

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

February 11, 1983

The twenty-fourth meeting of the Taxation Committee was called to order at 8:05 a.m. by Chairman Pat M. Goodover in Room 325 of the Capitol Building.

ROLL CALL: All members were present.

CONSIDERATION OF SENATE BILL 299: Senator Thomas Towe, Senate District 34, said the bill deals with hard-rock mineral taxes. At this point, this bill will not raise any taxes except for rounding of numbers, which is .062, but there is a decrease in that there is a miner's exemption in the current tax. Even if you mine just \$1 worth of minerals, an exemption is made for the small mines. Section 3 of the bill provides that as the price of the metal goes up, so does the tax. Base prices are set forth for various metals. On page 4, to further define "price", he suggested that after "actual" on line 4, "spot market New York" be inserted, and on line 5, strike "1" and insert "3". Every time the price increases by 10% of the base price the price goes up .25%. So for every 10% more gross receipts there are, we are adding .25% more tax. Section 4 puts 2/3 into the general fund and 1/3 into the hard-rock mining impact trust account. Paragraph (2) at page 4, line 22, sets up the account within the earmarked revenue fund. On page 6, there will now be money from the hard-rock mining impact trust account, so we don't need to allocate money under HB 718 from the 1981 session.

Since we are talking about an .062% increase, there will still be opposition to the bill, but this will eliminate the tax for a lot of people. We can expect the price to go up. If the price of a metal is low, the amount of tax would not be increased. Assume copper goes from 79 cents to \$1.10 a pound. That is a 39% increase. \$1.10 was copper's all time high. A company with \$20 million gross value of product (such as ASARCO, Sunshine, Anaconda) would have increased taxes of \$300,000 (from \$117,000 to \$300,000), but the gross value increased by \$7.8 million. The extra tax would only be 1.5% so they have 98.5% of the value to cover their costs of operation. We have never submitted a bill that is that gentle.

The present tax is unfair because it is not geared to profits. It is based on gross proceeds. You can't base the tax on net proceeds because, strangely enough, there are too many out of state deductions that flow into Montana. HB 718 from the 1981 session designed to avoid taxation is simply not enough. What happens when a company shifts gears up or down? HB 472 this session which addresses this contains an amendment to eliminate it after two years. There is no solution to the jurisdictional mismatch when the mine is in one jurisdiction and the school is in another.

There is no provision in the law at the present time for tail end impacts. Some think that is a long way down the road. For Butte, the time has come. They need \$3 million to \$5 million just to pay for extra government services in that city. This bill is largely a product of the subcommittee which was made up of three members of the Revenue Oversight Committee and three members of the Environmental Quality Council studying hard-rock minerals. The final subcommittee rejected this proposal to increase tax according to the price of metals but agreed to other provisions. By and large, in copper the state of Montana is collecting about as high a tax as any other state. This is not true for gold, silver and platinum. Do we want to make provision for tail end impacts? Do we want to set aside money for the future? We need to be able to look future generations in the eye and say yes, some money has been set aside instead of just leaving them the problems from exploitation. There are going to be government costs when these mines shut down. When every mine shuts down, who is going to pay for it? If we set aside money now, it will be there when we need it.

PROPONENTS

Bill MacKay, Jr., a Roscoe, Montana school board member, School District 52-52C, said they are concerned with tail end impact and erosion of the tax base. This is a blow with HB 718 (1981 session). The mining facilities are not in their elementary school district. The mine employees' kids go to their school because it is the only school around. He didn't think the bill was unfair to the Anaconda Company or to the John Mansfield Company, but he felt it did address necessary points. It is unfair to enact the tax after they have started their projects. He said he would be irate if he was in the middle of a project and the legislature raised the tax on him, and he urged the committee's support of this bill.

Don Reed, from the Environmental Information Center in Helena, said that mitigating impacts through the taxation system was fair and equitable to the industry. Montana mineral taxes are high when mining is low. Taxes are low compared to other states when the price is high. When prices do rise, taxes will increase and so will the revenues. The base prices in this bill are set above existing prices. He said it is important to look toward the future. There is no amendment for dealing with tail end impacts at this point.

Ann Mulroney, representing the Montana League of Women Voters, said that we now have three systems of reimbursement for oil and gas, the coal board program, and the hard-rock mining program. Before the legislature, there are four different versions on which to decide. There needs to be a standard way to identify a community, awards made to it, etc.

Jim Ellison, McLeod, Montana, felt their district was fortunate to have the school tax increase.

Miles Keogh, representing SPA, Nye, Montana, said we should learn a lesson from what has happened in Butte. Hard-rock minerals are finite resources. When they are gone, there will be bonds unpaid, no jobs, etc. The Butte people have several bills introduced this session to help them. The tail end impacts are larger than the front end impacts. He didn't think the severance tax was a new idea in Montana. Right now is a good time for this sliding increase in tax to be passed. With Butte down, there are not many operations in the state. The only increase is 1.438% to 1.5%, and that was recommended by the Environmental Quality Council.

Representative Glenn Saunders, House District 72, Stillwater County, said he was very much concerned about the economic ability of the area he represents with the additional development in his area of natural resources. He supports SB 299.

OPPONENTS

Gary Langley, executive director of the Montana Mining Association, submitted written testimony, and it is attached as Exhibit A.

Joe R. Dewey, project manager, Stillwater PGM Resources, submitted written testimony which is attached as Exhibit B. They support a do not pass recommendation on SB 299.

George Bennett, representing ASARCO, Inc., said that first, in Montana, agriculture, mining and forest products are the basic industries. The policy of the state toward industry is to tax greater amounts for the less favorable industries. All statistics are set forth in the publication put out by the Environmental Quality Council (green book). The people on the council who are least familiar with mining policies rejected mining as an industry. The study shows that mining operations are a plus to the community. If you wish to follow the study, you will vote against SB 299.

Second, he said, the Butte-Anaconda area with ASARCO is an example of modern mining. It has 340 people working for it and less than 40 of those people are from out of that area. ASARCO has been in operation since fall of 1981 in Libby. They pay \$340,000 in gross proceeds taxes, and \$188,000 for the resource indemnity trust tax. There will be more mines comparable to the ASARCO mines. Lincoln County has in the past had unemployment problems. Unemployment was up over 30% except for the mining industry. What you do with the metal mines tax will impact the industry.

Third, the metal process is of a highly cyclical nature. ASARCO develops a mine, which buys permits from the state and federal governments. Prices were taken and they started the operation at a low. They are now operating in the black. The mining industry is run like farms in ancient Egypt--in good years, you store up for the bad years. You want to be able to operate full time. He urged that SB 299 be killed.

Jim Smolik, representing the Golden Sunlight Mine, said they commenced operation three weeks ago. They needed 115 employees and received 1300-1400 job applications for those jobs. These are applications received without advertising. At the present price of gold, they would have a tax increase. The base price in the bill is set at \$450 per ounce. The tax increase is based on the gross value of product. The prices picked are arbitrary. Mines have different problems and different operating costs. The present bill seems harmless. Their deposit is very low grade. They have high operating costs per ton, and they have a small unit from which to derive profits. The current tax rates are high. They constitute 10% to 15% of their direct operating costs. The rate is between 4 and 5 times higher here than if the mine was located in Nevada. In 1976, the price of gold was under \$100 per ounce. That today would be 11% to 12% of the gross value and 30% to 40% of direct operating costs. They want to be long term employers. The tax increase is objectionable because the increase is on gross value and not on net proceeds. SB 299 will discourage further mine development for future or current Montana generations.

Ward Shanahan, representing Stillwater PGM Resources, stated that in Dixon's book on Montana, the metal mines tax was necessary for two reasons. The state was desperate at that time, and no one was paying income tax because it was unconstitutional (that was before WW I). What Senator Towe said about the amendments is not true in regard to HB 718 from the 1981 session. Montana is not the highest taxed of any metals except copper, and he wants it to be the highest, of course. The resource indemnity trust tax was levied on the mining industry as an indemnity; however, none is being used for local impact. The bill is used for agricultural impact, not mining impact, and now they are going to raise it.

HB 446 (this session) was approved by the Environmental Quality Council and they support the bill. It provides for the funds provided for in this bill. The statement on HB 718 (1981 session) can be amended under proper circumstances. Stillwater PGM did not think the bill should pass.

Peter F. Masse submitted written testimony which is attached as Exhibit C.

Questions from the committee were called for.

Senator Goodover asked how this related to SB 227. Senator Towe said HB 718 (1981 session) says there shall be funding from the metal mines tax; SB 227 puts money into the fund established by HB 718.

Senator Norman said someone made a suggestion that the minerals are all taken from the ground and processed and that it would be difficult to compute the tax on a quarterly basis. He said he couldn't believe they don't know how much of each mineral they are selling. Senator Towe remarked that they have to report that information quarterly on the resource indemnity trust tax return.

Senator Towe said that the mining company decides whether it is worth it to mine. He said he was relying on the fact that an increase in price of 10% is necessary before we ask for any increase in the tax, and when we do ask for it, it is only .25%. On palladium, he suggested using April 1 as the date of increase in tax.

There was discussion on the use of revenue bonds, and Ward Shanahan said special revenue bonds could be used for capital improvements on school districts anywhere in the county.

Senator Elliott asked if the school districts had considered consolidating so they could administer the district with a sound tax base. Representative Saunders, from Columbus, said that they had considered it. They have to be put in the impact plan before a mine is approved. He doesn't want to get the school districts in bad relations with the mining company in his area. Consolidation is a hot issue down there, he said. Others don't want to give up country schools, such as Fishtail, where they have only three students.

Senator Towe explained that Section 5 on page 4 provides the trust account for tail end impacts.

Senator Norman asked how much money was in the first account and how much of that was spent, etc. Carol Ferguson, representing the Hard-Rock Mining Board, said that HB 718 (1981 session) created the account but did not fund the account, so no money has been expended.

