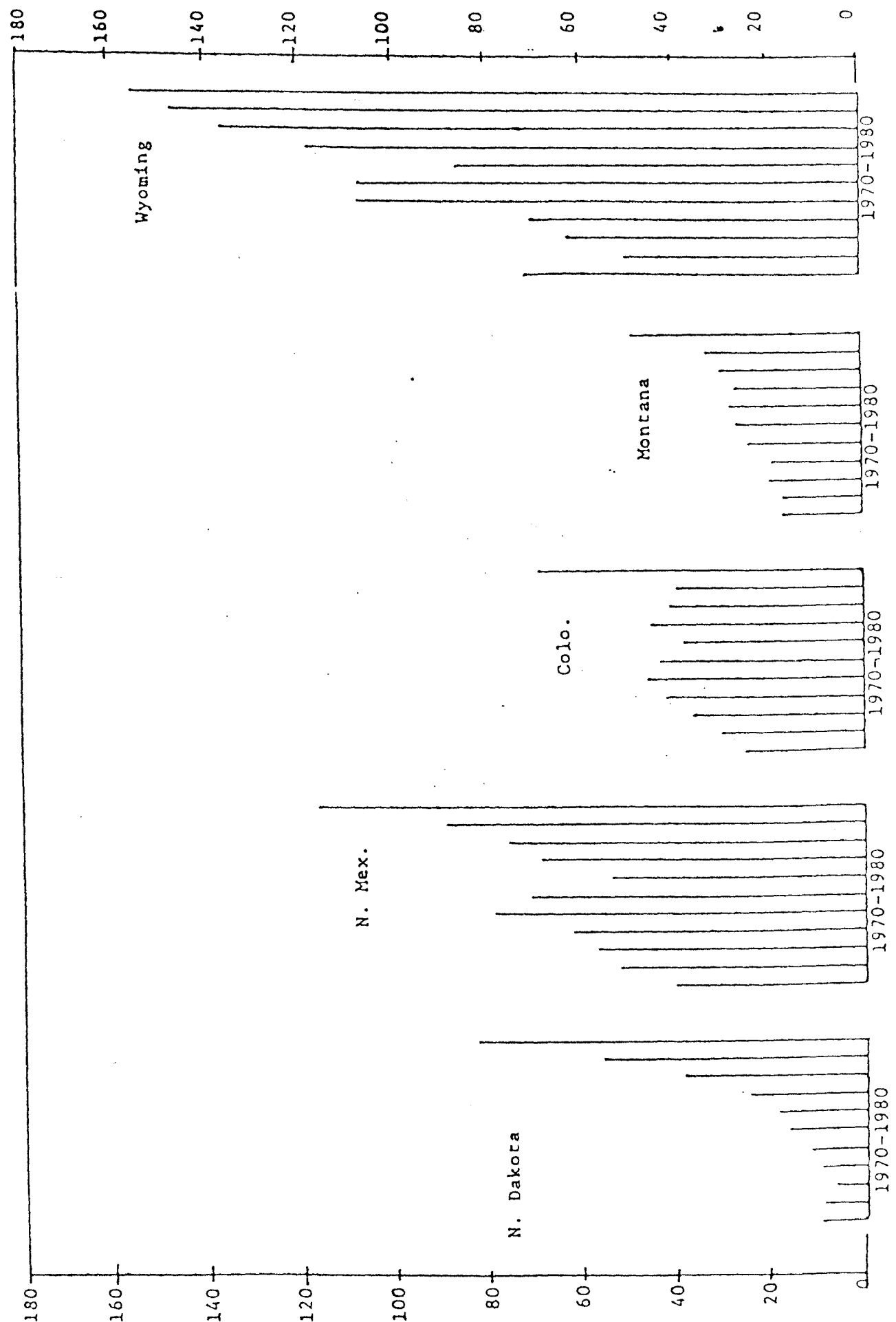
- (1) Effective rate using correct current average ratio of net to gross proceeds.
- (2) Effective rate using projected ratio of 85.94% of net to gross proceeds. All proceeds from price decontrol are net proceeds.
- (3) Effective rate allowing Windfall Profits Tax as a deduction to net proceeds X 150 mills X 78.6%.
- (4) Effective rate including Windfall Profits Tax in base X 150 mills X 85.94%.
- (5) Includes severance, resource indemnity, License Taxes, Property Taxes on production and production equipment, and conservation taxes.

