MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 4, 1983

The thirty-ninth meeting of the Taxation Committee was called to order at 8 a.m. by Chairman Pat M. Goodover in Room 415 of the Capitol Building.

ROLL CALL: All members were present except Senator Crippen.

RECONSIDERATION OF HOUSE BILL 264: The committee recalled that Cort Harrington, the committee's staff attorney, had said that if SB 283 passed, and HB 264 also passed, SB 283 might repeal HB 264. Senator McCallum then moved that HB 264 be returned to committee for reconsideration. The motion was seconded and passed unanimously.

CONSIDERATION AND DISPOSITION OF HOUSE BILL 448: Representative Francis Bardanouve, House District 6, said this bill restructures the bond situation in Montana. Under the present law, we are near the ceiling in how many bonds can be issued. This legislation will enable Montana to (1) sell more bonds and permit a higher ceiling on the bonds issued, and (2) sell bonds to fund the present bonds that are out. If we issue bonds at 8% and have bonds out at 5%, why refund the outstanding bonds if their interest rate is 2-3% lower than the interest rate on the bonds we are selling? This money invested in the new bonds is put in escrow and pays for the old bonds as they come due. You can invest money in SLGs, which are special federal bond "state local government" issues. Also if you think the market is too high at the time you sell the bonds, you can sell bond anticipation notes. The bondbuyers must write checks on Montana banks. This allows them to wait until the final hour to pay on the bonds and permits them to retain in their own account instead of in a New York account. We have a better advantage in savings in that we can shorten up the term of money; a short-term issue gets a better interest rate than long-term bonds.

PROPONENTS

Morris Brusett, Director of the Department of Administration, said this legislation will permit meeting the "Tepper" requirements. We ran this legislation by Moody's (investors' service) to be sure it would not affect our rating with them. They said there would be no adverse affect. Notes or refunding bonds would be issued and sold or refunded through the board of examiners.

John Oitzinger, a Helena attorney, said that 17-5-303, MCA, is restrictive. The new refunding bonds have to be paid out of the same source. The pre-1971 bonds were secured by cigarette tax moneys only. They will refund those and make the whole issue general obligation bonds. 17-5-304 is contrary to what they want to do in the bonding process. He submitted proposed amendments to the third reading copy of the bill and explained those amendments (see Exhibit A).

OPPONENTS

There were no opponents to HB 448.

Questions from the committee were called for.

Senator Towe questioned why the sentence on page 3, lines 4-6, was in the bill. Representative Bardanouve responded that that was absolutely necessary to the bill. He mentioned the situation in Michigan where they have a 15-month year.

In response to Senator Towe's question about lines 9-10 on page 3, Mr. Brusett explained that no more long-range building program bonds would be issued under the old act.

Mr. Oitzinger explained that general obligation bonds are "junior lien" bonds. We prefer to issue bonds under this new law and not as a general obligation debt under the sinking fund. They would all be parity bonds in the future.

Mr. Brusett stated that legislative approval would still be necessary for each bond issue.

Mr. Oitzinger said they will have to call these by another name so we won't confuse them with prior issues.

Representative Bardanouve told Senator Elliott that the sinking fund account will be called the debt service account. He said there are about seven bills coming over from the House which rename all the accounts in the treasury. This will conform to "GAAP."

Senator Norman asked if the need for the bill then was that we have reached the ceiling under the old act.

Mr. Brusett discussed the 1965 and 1967 revenue bond issues. The most you could sell was the average of the previous three years' receipts, or $14.5 million. Based on the current income revenue screen, we could sell only $52 million in new bonds and no more. We are going to reach that at some point in time.

Senator Norman said take the cigarette tax. The costs there have obviously gone up since 1967. You said you would soon hit the ceiling, but the cost of cigarettes has also gone up. Why doesn't the ceiling go up with the cost? The minimum wage today is higher than in 1967. If wage and income goes up, why doesn't the ceiling go up too? Mr. Brusett said the key is how many bond issues you have.

Senator Eck said she could not see in the bill where we were repealing that restriction (17-5-303). Mr. Brusett responded that the old act would not be used when issuing future bonds, but we cannot repeal those statutes because we have outstanding bonds under them.

Senator Towe asked how that squared with the arbitrage problem. Representative Bardanouve said that if you sell the bonds for 8% and reinvest the money in SLG's, you wash.

Senator Towe then asked if this was something the federal government had provided to get out from under the arbitrage problem. Mr. Oitzinger said that now they have to come up with dollar for dollar. If you can't fund it, the government will issue for the exact amount. The advantage is the interest rate to do the issue at zero cost. The SLG's are a mechanism in the treasury department to do this.

Mr. Brusett explained that this provides the mechanism for refunding the bonds. We are restructuring the old debt so we can get lower interest rates.

Representative Bardanouve left an article entitled ""Refunded" Municipal Bonds: An Analyst's Primer" for the committee members to study (see Exhibit B). We are "defeasing" the bonds in Montana. It will not require us to have a reserve.

Senator Turnage moved that the amendments submitted be adopted. The motion was seconded and passed unanimously.