Senator Goodover stated that there was some discussion about setting this up before the mines were set up. He asked if places like Whitehall Mining were being grandfathered out. Senator Towe responded that existing companies shouldn't be grandfathered. Hard-rock mineral taxes have been a major issue for the last two sessions. He stated that when they visited the Golden Sunshine Mine last summer, when the prices were way down, they indicated they would open the mine at that time. The price has increased 8.8% since then. Had this bill been passed this way, they would not have opened. He said he was on the taxation committee when it was first introduced, and in his opinion, it was never intended to be used for this purpose. The language is loose and we said "tail end" of other things. That was not the purpose of the resource indemnity trust fund. It was for improving the environment; it was never intended to be used just for those impacts.

Mr. Shanahan said the language goes on the bills dealing with the resource indemnity trust tax. The Attorney General issued an opinion in which he agreed with that. Other people take different meaning of environment and say the spillway from the Tongue River Dam is water and water deals with the environment so they can use the money. You already have a tax in place for that purpose.

Senator Eck stated that whatever they have done at the Golden Sunshine Mine, they have done right. We have talked with people from other areas and it appears that the price of gold is still too low for those mines. She thought an analysis of what the profitable price of gold is, not just from one mine, was necessary.

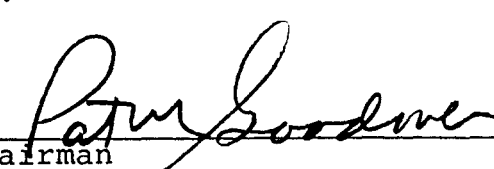
Senator Towe said that the study committee had talked a great deal about this bill. It was difficult to get beginning figures from companies. Companies operating today should use today's prices. Three of the seven committee members were absent when the vote was taken on this matter. The committee did make a very firm decision that HB 718 does not provide for tail end impacts. He said he would entertain an amendment and would draft it. HB 718 will take some general fund money initially and put it in the trust account. Any increase of today's level will go into the trust account so the general fund doesn't have to be robbed.

Senator Towe noted Mr. Bennett's remark that this compounds the cyclical nature of the metal process. The price goes up and down. Concerning Mr. Shanahan's remarks, Senator Towe didn't think it was possible to solve the mismatch problem but said Mr. Shanahan was correct about the bond situation if that is put in the bill and if the bonds are within the scope of the act. Senator Towe said he wants a tax that would reimburse the tax costs. The resource indemnity trust fund is not enough to cover reimbursement. The study they got from the Bureau of Mines includes not just the taxes we are talking about now but also includes property taxes, state taxes and federal income taxes. When you get all of those, you then look to see which state is paying the highest. Arizona, Utah and Wisconsin are higher than Montana. Exhibit D shows the spot market New York prices on Feb. 10.

Mr. Davidoff said that that did not include sales taxes. Other states pay a sales tax but we don't. He questioned whether we were paying what is necessary to reimburse the cost of local government to the people when the mines close. It shouldn't have to be paid for by the rest of us, he said. From that perspective, the people need to be reimbursed.

The hearing was closed on Senate Bill 299.

The meeting adjourned at 10 a.m.


Chairman

ROLL CALL

SENATE TAXATION

COMMITTEE

48th LEGISLATIVE SESSION -- 1983

Date 2/11 /83

NAME	PRESENT	ABSENT	EXCUSED
SENATOR GOODOVER, CHAIRMAN	✓		
SENATOR McCALLUM, VICE CHAIRMAN	✓		
SENATOR BROWN	✓		
SENATOR CRIPPEN	✓		
SENATOR ELLIOTT	✓		
SENATOR GAGE	✓		
SENATOR TURNAGE	✓		
SENATOR SEVERSON	✓		
SENATOR HAGER	✓		
SENATOR ECK	✓		
SENATOR HALLIGAN	✓		
SENATOR LYNCH	✓ 9:10		
SENATOR NORMAN	✓		
SENATOR TOWE	✓		
SENATOR MAZUREK	✓		

DATE _____

Feb 10 11

, 1983

COMMITTEE ON

TAXATION

VISITORS' REGISTER

NAME (PLEASE PRINT)	REPRESENTING	BILL #	Check One	
			Support	Oppose
PETER F MASSE	STILLWATER ELECTRIC	SP299		✓
Gordon R. Curran	Carters Camp	"		✓
CALVIN LEE BRUNCKHORST JR.	BRUNCKHORST CONST.	"		✓
Owen R Powell	Owen's Exxon	"		✓
Leslie Darling	SPGMR	299		✓
GEORGE T. BENNETT	ASHRCO INC	SB 299		✓
Robert B. Murphy	Fishtail, MT	299		✓
T. J. Smoliga	Golden Sweeney	299		✓
Ward Shanahan	Stillwater PGO	297		✓
John Dewey	"	299		✓
Miles KEOGH	SPA	299	✓	
W R Mackay Jr	School dist 52-52C	299	✓	
Jim Ellison	McLeavel School Dist	299	✓	
Gary A Langley	MONTANA MINING ASSN.	299		✓
Dennis Shea	Asacouder	299		✓
David Suhr	Troy	299		✓
Don Reed	Helena	SB299	✓	
Phillip Curd	Helena	299		✓
Carol L Ferguson	Hard Rock Mining Impact Bd.	299		
Kenna Saunders	Columbia	299		✓
Carolee Dewey	Big Timber	299		

(Please leave prepared statement with Secretary)

TESTIMONY OF THE MONTANA MINING ASSOCIATION
REGARDING SENATE BILL 299
BEFORE THE SENATE TAXATION COMMITTEE
FEBRUARY 11, 1933

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE,
MY NAME IS GARY LANGLEY. I AM EXECUTIVE DIRECTOR OF THE MONTANA MINING ASSOCIATION. THE ASSOCIATION REPRESENTS EVERY MAJOR PRODUCER OF HARDROCK MINERALS AS WELL AS SEVERAL LARGE COMPANIES THAT HOPE TO BECOME ACTIVE IN MONTANA IN THE FUTURE.

EACH OF OUR MEMBERS HAS A VITAL INTEREST IN THE SEVERANCE TAX PROPOSALS IN SENATE BILL 299.

WE ADAMANTLY OPPOSE THIS LEGISLATION.

FIRST, SENATE BILL 299 REPRESENTS A SUBSTANTIAL INCREASE IN THE METAL MINES LICENSE TAX.

THIS RUNS CONTRARY TO THE RECOMMENDATIONS OF TWO STUDY COMMISSIONS THAT HAVE MET IN THE LAST YEAR. BOTH THE ECONOMIC DEVELOPMENT PROJECT AND THE GOVERNOR'S CONFERENCE ON SMALL BUSINESS HAVE RECOMMENDED THAT THERE BE NO INCREASES IN THE MINERAL SEVERANCE TAX.

MOREOVER, THE CONCEPT EMBODIED IN SENATE BILL 299 HAS BEEN REJECTED BY THE ENVIRONMENTAL QUALITY COUNCIL'S SUBCOMMITTEE ON HARDROCK MINING, WHICH STUDIED THE INDUSTRY FOR THE PAST 18 MONTHS, THE ENTIRE ENVIRONMENTAL QUALITY COUNCIL AND THE REVENUE OVERSIGHT COMMITTEE.

THE MONTANA MINING ASSOCIATION RECOGNIZES THE STATE'S RIGHT TO LEVY TAXES. HOWEVER, WE FEEL THE TAXATION SHOULD BE TEMPERED BY REASONABLENESS AND FAIRNESS.

BEFORE YOU DECIDE ON SENATE BILL 299, IT IS NECESSARY FOR YOU TO UNDERSTAND THE COMPLEXITIES OF SEVERANCE TAXATION AS IT RELATES TO THE MINING INDUSTRY.

THE MINING INDUSTRY IN MONTANA ALREADY PAYS FIVE SEPARATE TAXES. IN ADDITION TO THE CORPORATE LICENSE TAX AND TAXES ON REAL AND PERSONAL PROPERTY, MINING COMPANIES PAY THREE TAXES THAT ARE UNIQUE TO THE MINERALS INDUSTRY. THESE ARE THE METAL MINES LICENSE TAX, THE RESOURCE INDEMNITY TRUST TAX AND THE NET PROCEEDS OR GROSS PROCEEDS TAX, DEPENDING ON THE MINERAL MINED. THE LATTER TAX GOES DIRECTLY TO THE COUNTY OR SCHOOL DISTRICT IN WHICH THE MINE IS LOCATED. EXCLUDING CORPORATE LICENSE TAXES, THE MINING INDUSTRY PAID \$16 MILLION IN STATE AND LOCAL TAXES IN 1981.

IN THE CASE OF A MINE COMPARABLE TO THE ASARCO TROY PROJECT, ANNUAL CORPORATE TAXES WOULD AMOUNT TO \$800,000 TO THE LOCAL GOVERNMENT AND \$1.3 MILLION TO THE STATE.

IT WOULD BE DIFFICULT TO PROVE THAT ANY SEVERANCE TAX, BY ITSELF, WOULD SHUT DOWN A PRODUCING MINE IN MONTANA OR KEEP A POTENTIAL MINE FROM OPENING. HOWEVER, TAXATION IS A COMPONENT AFFECTING THE DELICATE BALANCE OF ECONOMIC FACTORS THAT LEAD TO SUCH DECISIONS.

LIKE FARM PRODUCTS, HARDROCK MINERALS ARE COMMODITIES. A MINING COMPANY CANNOT INFLUENCE OR SET THE PRICE OF ITS PRODUCT. THE PRICE IS SET ON A WORLD MARKET, AND MONTANA MINERALS MUST BE ABLE TO COMPETE ON THAT MARKET. THEREFORE, PRODUCTION COSTS, OF WHICH TAXES ARE A PART DETERMINE WHETHER MONTANA MINES ARE COMPETITIVE WITH THOSE IN OTHER MINERAL-PRODUCING STATES.

ACCORDING TO THE U.S. BUREAU OF MINES STUDY CONDUCTED FOR THE ENVIRONMENTAL QUALITY COUNCIL, MONTANA HAS THE HIGHEST SEVERANCE TAXES ON COPPER AND AMONG THE HIGHEST TAXES ON OTHER HARDROCK MINERALS IN THE WEST. IN A RECENT STUDY BY THE BUREAU OF MINES SHOWED THAT ALTHOUGH MONTANA'S MINERAL PRODUCTION POTENTIAL IS SIMILAR TO ITS SISTER STATES IN THE ROCKIES, OUR STATE IS BRINGING UP THE REAR IN PRODUCED MINERAL VALUE.