 No. of Wells Drilled - (In Hundreds) - 1980
 No. of Active Rigs - 1980
 Annual Production (In Thousands B/D) - 1979

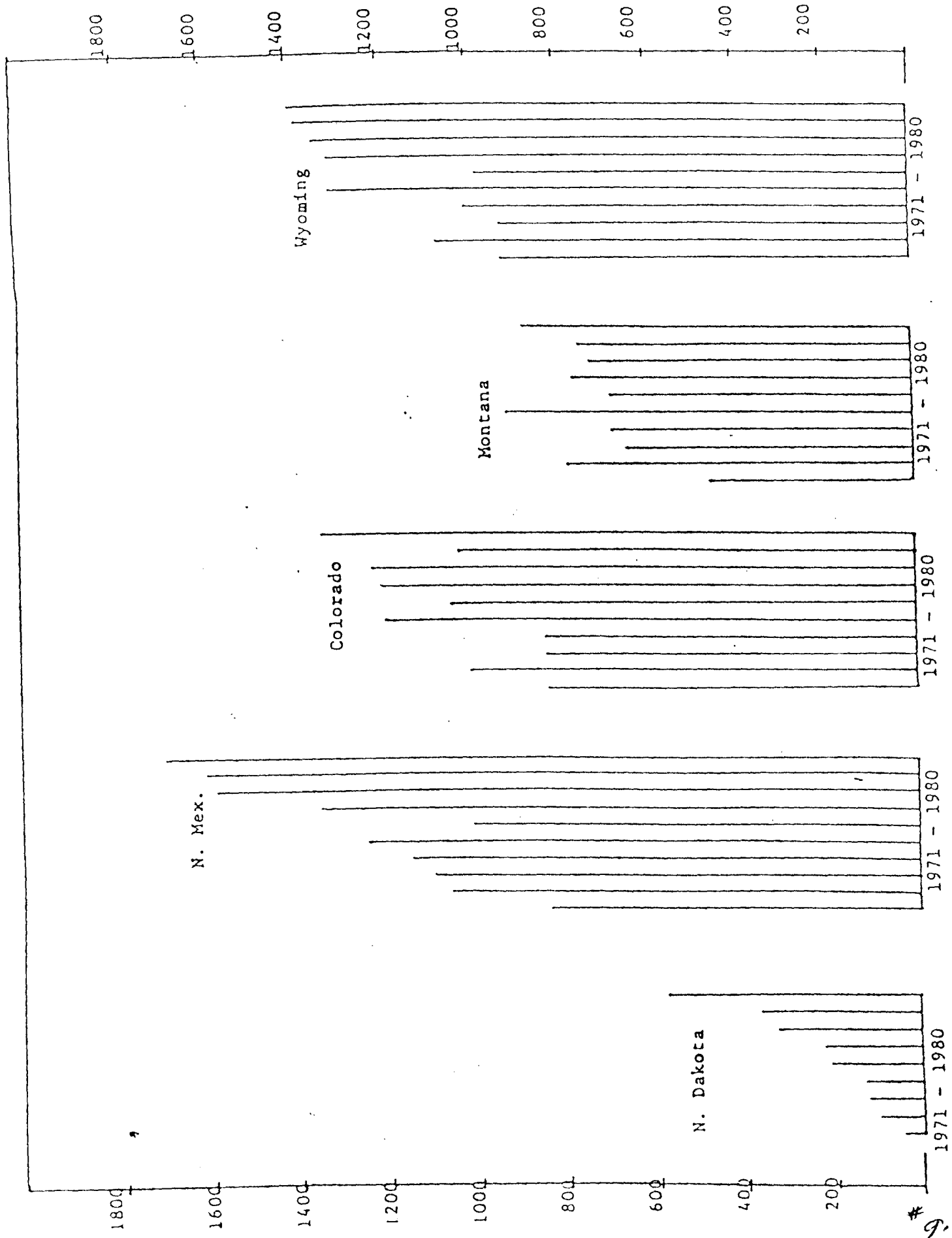