THUS, A LEGITIMATE QUESTION IS WHETHER THERE IS A CORRELATION BETWEEN MINERAL PRODUCTION AND STATE TAX POLICY.

ALSO, BEFORE YOU CONSIDER SENATE BILL 299, IT IS NECESSARY FOR YOU TO UNDERSTAND THE ROLE OF THE MINING INDUSTRY IN MONTANA'S ECONOMY.

1. IN 1981, THE NON-FUELS MINERALS INDUSTRY REPRESENTED TEN AND A HALF PERCENT OF MONTANA'S ECONOMIC BASE.
2. THE NON-FUELS MINERALS INDUSTRY IS A BASIC OR EXPORT INDUSTRY IN MONTANA. THAT IS, THE INDUSTRY SELLS ITS PRODUCTS OUTSIDE THE STATE AND, THUS, INJECTS NEW FUNDS INTO THE MONTANA ECONOMY. THESE DOLLARS CREATE ADDITIONAL INCOMES FOR MONTANANS AS THEY ARE SPENT AND RESPENT IN THE LOCAL ECONOMY.
3. WHEN A BASIC INDUSTRY, SUCH AS MINING, GROWS AND INCREASES ITS OUT-OF-STATE SALES, IT CREATES GROWTH IN OTHER BUSINESSES. AS A RESULT, TRADE AND SERVICE ESTABLISHMENTS, FINANCIAL INSTITUTIONS AND OTHER BUSINESSES SERVING THE LOCAL POPULATION MAY INCREASE THEIR EMPLOYMENT AND THE WAGES THEY PAY THEIR WORKERS.
4. EXCLUDING COPPER, MINING IN THE NON-FUELS MINERALS INDUSTRY EXPERIENCED SIGNIFICANT GROWTH DURING THE 1970'S. SPECIFICALLY, THE EXTRACTION OF GOLD, SILVER AND OTHER METALS WAS ONE OF THE FASTEST GROWING OF MONTANA'S BASIC INDUSTRIES. THE INCREASE IN METAL MINING IS SECOND ONLY TO COAL MINING AND OIL AND GAS EXTRACTION.

THE GROWTH OCCURRED WHILE OTHER INDUSTRIES EITHER SHOWED MODEST INCREASES OR DECLINED.
5. WORKERS IN THE NON-FUELS MINERALS INDUSTRY ARE AMONG THE BEST PAID IN MONTANA. THE NON-FUELS MINERALS INDUSTRY EMPLOYS OVER FIVE THOUSAND WORKERS AND LABOR INCOME AMOUNTED TO \$147 MILLION.

IN 1981, WORKERS IN THE NON-FUELS MINERALS INDUSTRY WERE PAID AN AVERAGE OF \$25,300, EXCLUDING FRINGE BENEFITS. THIS FIGURE WAS EXCEEDED ONLY BY COAL MINING AND HEAVY CONSTRUCTION.

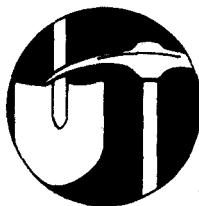
6. EXCLUDING COPPER, MINING AND REFINING IN THE NON-FUELS MINERALS INDUSTRY DID NOT CONTRIBUTE TO ECONOMIC INSTABILITY IN MONTANA IN EITHER THE 1974-75 OR CURRENT RECESSIONS. IN FACT, RECENT GROWTH IN THE MINING INDUSTRY, PARTICULARLY IN NORTHWEST MONTANA, HAS HELPED COUNTERBALANCE DECREASES ELSEWHERE IN MONTANA'S ECONOMIC BASE. FOR EXAMPLE, THE NEW ASARCO MINE AT TROY CONTRIBUTES SIGNIFICANTLY TO LINCOLN COUNTY'S ECONOMY. THE MINE PROVIDED 200 CONSTRUCTION JOBS AND NOW EMPLOYS 340 OPERATIONS WORKERS EARNING AN AVERAGE OF \$27,000 A YEAR. THIS NEW MINE WILL COUNTERACT INSTABILITY IN OTHER SECTORS OF LINCOLN COUNTY'S ECONOMY, PARTICULARLY IN THE TIMBER INDUSTRY.

THE MINING INDUSTRY MUST REMAIN STRONG, NOT ONLY TO PROVIDE FOR ITSELF, BUT TO MAKE A POSITIVE ECONOMIC CONTRIBUTION TO THE STATE.

AT PRESENT, BECAUSE OF ECONOMIC CONDITIONS, THE MINING INDUSTRY IS NOT DOING WELL IN MONTANA.

HOWEVER, THE POTENTIAL EXISTS FOR GROWTH, AND STATE TAX POLICY WILL BE A MAJOR FACTOR IN DETERMING THE EXTENT OF THE GROWTH.

THANK YOU.



FACT #1

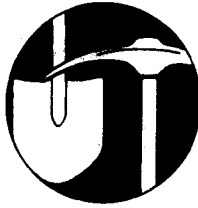
Montana Mining Association/P.O. Box 132

Helena, MT 59624/(406) 443-7297

MONTANA MINING PAYS ITS FAIR SHARE OF TAXES!

- ✓ **Property Taxes Paid by the Mining Industry** (\$13.5 million in 1981)
- ✓ **Metal Mines License Tax** (\$1.6 Million in 1981)
- ✓ **Resource Indemnity Trust Tax** (\$385,000 in 1981)
- ✓ In addition the mining industry pays corporate license taxes and other license taxes and royalties unique to the mining industry.





FACT #2

Montana Mining Association/P.O. Box 132

Helena, MT 59624/(406) 443-7297

MINING IS ESSENTIAL TO MONTANA'S ECONOMY

- ✓ In 1980, the nonfuels minerals industry represented 10.5 percent of Montana's economic base.
- ✓ The mining industry injects new funds into Montana's economy which create additional incomes as dollars are spent and respent.
- ✓ Excluding copper, mining in the non-fuels minerals industry — gold, silver and other metals — is one of the fastest growing of Montana's basic industries.
- ✓ Recent growth of the mining industry has helped counterbalance decreases elsewhere in Montana's economic base.
- ✓ Workers in the non-fuels minerals industry are among the best paid in Montana. (\$25,300 average annual salary)
- ✓ If past trends continue and state policy provides a desirable business climate, the non-fuels minerals industry will continue to contribute significantly to Montana's economic growth in the 1980's.



Senate Taxation Comm.
Exhibit A
Feb. 11, 1983

SB 299

THE ROLE OF THE NONFUELS MINERAL INDUSTRY
IN THE MONTANA ECONOMY

Prepared for
The Montana Mining Association

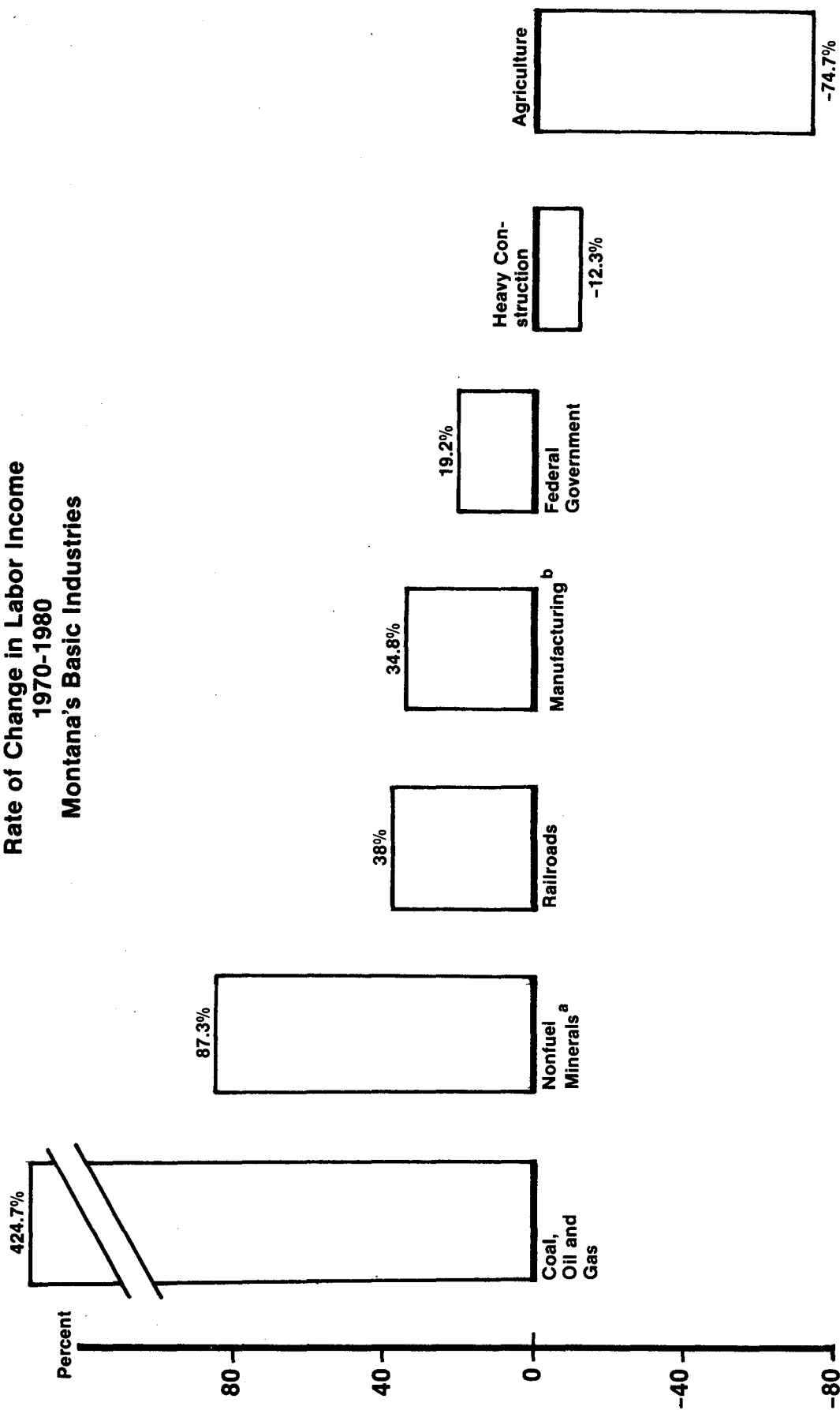
by
Paul E. Polzin
Bureau of Business and Economic Research
University of Montana
Missoula, Montana
Maxine C. Johnson, Director

August 1982

HIGHLIGHTS OF THE REPORT

-The nonfuels mineral industry is a component of Montana's economic base. It injects new funds into Montana's economy, which create additional incomes as these dollars are spent and respent within the economy.
-During 1981, copper was still the largest (as measured by value) component of the nonfuels mineral industry. But significant amounts of gold, silver, and other nonfuels mineral were extracted in Montana.
-In 1980, the nonfuels mineral industry accounted for about 10.5 percent of Montana's economic base.
-Excluding copper mining and refining, the nonfuels mineral industry experienced significant growth during the 1970s (figure 1). Specifically, the extraction of gold, silver, and other metals was one of the fastest growing basic industry in Montana.
-The workers in the nonfuels mineral industry are among the best paid in Montana (figure 2).
-Excluding copper mining and refining, the nonfuels mineral industry did not contribute to economic instability in Montana during both the 1974-75 and the current (1980-82) recessions. In fact, recent growth in this industry helped to counterbalance decreases elsewhere in Montana's economic base.
-In certain areas of Montana, the nonfuels mineral industry plays a very important role. For example, the new ASARCO mine near Troy provided 200 construction jobs and now employs about 340 operations workers, with average annual earnings of about \$27,000 (current dollars) per worker.
-If past trends continue and state policies provide a desirable business climate, the nonfuels mineral industry will contribute significantly to Montana's economic growth in the 1980s.

Figure 1
Rate of Change in Labor Income
1970-1980
Montana's Basic Industries

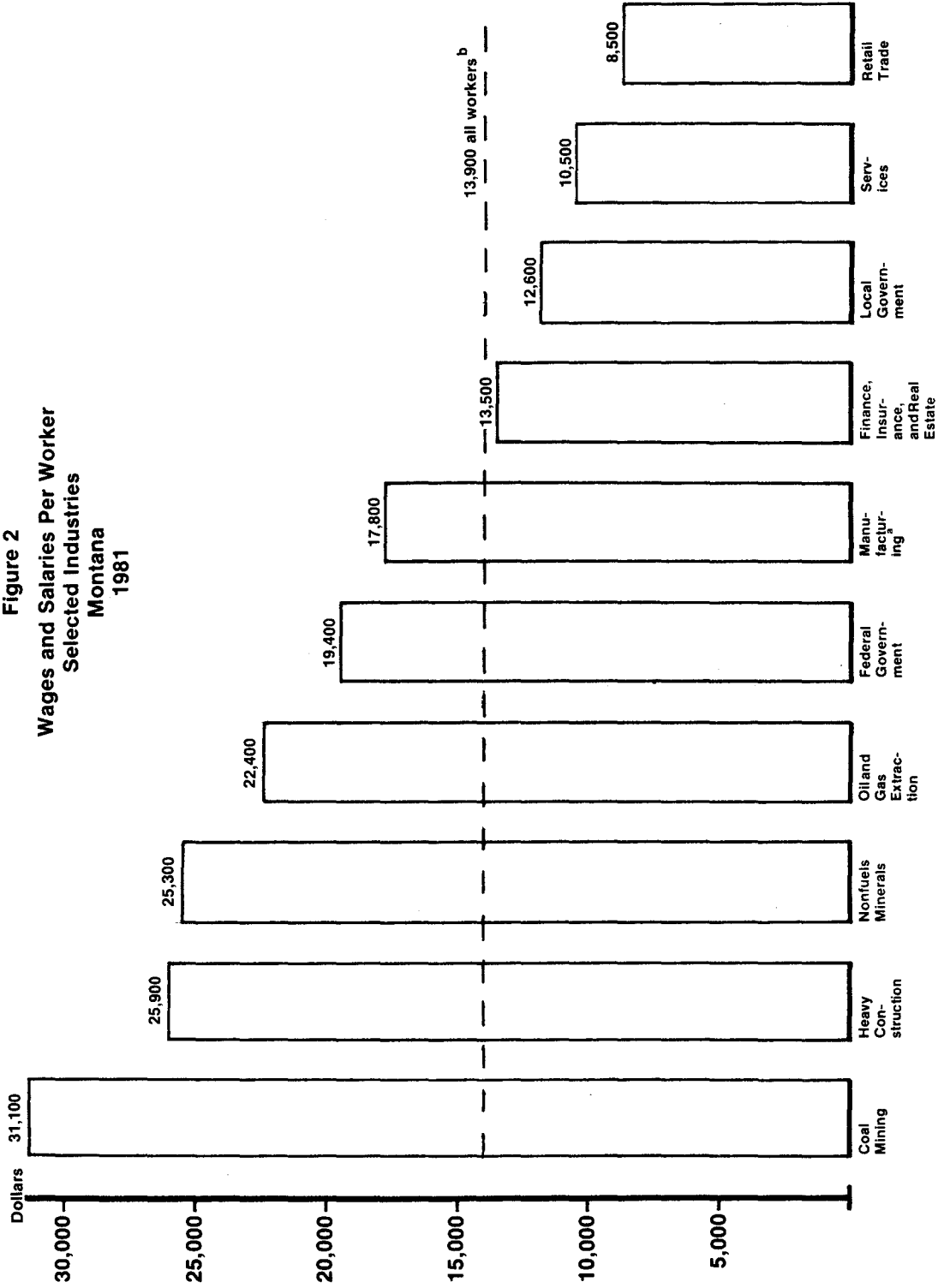


^aExcludes mining and refining activities of The Anaconda Company.

^bExcludes primary metals refining.

Source: U.S. Bureau of Economic Analysis, Regional Economic Information System, Washington, D.C. 1981.

Figure 2
Wages and Salaries Per Worker
Selected Industries
Montana
1981



^aExcludes primary metals refining.

^bWorkers covered by unemployment insurance.

Source: U.S. Bureau of Economic Analysis, unpublished data, Washington, D.C., 1982.

OVERVIEW OF THE NONFUELS MINERAL INDUSTRY

This report focuses on Montana's nonfuels mineral industry, emphasizing its economic impact on the state and a specific area -- Lincoln County. The nonfuels mineral industry as described here consists of firms that explore, develop, produce, and process metals and nonmetals. Mineral fuels such as coal, petroleum, and natural gas are excluded.

Currently the industry is concentrated in western Montana. Counties most dependent upon mineral activity include Silver Bow, Deer Lodge, Granite, Powell, Madison, Beaverhead, Lincoln, Flathead, and Lewis and Clark.

Preliminary estimates place the total value of Montana's nonfuels mineral production in 1981 at just over \$300 million (table 1). The 1982 figures may be lower because many producers faced reduced demand due to the national recession.

Copper continues to be the major nonfuel mineral mined in Montana, even though production has declined over the past decade. The 1981 copper production was valued at \$116 million. That represents about 38 percent of total nonfuels mineral production statewide. Other major nonfuels minerals mined in Montana include gold, silver, vermiculite, talc, antimony, bentonite, and barite.

Table 1
Nonfuels Mineral Production
Montana
1981

<u>Mineral</u>	<u>Quantity/Unit</u>	<u>----- Value -----</u>	
		<u>Millions</u> <u>of Dollars</u>	<u>Percentage</u> <u>of Total</u>
Antimony	250 Short-tons	\$ W	W
Clays	691 Thousand Short-tons	26.4	8.8
Copper (recoverable content of ores, etc.)	62,000 Metric Tons	116.0	38.5
Gem stones	NA	0.1	0.1
Gold (recoverable content of ores, etc.)	51,900 Troy ounces	24.2	8.0
Lead (recoverable content of ores, etc.)	200 Metric Tons	0.2	0.1
Lime	159 Thousand Short-tons	6.7	2.2
Sand and gravel	5,900 Thousand Short-tons	15.2	5.0
Silver (recoverable content of ores, etc.)	3,007 Thousand Short-tons	33.1	11.0
Stone;crushed	1,793 Thousand Short-tons	5.8	1.9
Talc	299 Thousand Short-tons	10.3	3.4
Zinc	____/1	____/1	____/1
Combined value of barite, cement, gypsum, iron ore (1981), peat, phosphate rock, sand and gravel (industrial, 1980), stone dimensioned), tungston ore, vermiculite, and values indicated by symbol W		63.1	21.0
Total	XX	301.1	100.0

Source: U.S. Department of the Interior, Bureau of Mines, "The Mineral Industry of Montana in 1981," *Mineral Industry Surveys* (Washington, D.C., 1982).

Notes: All 1981 data are preliminary. NA indicates not available, W indicates data withheld to avoid disclosing company proprietary data. XX indicates not applicable.

¹ Less than 1/2 unit.

CONTRIBUTION OF THE NONFUELS MINERAL INDUSTRY TO THE MONTANA ECONOMY

Note: The economic data for the nonfuels mineral industry are grouped according to the Standard Industrial Classification (SIC) Codes prepared by the U.S. Office of Management and Budget. A summary of the SIC Codes and their definition are presented in table 2. Mines which produce more than one mineral were assigned a SIC Code corresponding to their primary output. Thus, the Anaconda Company in the Butte area is classified in copper mining (SIC 102), while the new ASARCO mine near Troy is in gold and silver mining (SIC 104).

The nonfuels mineral industry is a basic or export industry in Montana. That is, this industry sells its product outside the state and is responsible for injecting new funds into the Montana economy. These dollars create additional incomes for Montanans as they are spent and respent in the local economy.

When a basic industry grows and increases its out-of-state sales and the amount of new funds it puts into the Montana economy, it may indirectly create growth in other businesses. Trade and service establishments, financial institutions, and other businesses serving the local population may increase their employment and the wages they pay their workers. When a basic industry declines and injects less money into the economy, there may eventually be a decline in employment and income in those industries unless something else occurs to offset that loss.