ROCKY MOUNTAIN OIL PRODUCING STATES
 ROYALTY RIGS ACTIVE

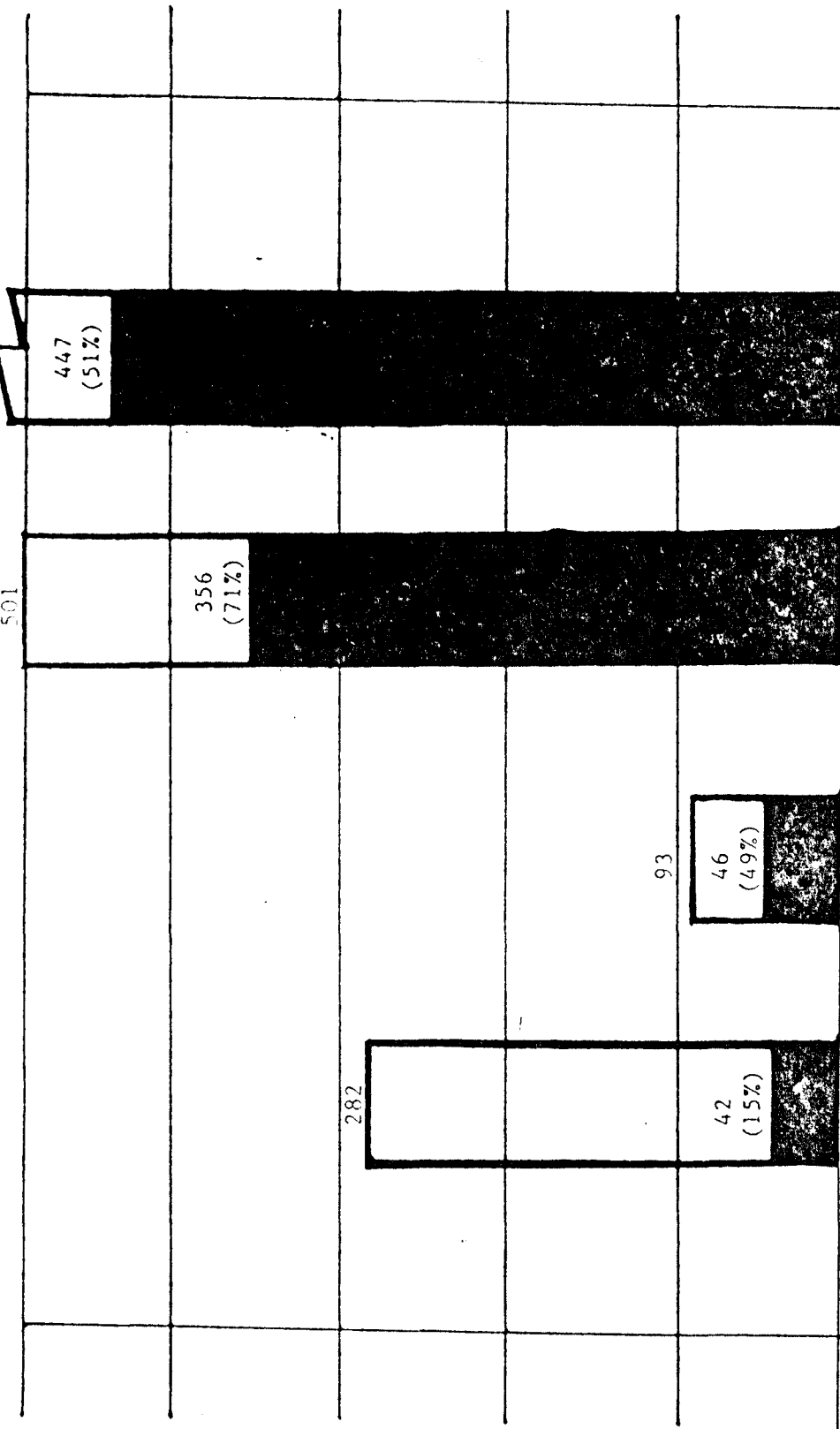


TOTAL WELLS DRILLED
ROCKY MOUNTAIN OIL PRODUCING STATES



1980 DRILLING SUCCESS IN MONTANA