Labor income and employment data are usually used to analyze basic industries. Labor income includes wages and salaries, the proprietors' income of the self-employed, and certain fringe benefits. Using this approach may result in underestimating the dollar impact of an industry. Other expenditures made by export firms such as local taxes, payments to utility companies, and purchases from nearby suppliers are excluded. But,

Definition of the Nonfuels Mineral Industry

<u>SIC Code</u>	<u>Industry Name and Brief Description</u>
10	Metal mining. Establishments primarily engaged in mining, developing mines, or exploring for metallic minerals (ore)
101	Iron ores
102	Copper ores
103	Lead and zinc ores
104	Gold and silver ores
105	Bauxite and other aluminum ores
106	Ferroalloy ores, except vanadium. Includes chromite, chromium, molybdenum, and other ferroalloy ores
108	Metal mining service. Establishments primarily engaged in performing mining services for others on a contract, fee, or similar basis such as the removal of overburden, strip mining of metallic ores, prospect and test drilling, and mine exploration and development
109	Miscellaneous metal ores. Includes uranium, radium, thorium, and other metal ores
14	Mining and quarrying of nonmetallic minerals, except fuels
141	Mining and quarrying of dimensioned stone
142	Crushed and broken stone, including riprap. Includes limestone, granite, and other crushed and broken stone
144	Sand and gravel
145	Clay, ceramic, and refractory minerals. Includes bentonite, fire clay, and other clay, ceramic, or refractory minerals
147	Chemical and fertilizer minerals. Includes barite, fluorspar, phosphates, and other chemical and fertilizer minerals
148	Nonmetallic minerals (except fuels) services. Establishments primarily engaged in the removal of overburden, strip mining, and other services for others on a contract, fee, or similar basis
149	Miscellaneous nonmetallic minerals. Includes talc, vermiculite, and other nonmetallic minerals
33	Primary metals refining

Source: U.S. Office of Management and Budget, *Standard Industrial Classification Manual 1972* (Washington, D.C.: U.S. Government Printing Office, 1972).

since these payments are not reported for any basic industry their exclusion should not seriously bias comparisons between them.

Labor income and employment data for the nonfuels mineral industry and Montana's other major export industries for 1970 and 1980 are presented in table 3. There is one important omission. The table does not include tourism because income and employment in this industry cannot be accurately estimated. Workers in the travel industry are scattered among several SIC categories including transportation, retail trades, and services. And it is difficult to distinguish between the service of nonresident tourists and the local residents.

In 1980 the nonfuels mineral industry in Montana employed about 5,400 workers. Labor income amounted to about \$147 million (1980 dollars). In comparison, all basic industries employed a total of about 82 thousand workers with earnings of approximately \$1.4 billion (1980 dollars). In other words, the nonfuels mineral industry represents a sizeable, but not dominant, component of Montana's economic base. It accounted for 6.6 percent of total basic employment and about 10.4 percent of basic labor income.

The 1980 data probably overstate the current importance of the nonfuels mineral industry. The recent decisions by the Anaconda Company to close its Anaconda and Great Falls refineries and to reduce its work force in the Butte area significantly decreased labor income and employment in the copper mining and primary metals refining categories. The announcements began in September 1980 and are not reflected in that year's data. However, the figures do incorporate the effects of a labor-management dispute that shut down the Company's operations for approximately five months that year.

Table 3

Labor Income and Wage and Salary Employment
Basic Industries
Montana
1970 and 1980

	Labor Income ^a		Wage and Salary Employment		Percent Change 1970-1980
	1970	1980	1970	1980	
	Thousands of 1980 Dollars				
Nonfuels mineral industry	167,401	147,228	9,357	5,388	-42.4
Metal mining	74,441	51,861	3,941	1,903	-51.8
Copper mining	71,900	39,016	3,749	1,275	-76.0
Other metal mining and mining services	2,541	12,845	199	628	215.6
Nonmetallic mining	14,123	18,399	786	847	7.8
Primary metals refining	78,837	76,968	4,630	2,638	-43.0
Coal mining and oil and gas extraction	32,835	172,288	1,813	6,024	232.3
Heavy construction	106,998	93,817	4,818	3,847	-21.2
Manufacturing ^b	308,501	415,927	19,281	21,477	11.4
Railroads	129,714	178,965	6,424	7,418	15.5
Federal government	211,520	252,074	12,000	13,599	13.3
Total, nonfarm basic industries	956,969	1,260,299	53,660	57,747	7.6
Agriculture	553,689	145,538	55,164	24,234	-56.1
Total, basic industries	\$ 1,510,658	\$ 1,405,837	108,824	81,981	-24.7

Source: U.S. Department of Commerce, Bureau of Economic Analysis, unpublished data (Washington, D.C., 1981).

^aLabor income includes wages and salaries, proprietors' income, and certain monetary fringe benefits.

^bExcludes primary metals refining.

Between 1970 and 1980 labor income in the nonfuels mineral industry decreased from about \$167 million (1980 dollars) to approximately \$147 million (1980 dollars), a decline of 12.1 percent. During the same period, employment dropped from 9,357 to 5,388 workers or 42.4 percent. Notice that all of the declines were in copper mining and primary metals refining, reflecting the decisions by the Anaconda Company mentioned above.

Other components of the nonfuels mineral industry experienced robust growth during the 1970s. Labor income in metal mining other than copper mining rose from \$2.5 million (1980 dollars) to \$12.8 million or 405.5 percent. Over 400 new jobs were added, as employment increased 215.6 percent. These growth rates ranked second among all Montana's basic industries, trailing only coal mining and oil and gas extraction.

Nonmetallic mining also posted sizable increases. Between 1970 and 1980 labor income rose from about \$14.0 million (1980 dollars) to approximately \$18.4 million, or 30.2 percent. Another 61 people had jobs, with employment increasing from 786 to 847 workers, about 7.8 percent.

The growth of the noncopper component of metal and nonmetallic mining is significant because it may produce two desirable effects: 1) to offset losses in metal mining and refining, and 2) to counterbalance some of the recent job and income losses in other basic nonfarm industries. (Since 1980 two important basic nonfarm industries have been hard-hit -- wood products and railroads. The Van Evans plant in Missoula and the Milwaukee Road both stopped operations permanently.)

Statewide Trends: A Closer Look

Table 4 presents wages and salaries and employment during 1970 and 1981 for various categories of the nonfuels mineral industry. Wages and salaries,

Table 4
Wage and Salary Payments and Employment
Nonfuels Mineral Industry
Montana
1970 and 1981

	----- Wages and Salaries -----		----- Wage and Salary -----	
	Percent Change 1970-1981		Employment	
	1970	1981	1970	1981
	--- Thousands of 1980 Dollars ---			
Metal mining	68,632	53,333	3,941	2,294
Copper mining	66,288	38,683	3,749	1,489
Gold, silver, lead, zinc and other metals	2,041	11,727	164	645
Metal mining services	302	2,923	28	160
Nonmetallic mining	12,771	15,250	786	816
Sand, gravel, and stone	4,124	3,709	260	185
Nonmetallic minerals ^a	8,646	11,541	526	631
Primary metals refining	68,067	51,418	4,630	2,035
Total, nonfuels mineral industry	\$ 149,470	\$ 120,001	9,355	5,145
				-45.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis, unpublished data (Washington, D.C., 1981).

^aIncludes clay, ceramic, and refracting metals, chemical and fertilizer minerals (such as barite, fluorspar and phosphate), talc, vermiculite, and other nonmetallic minerals.

rather than labor income, are reported so that the latest data (1981) are used. Since wages and salaries account for 80 to 90 percent of labor income, this substitution should not bias the trends. Notice also that data for individual minerals, excluding copper, are not reported; the figures were combined to prevent disclosure of information on individual firms.

Looking first at metal mining, the data in table 4 once again confirm that declines were confined to copper mining and that the other categories experienced significant growth. Specifically, wages and salaries (after correcting for inflation) in copper mining decreased almost 42 percent and employment declined approximately 60 percent from 1970 to 1981. These figures do not reflect the latest announcement by the Anaconda Company to close operations in the main portion of Butte's Berkeley Pit.

Metal mining (other than copper mining) and metal mining services both experienced strong growth. Employment in metal mining (other than copper mining) rose from 164 workers in 1970 to about 645 workers in 1981, an increase of 293 percent. Total wages and salaries (after correcting for inflation) rose about 474 percent. Most of this growth occurred since 1979 and may be attributed to the opening of several new mines -- such as the ASARCO mine near Troy.

Metal mining services also experienced significant growth. Employment rose 471 percent and total wages and salaries increased 868 percent.

The increases in nonmetallic mining are modest in comparison. Employment rose only 3.9 percent and total wages and salaries grew 19.4 percent from 1970 to 1981. But these totals hid divergent trends; nonmetallic mining grew while sand, gravel, and stone declined. Specifically, between 1970 and 1981 the mining of nonmetallic minerals (such as bentonite, barite, phosphates,

and vermiculite) increased 33.5 percent in terms of wages and salaries and 20.2 percent as measured by employment. On the other hand, employment in sand, gravel, and stone (which includes dimensioned stone as well as sand and gravel pits) declined 28.9 percent and total wages and salaries decreased 10.0 percent.

Primary metals refining decreased sharply between 1970 and 1981 both in terms of employment (32.1 percent) and wages and salaries (24.5 percent). These declines reflect the closures of the Anaconda Company refineries in Great Falls and Anaconda. The 1981 data do, however, include several hundred persons still reported working at the site near Anaconda. Other primary metals refining employment is concentrated in the aluminum plant at Columbia Falls and the ASARCO smelter at East Helena.

In summary, certain components of the nonfuel mineral industry grew rapidly during the last decade. Specifically, metal mining (except copper), metal mining services, and nonmetallic mining all experienced significant growth in employment and wages and salaries. Declines in copper mining and primary metal refining, reflecting the Anaconda Company's closures, more than counterbalanced these increases and led to decreases in the industry-wide totals.

Other Characteristics of the Industry

Statistics for total earnings and employment do not tell the whole story. This section takes a closer look at certain economic characteristics of the nonfuels mineral industry by analyzing earnings per worker and focusing on the cyclic sensitivity of this industry.

Earnings per worker. The impact on the local economy from jobs in basic industries is roughly proportional to their earnings. For example, a worker making \$20,000 per year may have a greater economic impact than one earning \$15,000 because he will probably spend more of his salary locally. These dollars, in turn, are spent and respent in the local economy. Average annual earnings in 1981 for the nonfuels mineral industry and other basic and derivative industries are presented in table 5.

Overall, the nonfuels mineral industry is among the highest paying basic industries in Montana. During 1981 workers earned an average of \$25,300 in wages and salaries (excluding fringe benefits). This figure was exceeded only by coal mining (\$31,100) and heavy construction (\$25,900). The 1981 data for railroads are not yet available. Based on past trends, the average annual earnings for railroad workers fall in the \$25,000 to \$30,000 range.

In comparison, the average worker in manufacturing, which includes the wood products industry, earned about \$17,800. The typical federal government employee was paid about \$19,400. Earnings per worker in the derivative industries were generally much less than in the basic industries; the average was \$8,500 in retail trade, \$10,500 in the services, and \$12,600 for local governments.

Among the components of the nonfuels mineral industries, the highest earnings were for workers in copper mining (\$28,100) and primary metals refining (\$27,400). Even though employment has declined significantly in these categories, these remaining jobs have a disproportionately large impact on Montana's economy.

Table 5
Wage and Salary Payments Per Worker
Nonfarm Basic and Derivative Industries
Montana
1981

	<u>Wages and Salaries Per Worker</u>
Basic industry	
Nonfuels mineral industry	\$ 25,300
Metal mining	25,200
Copper mining	28,100
Other metal mining	19,700
Metal mining services	19,700
Nonmetallic mining	20,250
Sand, gravel and stone	21,700
Other nonmetallic minerals	19,900
Primary metals refining	27,400
Coal mining	31,100
Oil and gas extraction	22,400
Heavy construction	25,900
Manufacturing ^a	17,800
Federal government	19,400
Derivative industries	
Retail trade	8,500
Finance, insurance, real estate	13,500
Services	10,500
Local government	12,600

Source: U.S. Department of Commerce, Bureau of Economic Analysis, unpublished data (Washington, D.C., 1981).

^aExcludes primary metals refining.

Industries with relatively high pay scales assume special importance in Montana. Average earnings per nonfarm worker and per capita income in the state are traditionally well below the U.S. average. More high-paying jobs, such as those in the mineral industries and other nonfarm basic activities, may move Montana nearer to the national norm.

Cyclic sensitivity. Another important characteristic of basic industries is how their trends correlate with the national business cycle. If a basic industry experiences significant ups and downs coinciding with the national business cycle -- that is, it is cyclically sensitive -- it may induce instability in the local economy.

Unfortunately, there are not sufficient data to do an indepth study of the cyclic sensitivity of Montana's nonfuel mineral industry. We can, however, examine the trends during the 1970s. Table 6 presents total wages and salaries and employment from 1970 to 1981 for nonmetallic mining and the noncopper component of metal mining. Primary metals refining and copper mining are excluded because they have experienced major long-term declines during this period, and these events may distort the true cyclic pattern in these categories.

The economies of the United States and Montana experienced significant downturns in 1974-75 and again in 1980-81. A quick glance at the figures in table 6 reveals no corresponding decreases in either metal mining or nonmetallic mining.

During 1974 and 1975 employment in both metallic and nonmetallic mining increased. The number of workers in metal mining (excluding copper mining) and mining services rose from 129 in 1973 to 184 in 1974, and up

Table 6

Wage and Salary Payments and Employment
Nonfuels Mineral Industry
Montana
1970 to 1981

	--- Wages and Salaries ----- Metal Mining and Mining Services ^a	Nonmetallic Mining	-- Wage and Salary Employment -- Metal Mining and Mining Services ^a	Nonmetallic Mining
	-- Thousands of 1980 Dollars -			
1970	2,342	6,602	192	785
1971	1,285	6,442	136	731
1972	1,204	7,427	107	789
1973	1,372	8,296	129	818
1974	2,432	9,523	184	873
1975	3,308	11,023	230	885
1976	2,714	11,342	184	833
1977	2,494	11,531	179	789
1978	3,327	12,216	221	826
1979	5,484	14,972	294	878
1980	11,527	15,626	637	843
1981	14,650	15,250	805	816

Source: U.S. Department of Commerce, Bureau of Economic Analysis, unpublished data (Washington, D.C., 1981).

^aExcludes copper mining.

to 230 in 1975. Total wages and salaries (after correcting for inflation) displayed a similar trend. Both metallic and nonmetallic mining experienced declines in 1976, but this was after the economy began its recovery.

Metal mining and mining services have grown significantly during the current recession. Total employment rose from 294 in 1979 to 637 in 1980, and then to 805 in 1981. Total wages and salaries, after correcting for inflation, more than doubled between 1979 and 1981. As noted earlier, most of this growth was due to the opening of several new metal mines.

Nonmetallic mining remained relatively stable between 1979 and 1981. Employment declined slightly, from 878 in 1979 to 816 in 1981. But total wages and salaries rose from about \$15.0 million (1980 dollars) to approximately \$15.3 million (1980 dollars).

The trends in employment and earnings should be interpreted carefully. They do not suggest that the nonfuels industry will always be a steady factor in Montana's economy. Short-run trends in most natural resource industries are traditionally correlated with raw material prices. Future price changes coinciding with the national business cycle, affecting the nonfuels mineral industry, could contribute to cyclic instability.

The events of the 1970s, however, are clear. The nonfuels mineral industry did not contribute to instability during the 1974-75 recession. Further, the significant increases in 1980 and 1981 actually countered cyclic declines in other basic industries (primarily wood products), and decreased the effects of the current recession on Montana's economy.

A CASE STUDY: THE ASARCO MINE IN LINCOLN COUNTY

The preceding section analyzed statewide trends in the nonfuels mineral industry and examined the industry's contribution to Montana's economy. This section narrows the geographical focus and examines the impact of a new metal mine on the economy of one area of the state. Specifically, we will look at the effects of the new ASARCO mine near Troy on the economic base of Lincoln County.

The ASARCO Mine

The mine is located about seventeen miles from Troy and approximately thirty miles from Libby. There has been mineral exploration at this site since the 1940s. ASARCO, Inc. acquired the rights to develop the deposits in 1973. Construction of the mine began in 1979 and it will be in full operation during 1982. The mine is an underground operation removing copper and silver ore. An overview of this facility is presented in table 7.

An Economic Overview of Lincoln County

Lincoln County is located in the extreme northwest corner of Montana. The terrain is mountainous and timbered; most of the land is managed by the U.S. Forest Service. In 1980 the total population of Lincoln County was about 17,752 persons. The major population centers are Libby (2,748 persons), Eureka (1,119 persons), and Troy (1,088 persons).

Table 7

An Overview of the ASARCO, Inc. Mine
Troy, Montana

MINE TYPE	-	Underground, room-and-pillar, copper-silver mine.
LOCATION	-	17 miles south of Troy, Montana on the north side of Mt. Vernon.
ORE DEPOSIT	-	Ore zone is 7400 feet long, 1800 feet wide, and averages 60 feet thick. 48 million tons (75%) of the deposit is recoverable. The unprocessed ore contains about 15 lbs. of copper and 1.5 ounces of silver per ton.
SURFACE FACILITIES	-	Crushing plant, mill, shop-warehouse, office, storage areas, tailings thickener, tailings lines, power line, and tailings pond.
MINE LIFE	-	Estimated at 16 years at designed ore production of 8500 tons per day.
OPERATIONAL EMPLOYMENT	-	330-340 people.
OPERATIONAL PROCEDURES	-	On a round the clock schedule the ore is drilled, blasted, and hauled to an underground primary crusher. It is then transported by conveyor belt to the surface crusher, then milled and concentrated. The concentrate is trucked to a rail car loading dock in Troy where it is transported to smelting facilities located in Washington or Texas.
CONCENTRATE PRODUCTION	-	60,000 tons per year.
PROJECT CAPITAL COST	-	\$95,000,000

Source: ASARCO, Inc.

The major economic event in Lincoln County during recent years was the construction of Libby Dam. Work on the project began in the late 1960s and was completed during 1974, with the peak activity occurring about 1970. The population of Lincoln County rose from about 13,000 in 1960 to roughly 18,000 in 1970. The number of residents declined slightly to about 16,000 when the dam was completed. Since the mid-1970s the population has grown slowly, reaching 17,752 in 1980.

The structure of the Lincoln County economy is summarized using statistics for the basic industries. Table 8 presents labor income and employment during 1976 for the basic industries in Lincoln County. This year was chosen as "representative" because it was after the completion of Libby Dam but before the work on the ASARCO mine was begun.

The wood products industry dominated the economic base in Lincoln County. During 1976 it employed about 1,364 persons with total labor income of \$30.6 million (1980 dollars). In other words, the wood products industry directly accounted for about 58.4 percent of the economic base as measured by earnings and approximately 51.3 percent as measured by employment.

The data for the wood products industry may understate the importance of the forest resources to the economy of Lincoln County because they do not include the government workers concerned with land and resource management. Almost all of the labor income of the 547 federal employees may be attributed to the U.S. Forest Service; the headquarters of the Kootenai National Forest is located in Libby, and there are ranger district offices elsewhere in the county. Combining the figures for the federal government with those for the private wood products workers suggests

Table 8

Labor Income and Employment
Basic Industries
Lincoln County
1976

	---- Labor Income ----		---- Employment ----	
	Thousands of 1980 Dollars	<i>Percentage of Total</i>	Number	<i>Percentage of Total</i>
Agriculture	\$ 535	1.0	185	1.0
Agriculture and forestry services	408	0.8	13	0.5
Heavy construction	2,647	5.0	103	3.9
Wood products	30,638	58.4	1,364	51.3
Nonmetallic mining and railroads	7,053	13.4	315	11.8
Federal government	9,395	17.9	547	20.6
State government	1,639	3.1	107	4.0
Hotels and motels	135	0.3	27	1.0
Total	\$ 52,450	100.0	2,661	100.0

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, unpublished data (Washington, D.C., 1982). Bureau of Business and Economic Research, University of Montana, unpublished data (Missoula, Montana, 1982).

that forest resource activities account roughly for 70 to 75 percent of the economic base in Lincoln County.