No. of
Wells

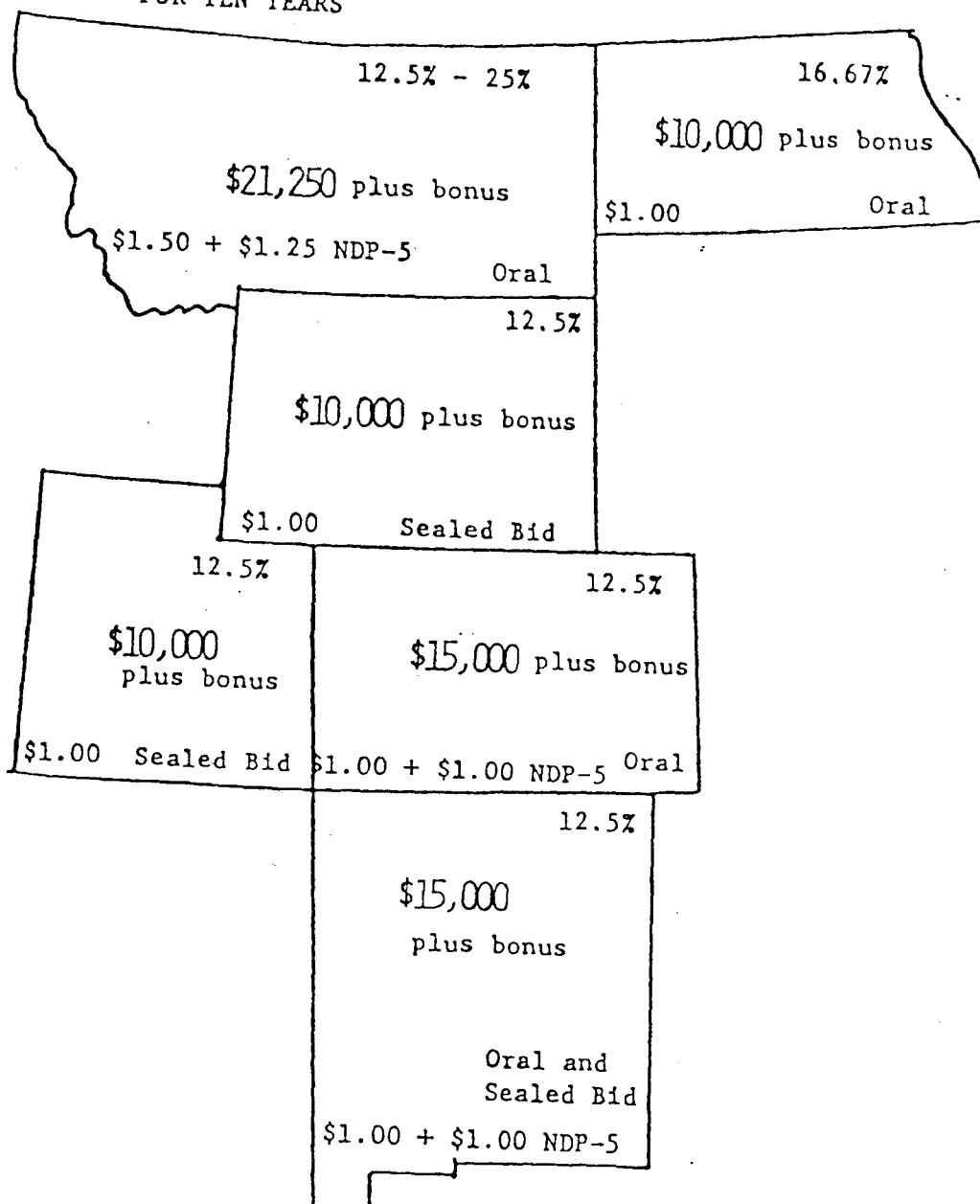


New Field Wildcats Other Exploratory (New Pool and Wildcat Outposts) Development Wells Total Wells Drilled