The only other significant components of the economic base are nonmetallic mining and railroads, representing a vermiculite mine and the mainline of the Burlington Northern railroad. Taken together, these two industries employed about 315 workers with about \$7.1 million (1980 dollars) in labor income, representing about 11.8 percent of total basic employment and 13.4 percent of basic labor income. Data for these two industries are combined to prevent disclosure of information on a single firm.

In summary, during the mid-1970s (after the completion of Libby Dam), the economy of Lincoln County was dominated by forest resource activities. The wood products industry and the federal government combined to account for 70 to 75 percent of the economic base. Nonmetallic mining and the railroad were the only other sizable export industries.

Economic Impact of the ASARCO Mine

The impact of the new ASARCO mine on the economy of Lincoln County is analyzed using data for employment and earnings as with other basic industries. The earnings of the project's workers represent a net injection of new funds which create additional incomes as they are spent and respend in the local economy. A summary of the labor income and employment of both the construction and operations workers of the mine is shown in table 9.

Mine construction began in 1979 and was completed in 1981. The number of construction workers rose from about 90 in 1979 to a peak of approximately 200 in 1981. Similarly, the labor income paid to these workers increased from about \$3.4 million (1980 dollars) in 1979 to roughly \$5.7 million (1980 dollars) in 1981.

Table 9
Labor Income and Employment
ASARCO Mine
Lincoln County
1979 to 1982

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u> (estimated)
Construction workers				
Number	90	160	200	0
Labor income (Thousands of 1980 dollars)	\$ 3,394	\$ 5,245	\$ 5,688	0
Operations workers				
Number	35	81	216	340
Labor income (Thousands of 1980 dollars)	\$ 354	\$ 2,271	\$ 5,709	\$ 9,231

Source: ASARCO, Inc., Troy, Montana.

Note: Labor income includes wages and salaries and certain fringe benefits. Total wages and salaries were provided by ASARCO, Inc., and the fringe benefits estimated using industrywide averages by the Bureau of Business and Economic Research, University of Montana.

Table 10

Labor Income and Employment
Basic Industries
Lincoln County
1980 and 1981

	1980			1981		
	----- Labor Income Thousands of 1980 Dollars	----- Percentage of Total	--- Employment --- Number	----- Labor Income Thousands of 1980 Dollars	----- Percentage of Total	--- Employment --- Number
ASARCO mine	\$ 7,516	12.8	241	\$ 11,397	17.9	416
Construction	5,245	8.9	160	5,688	8.9	200
Operations	2,271	3.9	81	5,709	8.9	216
Agriculture	1,269	2.2	185	1,100	1.7	180
Agriculture and forestry services	1,114	1.9	37	474	0.7	12
Heavy construction	1,828	3.1	76	2,528	4.0	100
Wood products	27,099	46.1	1,209	29,251	45.8	1,252
Nonmetallic mining and railroads	6,104	10.4	260	5,275	8.3	234
Federal government	12,112	20.6	737	12,200	19.1	690
State government	1,334	2.3	107	1,210	1.9	90
Hotels and motels	392	0.7	73	391	0.6	74
Total	\$ 58,768	100.0	2,925	\$ 63,826	100.0	3,048

Sources: ASARCO, Inc., Troy, Montana. U.S. Department of Commerce, Bureau of Economic Analysis, unpublished data (Washington, D.C., 1982). Bureau of Business and Economic Research, University of Montana, unpublished data (Missoula, Montana, 1982).

Note: Details may not add due to rounding.

Operations workers increased as construction proceeded from 35 in 1979 to about 216 in 1981. Their labor income grew from \$0.3 million (1980 dollars) to roughly \$5.7 million (1980 dollars) during the same period. The facility should reach full operation in 1982, with about 340 workers earning about \$9.2 million (1980 dollars).

The contribution of the ASARCO mine to the local economy may be evaluated by comparing it to the other basic industries in Lincoln County. These figures are summarized in table 10.

The construction and operations workforce associated with this facility totaled about 241 persons in 1980 and represented about 8.2 percent of total basic employment in Lincoln County. Labor income in 1980 was approximately \$7.6 million (1980 dollars), or 12.8 percent of the total for all basic industries. At the peak of construction in 1981, the 416 employees accounted for 13.6 percent of basic employment and their labor income represented 17.9 percent of the total. The facility's contribution to the local economy is much larger in terms of labor income than in employment, reflecting the relatively high pay scales of the jobs associated with the ASARCO mine.

Despite a projected decline in employment and labor income during 1982 (the construction phase was completed), the ASARCO mine may be currently contributing to economic stability in Lincoln County. Unlike its counterparts elsewhere in Montana and the United States, the wood products industry in Lincoln County did not experience significant declines in labor earnings and employment during 1980 and 1981. This good fortune did not continue into 1982, however, when two of the three major wood products facilities

either temporarily closed or further reduced their level of operation.¹ If the trends for the first quarter of 1982 continue for the entire year, labor income and employment in the wood products industry may be as much as one-third less than in 1981. The 340 workers and \$9.2 million (1980 dollars) in labor income projected for the ASARCO mine during 1982 will counterbalance at least some of the declines in the wood products industry and help to reduce the economic instability associated with these cyclic changes.

In summary, the ASARCO mine represents a significant addition to the economy of Lincoln County and contributes to the diversification of the economic base. The wood products industry will continue to dominate the local economy, but the mine will account for about 8 to 10 percent of total employment and 14 to 16 percent of total labor income in basic industries. The additional income and employment associated with the ASARCO mine will help to counterbalance declines in the wood products industry during the current recession.

Other Local Impacts

The previous sections analyzed the impact of the ASARCO mine on Lincoln County using data for labor income and employment. But, as was mentioned earlier, labor expenditures are not the only local economic impact. All dollars spent locally by basic firms -- for utilities, supplies, gasoline, and so forth -- create additional incomes as they are circulated through the local economy. These nonlabor expenditures were not analyzed because they are not available for all export industries.

¹ Forest Industry Data Acquisitions Study and Forest Industry Data Collection System, Bureau of Business and Economic Research, University of Montana, unpublished data, 1982.

There are, however, data for the local expenditures associated with the ASARCO mine. Based on invoices paid, ASARCO reports the following purchases made in Lincoln County:

	<u>Construction Phase</u>	<u>Operations Phase</u>
1979	\$ 2,897,300	\$ 246,100
1980	6,918,900	625,500
1981	5,070,200	1,687,000
1982 (estimated)	0	1,750,000

These figures show that local purchases peaked during the construction phase; more than \$5 million was spent at local firms during both 1980 and 1981. The local nonlabor expenditures during the operations phase are much less than during construction. Based on the estimate for 1982, however, they amount roughly to \$1.75 million per year.

In summary, employment and labor income do not tell the whole story. The ASARCO mine also affects the local economy by purchasing goods and services from local firms. Even though there are no comparable data for other export industries, the nonlabor expenditures may be sizable. If the most recent trends continue, ASARCO's expenditures may amount to roughly \$2 million per year in Lincoln County.

THE FUTURE ROLE OF THE NONFUELS MINERAL INDUSTRY

This study has analyzed recent trends in the nonfuels mineral industry and examined its contribution to Montana's economic base. It has also described the impact of a new mine on the economy of a local area.

The future of this industry is particularly important. Montana has recently suffered sizable permanent losses of jobs in basic industries. Future growth in the nonfuels mineral industry may counterbalance further reduction in the basic industries. In addition, the jobs associated with the nonfuels mineral industry are generally well paying, full-time, and (at least during the 1970s) noncyclic. They would further diversify Montana's economic base and may decrease the state's income deficiencies relative to the national average.

Mineral exploration is underway throughout Montana. The two areas receiving the most attention are the extreme western part of the state and the region southwest of Billings. It is very difficult to project where new mines will be built. The profitability of a deposit depends on the grade of ore and the current market. It is likely, however, that new mines will resemble the ASARCO mine in Troy rather than the Berkeley Pit in Butte. That is, they will be medium-sized facilities employing roughly 200 to 400 persons and be located in a rural area. In the case of the ASARCO mine, these new jobs diversified the local economic base and helped to counterbalance the cyclic instability of other export industries.

TESTIMONY OF JOE R. DEWEY, PROJECT MANAGER,
STILLWATER PGM RESOURCES,
BEFORE THE SENATE TAXATION COMMITTEE REGARDING SB 299

February 11, 1983

Mr. Chairman, Members of the Committee:

My name is Joe Dewey; I'm Project Manager for Stillwater PGM Resources. Stillwater PGM Resources, a partnership of the Manville Sales Corporation and Chevron U.S.A. Inc., has been studying the feasibility of developing an underground platinum and palladium mining facility in the Stillwater complex in south-central Montana for several years. We are optimistic that we will be developing a commercial mine by the mid-1980s. Our facility would provide employment for about 200-300 workers for 20 years or more.

We are opposed to SB 299, not only because it represents a substantial tax increase on our proposed new industry, but also because of the extremely complex mechanism that SB 299 would create to levy the tax.

Before I get into an explanation of the specific examples of this bill which would affect our potential operation, I would like to state that we support the testimony of Mr. Langley and would also like to emphasize part of that testimony. We were extremely dismayed to see

this bill introduced. We participated in the EQC Hard-Rock Mining Subcommittee meetings over the past 18 months, which reviewed mining taxation, and were generally heartened by the conclusions that they reached. The subcommittee concluded Montana's hard-rock mining industry was taxed at a higher rate than most surrounding states and that the industry was more than paying its "fair share." A form of SB 299 was considered by the EQC Subcommittee, the Joint Revenue Oversight Committee, and the EQC and rejected in each committee by those legislators who examined the factual nature of hard-rock mining taxation. We concluded from this action that Montana would maintain a status quo or possibly even reduce the tax burden on the depressed minerals industry. Instead, we are here today testifying on a bill which would cause an immediate and significant tax increase on our future project.

Consider palladium. Palladium prices are very important to the economics of our potential operation because we would produce over three times as much palladium as we would platinum. Under the scheme proposed by SB 299, the base price for palladium would be set by the price on January 1, 1983. (Incidentally, we don't know what price would be used for computing this tax since there are at least four different prices published for palladium as well as several different prices published for platinum.

The price difference between dealer and producer list prices can be more than \$100 per ounce.)

Assume the palladium base price was set at \$102 per ounce, as was the average daily New York dealer price for January 3, 1983. By January 14, 1983, the price had increased to \$130 per ounce. Under SB 299 our tax burden would increase by .5 percent of gross proceeds, which would result in an increased tax liability of approximately \$125,000. But, even at the palladium prices at \$130 per ounce, the price still hasn't reached the level which we anticipate being needed to have a viable operation. By the time that level is reached, we would be facing a tax increase of greater than one percent.

We should also note that under SB 299 the tax rate increases with improved prices but does not decrease when prices go down. Metal prices have historically been quite cyclical with precious metals having the greatest range between their historic highs and lows. This bill could easily cause the tax rate to increase three to five percent in a high price cycle with no reduction during low price cycles.

In addition, the tax scheme created by this bill is overwhelmingly complex. We have previously mentioned the problem with determining what price should be used for each metal in calculating the tax. Also consider another substantial problem this bill creates with our proposed operation. We will produce a product from our Montana

operation which will leave the state as a concentrate. The concentrate will contain platinum, palladium, and trace, but recoverable, amounts of copper, nickel, and gold. This bill would require the computation of five tax rates for differing amounts of metal contained in the concentrates. These rates would be adjusted quarterly, so the computation of the annual tax liability would be extremely complex and would be impossible to forecast in any reasonable manner in making our economic evaluations for the project.

We urge this Committee to support a DO NOT PASS recommendation on SB 299.

Thank you.

1638S

SENATE TAXATION COMMITTEE, EXHIBIT C
Feb. 11, 1983
TESTIMONY OF PETER F. MASSE,
Route 1, Box 50, Absarokee, MT
(406) 328-2155
Representing Stillwater Electric
in opposition to SB 299
February 11, 1983

Douglas A. Hudson
Five Spot Bar
Pauline Hamon

J. L. R. Curran
Carders Camp

February 9, 1983

TO: CHAIRMAN SENATE TAX COMMITTEE

RE: SENATE BILL NO. 299

In regards to Section 2 of Senate Bill No. 299, we believe the annual license tax should not be levied on a rate computed on gross value of product as suggested.

The bill you recommend is anti-business for the State of Montana and would discourage large corporations to carry on or operate business within the State of Montana.

As you are well aware the oil industry has about come to a complete stand still comparatively to 1980. One of the main reasons for the down trend in oil exploration is because of high excise taxes imposed by the State of Montana on oil royalty income. The same would be suggested in your Bill 299.

We think with the high unemployment rate, Montana would not want to discourage mining by raising license taxes. Possibilities of employment opportunities would be highly advantageous comparatively to higher taxes.

The following indicate their discontent with proposed Senate Bill 299 and wish your committee would rescind or modify Section 2 of your Bill.

Pete J. Trone
Pres.
Stillwater Electric

Richard C. Ottogys

Ottogys Const. Inc.
William D. Kelley
John B. Bjornstad
Indy P. Witt

Edwin Lee Brunchhorst Jr.
Brunchhorst Const.

Armean Deerson

John Shepard Absaroka Day
Lee Sherman, Pres.
United Bank of Absarokee, MT

Jerry Steadman Pres
Milligan Inc.

Owens Exon
Owen Powell
Clifford A. Sauer
Walter J. Whitwood

Gay C. Borland Pres.
Gay C. Borland Dist. Inc.
Gay C. Borland

11, 1983...SR.299

OMAHA, Neb. (AP)—USDA — Omaha Livestock Market quotations Wednesday:

Cattle 3200; fairly active; barrows and gilts fully steady except some uniform 200-230 lb 25 lower; U-S 1-3 50-55 lb 25.00-59.25, good volume; 59.25-60.00; 60.00-60.25; 60.25-60.50; 60.50-60.75; 60.75-61.00; 61.00-61.25; 61.25-61.50; 61.50-61.75; 61.75-62.00; 62.00-62.25; 62.25-62.50; 62.50-62.75; 62.75-63.00; 63.00-63.25; 63.25-63.50; 63.50-63.75; 63.75-64.00; 64.00-64.25; 64.25-64.50; 64.50-64.75; 64.75-65.00; 65.00-65.25; 65.25-65.50; 65.50-65.75; 65.75-66.00; 66.00-66.25; 66.25-66.50; 66.50-66.75; 66.75-67.00; 67.00-67.25; 67.25-67.50; 67.50-67.75; 67.75-68.00; 68.00-68.25; 68.25-68.50; 68.50-68.75; 68.75-69.00; 69.00-69.25; 69.25-69.50; 69.50-69.75; 69.75-70.00; 70.00-70.25; 70.25-70.50; 70.50-70.75; 70.75-71.00; 71.00-71.25; 71.25-71.50; 71.50-71.75; 71.75-72.00; 72.00-72.25; 72.25-72.50; 72.50-72.75; 72.75-73.00; 73.00-73.25; 73.25-73.50; 73.50-73.75; 73.75-74.00; 74.00-74.25; 74.25-74.50; 74.50-74.75; 74.75-75.00; 75.00-75.25; 75.25-75.50; 75.50-75.75; 75.75-76.00; 76.00-76.25; 76.25-76.50; 76.50-76.75; 76.75-77.00; 77.00-77.25; 77.25-77.50; 77.50-77.75; 77.75-78.00; 78.00-78.25; 78.25-78.50; 78.50-78.75; 78.75-79.00; 79.00-79.25; 79.25-79.50; 79.50-79.75; 79.75-80.00; 80.00-80.25; 80.25-80.50; 80.50-80.75; 80.75-81.00; 81.00-81.25; 81.25-81.50; 81.50-81.75; 81.75-82.00; 82.00-82.25; 82.25-82.50; 82.50-82.75; 82.75-83.00; 83.00-83.25; 83.25-83.50; 83.50-83.75; 83.75-84.00; 84.00-84.25; 84.25-84.50; 84.50-84.75; 84.75-85.00; 85.00-85.25; 85.25-85.50; 85.50-85.75; 85.75-86.00; 86.00-86.25; 86.25-86.50; 86.50-86.75; 86.75-87.00; 87.00-87.25; 87.25-87.50; 87.50-87.75; 87.75-88.00; 88.00-88.25; 88.25-88.50; 88.50-88.75; 88.75-89.00; 89.00-89.25; 89.25-89.50; 89.50-89.75; 89.75-90.00; 90.00-90.25; 90.25-90.50; 90.50-90.75; 90.75-91.00; 91.00-91.25; 91.25-91.50; 91.50-91.75; 91.75-92.00; 92.00-92.25; 92.25-92.50; 92.50-92.75; 92.75-93.00; 93.00-93.25; 93.25-93.50; 93.50-93.75; 93.75-94.00; 94.00-94.25; 94.25-94.50; 94.50-94.75; 94.75-95.00; 95.00-95.25; 95.25-95.50; 95.50-95.75; 95.75-96.00; 96.00-96.25; 96.25-96.50; 96.50-96.75; 96.75-97.00; 97.00-97.25; 97.25-97.50; 97.50-97.75; 97.75-98.00; 98.00-98.25; 98.25-98.50; 98.50-98.75; 98.75-99.00; 99.00-99.25; 99.25-99.50; 99.50-99.75; 99.75-100.00; 100.00-100.25; 100.25-100.50; 100.50-100.75; 100.75-101.00; 101.00-101.25; 101.25-101.50; 101.50-101.75; 101.75-102.00; 102.00-102.25; 102.25-102.50; 102.50-102.75; 102.75-103.00; 103.00-103.25; 103.25-103.50; 103.50-103.75; 103.75-104.00; 104.00-104.25; 104.25-104.50; 104.50-104.75; 104.75-105.00; 105.00-105.25; 105.25-105.50; 105.50-105.75; 105.75-106.00; 106.00-106.25; 106.25-106.50; 106.50-106.75; 106.75-107.00; 107.00-107.25; 107.25-107.50; 107.50-107.75; 107.75-108.00; 108.00-108.25; 108.25-108.50; 108.50-108.75; 108.75-109.00; 109.00-109.25; 109.25-109.50; 109.50-109.75; 109.75-110.00; 110.00-110.25; 110.25-110.50; 110.50-110.75; 110.75-111.00; 111.00-111.25; 111.25-111.50; 111.50-111.75; 111.75-112.00; 112.00-112.25; 112.25-112.50; 112.50-112.75; 112.75-113.00; 113.00-113.25; 113.25-113.50; 113.50-113.75; 113.75-114.00; 114.00-114.25; 114.25-114.50; 114.50-114.75; 114.75-115.00; 115.00-115.25; 115.25-115.50; 115.50-115.75; 115.75-116.00; 116.00-116.25; 116.25-116.50; 116.50-116.75; 116.75-117.00; 117.00-117.25; 117.25-117.50; 117.50-117.75; 117.75-118.00; 118.00-118.25; 118.25-118.50; 118.50-118.75; 118.75-119.00; 119.00-119.25; 119.25-119.50; 119.50-119.75; 119.75-120.00; 120.00-120.25; 120.25-120.50; 120.50-120.75; 120.75-121.00; 121.00-121.25; 121.25-121.50; 121.50-121.75; 121.75-122.00; 122.00-122.25; 122.25-122.50; 122.50-122.75; 122.75-123.00; 123.00-123.25; 123.25-123.50; 123.50-123.75; 123.75-124.00; 124.00-124.25; 124.25-124.50; 124.50-124.75; 124.75-125.00; 125.00-125.25; 125.25-125.50; 125.50-125.75; 125.75-126.00; 126.00-126.25; 126.25-126.50; 126.50-126.75; 126.75-127.00; 127.00-127.25; 127.25-127.50; 127.50-127.75; 127.75-128.00; 128.00-128.25; 128.25-128.50; 128.50-128.75; 128.75-129.00; 129.00-129.25; 129.25-129.50; 129.50-129.75; 129.75-130.00; 130.00-130.25; 130.25-130.50; 130.50-130.75; 130.75-131.00; 131.00-131.25; 131.25-131.50; 131.

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