Successful Wells

Total Wells

EXPENDITURES REQUIRED TO LEASE IN 1980
AND RETAIN 1,000 ACRES OF STATE LEASES
FOR TEN YEARS



Projections of Revenue
Using Current Oil Severance Tax Rates
FY's 1981-82-83

	Gross At <u>.0261 (1)</u>	Net to <u>State (2)</u>
FY 1981	20,051,200	19,058,700
FY 1982	31,173,000	29,558,000
FY 1983	<u>33,770,000</u>	<u>31,994,000</u>
Total	84,994,200	80,610,700

Estimated revenues from Oil Severance Tax based on FY 1980 actual (\$10,544,000 and increased for FY 1981, 1982, 1983 at 12% and 15% rates of inflation only:

	<u>12%</u>	<u>15%</u>
FY 1981 (\$10,544,000 X Inflation Rate)	\$11,810,000	12,126,000
FY 1982	13,227,000	13,944,000
FY 1983	<u>14,814,000</u>	<u>16,036,000</u>
Totals	39,851,000	42,106,000

Estimated revenues due to inflation and price decontrol

	80,610,700	80,610,700
Less estimate due to inflation	<u>39,851,000</u>	<u>42,106,000</u>
Estimated revenue due to decontrol	40,759,700	38,504,700
Needed to fund auto tax relief 1982 & 83	<u>32,000,000</u>	<u>32,000,000</u>
Surplus	8,759,700	6,504,700

1982 revenues due to decontrol

\$29,558,000 - \$13,227,000 (12% inflation) \$16,331,000
 29,558,000 - 13,994,000 (15% inflation) 15,564,000

1983 revenues due to decontrol

31,994,000 - 14,814,000 (12% inflation) 17,180,000
 31,994,000 - 16,036,000 (15% inflation) 15,958,000

These revenues should be sufficient to fund the \$16,000,000 per year needed to reduce the automobile tax and still have a comfortable cushion or reserve because of the 1981 windfall from decontrol.

Notes:

- (1) 1st 2 qtrs. FY 1981 actual, last 2 qtrs. estimated. FY 1982 & 1983 estimated using Legislative Fiscal Analyst's estimated production. Decontrolled price of \$37/bbl used beginning Feb. 1, 1981, escalated 10% per year for FY 1982 and 1983. (Recent history of OPEC policies.)
- (2) FY 1981 actual to counties \$992,500, FY 1982 & 1983 estimated based on 1,500,000 bbls. per estimate of Legislative Fiscal Analyst.

Oil well production up by 62 percent

The 259 wells completed in Montana during the first quarter of 1981 represent a 62 percent increase from the number of completions in the first three months of 1980, according to the Montana Oil Journal.

Montana's 90 wildcats produced 14 new oil pools and two gas fields — a 17.7 percent success ratio. The number of exploratory projects is up 40 percent, but the success ratio dropped three points from the first quarter of 1980, the paper reports.

The largest gain in the state was in oil and gas development, with 64 oil wells and 63 gas wells completed in established fields.

Traditionally, about 20.5 percent of Montana's drilling occurs in the first quarter of the year. Montana's highest annual drilling record was in 1968 when 1,016 wells were completed.

Twelve of the new oil fields were Williston Basin projects. Both gas discoveries and a new oil pool were completed on the Sweetgrass Arch and a new pool opener was put on production in central Montana.

Twelve of the 31 wildcats completed in eastern Montana were successful. Richland County had 24 tests. Four of the nine wildcats there were successful. Fourteen field extension wells were completed in Richland

County oil fields.

Sheridan County had a similar record, with 24 wells completed. Five of eight wildcats were successful, for a 62.5 percent success ratio in the county.

Meanwhile, across the border in North Dakota, 203 completions were recorded in the past 13 weeks, the highest number of first-quarter completions in state history.

Presented by:
Montana Oil and Gas Association

CONTINENTAL LAND COMPANY
Section 14, Twp. 37N., Rge. 2E.,
Toole County, Montana

INCOME DISTRIBUTION - DECEMBER 1980
WESTERN NATURAL GAS COMPANY
Post Office Box 830
SHELBY, MONTANA

BARRELS	PRICE	PROCEEDS	MONTANA ¹ PROD. TAX	MONTANA ² CONS. TAX	MONTANA ³ N.P. TAX	MONTANA ⁴ IND. TAX	FEDERAL WINDFALL	NET ⁵ CHECK
GROSS OIL SALES	617.39	34.94	21,571.60	571.65	10.78	2,588.59	107.86	3,708.97
Effects of SB 356			1,078					14,583.
								14,076
ROYALTY								
Effects of SB 356								
	12.50	2,696.45	71.46	1.35	323.57	13.48	824.21	1,462.
			134					1,399
WESTERN NATURAL GAS CO.	87.50	18,875.15	500.19	9.44	2,265.02	94.38	2,884.76	13,121.
Effects of SB 356			944					12,550

This sample represents just one lease for one month.

1 Montana Production Tax. This is the severance tax this bill would increase. In this report, it was computed at 2.65%.

2 Montana Conservation Tax. This tax finances the programs of the Oil and Gas Commission.

3 Montana Net Proceeds Tax. For Toole County for which this report was compiled, the net proceeds tax is 18%. The tax

is collected by the state based on mills determined by the county and is used to finance the programs of the county government

4 Montana Indemnity Tax. This tax is 1/2 of 1% of the Gross Income. It is collected annually by the state and held in trust

for reclamation projects when oil and gas companies do not reclaim abandoned areas.

5 This does not include personal property taxes paid on equipment and machinery. Taxes total approximately 33%.

6 The annual loss of income to this royalty holder would be nearly \$756; to the company, \$5,328.

NAME _____ BILL No. _____
ADDRESS _____ DATE _____
WHOM DO YOU REPRESENT _____
SUPPORT _____ OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

Conoco and I feel other members of the oil industry have been willing to pay our fair share of taxes when needed. I do not feel an increase is necessary. The rising price of oil will generate great increases in revenue at the present rate.

In 1979 Montana's production was 29.9 Million BBLs of oil and the avg price for 1979 was \$9.23 per BBL.

I don't have year figures for 1980 but in the last quarter of 1980, oil production was 6.9 Million (BBLs) (averaged out for the yr., 27.6 Million BBLs.) and in that last quarter the avg. state wide price per bbl was \$25.69.

This is a very substantial increase in Tax Base.

Thank You
John Angerton

RESOURCE INDEMNITY TRUST TAX COLLECTIONS

	Coal	Crude Oil	Natural Gas	Sand & Gravel	Lead	Gold	Silver	Copper	Prec. Stones-Gems	All Other	Total
FY 74 \$	61,687	\$ 640,771	\$ 44,474	\$ 1,479	\$ 23	\$ 10,493	\$ 49,587	\$ 292,856	\$ --	\$ 36,528	\$ 1,137,898
FY 75	239,391	1,201,125	49,861	344	52	16,736	70,628	417,532	988	45,376	2,050,033
FY 76	409,809	1,294,364	82,754	9,946	180	3,976	14,097	110,446	1,931	53,856	1,981,359
FY 77	496,340	1,399,698	74,267	27,467	35	4,008	19,045	137,014	--	54,076	2,211,950
FY 78	522,332	1,316,916	165,347	6,452	58	197	3,210	141,676	29	90,191	2,246,408
FY 79	225,680	1,434,471	231,530	(14,631)*	37	56	813	91,355	1,606	134,466	2,105,383
FY 80	929,793	1,829,828	355,146	8,752	133	8,222	27,026	308,879	118	164,392	3,632,289
\$2,885,032	\$9,117,173	\$1,003,379	\$39,809	\$518	\$43,680	\$192,406	\$1,499,758	\$4,672	\$578,885	\$15,365,320	
% of Total	18.8	59.3	6.5	.3	**	.3	1.3	9.8	**	3.7	100

*Accounting Adjustment

**Less than one-tenth of one percent

Source: Department of Revenue; Miscellaneous Tax Division 7/80

4.8
1.3
6.3
11.4 Hard Rock Minerals

RESOURCE INDEMNITY TRUST TAX
Title 15, Chapter 38, parts 1 and 2, MCA

ESTIMATED
INCOME FOR THE RESOURCE INDEMNITY TRUST FUND

Ending balance estimate for FY 1981	\$ 934,949
Interest that will be received	
FY 1982	\$2,009,872
FY 1983	\$2,627,926
	<hr/>
TOTAL THAT MAY BE APPROPRIATED	\$5,572,747

SOURCE: Department of Revenue, Accounting Division,
January 18, 1981

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United States
Department of the Interior
Geological Survey, National Center
Reston, Virginia 22092



Public Affairs Office

Don Kelly

(703) 860-7444

For release: Immediate (Mailed Jan. 23, 1981)

→ SIGNIFICANT METAL CONTENT FOUND IN LARGE OIL-SHALE DEPOSITS IN MONTANA

Long-known oil shales underlying 2,700 square miles of central Montana also contain significant amounts of zinc, nickel, molybdenum, vanadium and selenium, as well as an estimated 180 billion barrels or more of synthetic crude oil, according to a preliminary report by three U.S. Geological Survey scientists.

Analyses of surface samples of the oil shale indicate that each ton of shale contains as much as 16 pounds of vanadium oxide, 13 pounds of zinc, 2 pounds of nickel, 1.8 pounds of molybdenum and nearly a quarter pound of selenium, plus 10 gallons of extractable syncrude oil.

Although presence of the low-grade oil shale has been known for many years, the estimate of 180 billion barrels of recoverable oil is the first assessment of the overall shale-oil resources of the 2,700-square-mile area, which covers all or parts of seven counties: Garfield, Petroleum, Musselshell, Fergus, Golden Valley, Judith Basin and Wheatland.

The three USGS scientists -- geologists George A. Desborough and Forrest G. Poole and physical science technician Gregory N. Green, all Denver, Colo. -- made no estimate, however, of the total metal resources in the oil shale unit, which has a thickness of 160 feet or more over large areas.

"Estimates of metal and energy resources in the deposits are highly conservative," says the report. The authors said that the estimates may be increased significantly through additional studies.

Based on 1980 commodity prices, the USGS report estimates that each ton of oil shale contains \$7.15 worth of syncrude oil, \$48.80 worth of vanadium oxide, \$6 of nickel, \$4.55 of zinc, \$2.40 of selenium, and \$16.20 of molybdenum, -- a total of \$85.10 worth of potential oil and metal resources per ton of oil shale.

The authors said their data indicate that the deposits have potential commercial interest, particularly if the shale oil is recovered in conjunction with mining of the metals. They said their study indicates the area is worth further exploration and evaluation. Part of the studied land is privately owned and part is owned by the federal government.

(over)

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January 21, 1981
Page 2

Table # 2 - Resource Indemnity Trust Tax
Fiscal Year 1979 - 1980

<u>Account</u>	<u>Revenue</u>	<u>% of Total</u>
Coal	\$ 929,793.43	25.60
Oil	1,829,828.05	50.38
Natural Gas	355,146.86	9.78
Sand & Gravel	8,752.12	.24
Lead	133.11	--
Gold	8,222.05	.23
Silver	27,026.21	.74
Copper	308,879.54	8.50
Precious Stones	118.56	--
All Other Minerals	164,392.51	4.53
	<u>\$3,632,292.44</u>	<u>100.00</u>

14%

Table # 3 - Resource Indemnity Trust Fund
Balance as of December 31, 1980

Balance - \$16,249,568.06

Interest Income - \$462,762.00

Comment - $\frac{1}{2}$ of income from interest could not retire
\$30 million in bonds.

If you have any questions concerning the derivation of the above
figures, please contact me.