Senator Turnage moved that HB 448 BE CONCURRED IN AS AMENDED. The motion was seconded.

Senator Turnage then asked Mr. Frank Hoadley, Boettcher & Co. investment bankers (who attended the meeting to answer questions only) if he saw or was aware of anything in the bill that the committee had not understood or that would have a negative effect on the people of Montana. Mr. Hoadley replied that he did not.

Senator Turnage then asked Mr. Oitzinger if there was anything negative that the committee had not understood or that would be negative to the people of Montana. Mr. Oitzinger responded negatively.

A voice vote was taken on the motion, and it passed unanimously. Senator Towe will carry the bill on the floor.

CONSIDERATION OF HOUSE BILL 33: Representative Les Kitselman, House District 60, said this bill changes the ad valorem tax system on motorcycles to a flat fee system, as we now have on cars and trucks and stressed that it is only for licensed motorcycles. The fee schedule set out in section 2(1) takes into account the motorcycle size (cc's) and the age of the motorcycle. Approximately 50% of licensed motorcycles are 500-1000 cc in size; 25% are over 1000 cc and 25% are 500 cc or less. In 1982 the average tax paid for each cycle was $18.83. A schedule showing the present taxes for various years and sizes of motorcycles is attached as Exhibit C. HB 33 would generate 105% of the current revenue received on licensed motorcycles. The current property tax on motorcycles is based on higher taxes in high mill rate areas and lower taxes in low mill rate areas. The loss of the county's bonding capacity due to the change to a flat fee system is insignificant when considering the revenue gain.

PROPONENTS

Ken Hoovestal, representing the Montana Snowmobile Association, said they concur with this bill and with the idea that motorcycles should be on an equitable basis with automobiles in Montana.

Halvdan Brosten, a Helena resident, representing himself, testified and submitted a written statement, which is attached as Exhibit D to these minutes.

Representative Kitselman also requested that a provision for antique motorcycles be included in the bill. The antique car tax is $15, he said, and thought that could be used for motorcycles too.

OPPONENTS

There were no opponents to the bill.

Questions from the committee were called for.

Senator Severson spoke in opposition to the bill. In 1979, it was motor homes and snowmobiles that were eliminated from the tax base; in 1981, it was cars and pickups; this year it is aircraft, boats and motorcycles. If we are going to go this route with all of the class eight properties, he proposed taxing all of them at one percent of the wholesale value; not by piecemealing as we are doing now. He mentioned a bill (126) from the 1981 session that would have done that. In that way, he said, no one can say we are taxing them more than someone else. There were bills that were better than the ones we passed last session. This is not the route to go for counties.

The hearing was closed on HB 33.

CONSIDERATION AND DISPOSITION OF HB 333: Representative Glenn Roush, House District 13, said we will have to continue to explore for gas in Montana to maintain our supply. The Department of Revenue, on its fiscal note, reflects no impact figures for this bill. There are few wells that come under this act. There are a few in his area and Montana-Dakota Utilities (MDU) has a few in northeastern Montana. This will provide an incentive to continue to explore for natural gas and give you some benefit if you strike a well deeper than 5,000 feet. He pointed out that subsection (3) on page 2 says under what conditions this exemption will become effective.

David Johnson, representing the Montana Power Company, testified and submitted written testimony, which is attached as Exhibit E.

Carl Rickman, representing the Montana Petroleum Association, also supported the bill.

Questions from the committee were called for.

Mike Zimmerman, representing the Montana Power Company, commented on 15-23-612, MCA. He did not feel that not referencing that statute in this bill was a technical defect because 15-23-612 is not amended in this bill.

Senator Elliott asked Mr. Johnson what MPC's reserves were now. Mr. Johnson replied they had 130 billion cu. ft., plus 140 billion cu. ft. in purchase reserves, and 200 billion cu. ft. in Alberta.

Senator Turnage asked if there were any statistical records on the average life of a gas well. Mr. Johnson said some were of short duration and some were long.

Senator Turnage felt that if this would encourage development of gas wells, it was good. Senator Norman wondered why Montana continues to export oil and gas when the prices of oil and gas are rising. Mr. Johnson said MPC made contracts to deliver when there was a lot of oil, and now they have to fulfill those contracts. He said they export a small amount of gas today. They try to use a 1/3 Canadian, 2/3 Montanan mix today. Their aim is to supply the Montana market first with Montana gas and then the others. MDU in eastern Montana has gas that leaves the state.

Representative Roush said HB 333 will result in a continued reduction in MPC's cost of service due to the continued exemption from the severance tax. (See PSC letter, Exhibit F.)

The hearing was closed on HB 333.

Senator Turnage moved that the bill BE CONCURRED IN. The motion was seconded and passed unanimously. Senator Gage will carry HB 333 on the floor.

CONSIDERATION AND DISPOSITION OF HOUSE BILL 460: Representative Rex Manuel, House District 11, said that water users associations have tried to sell bonds to finance operations. The bonds could be sold a lot cheaper if the property owned by a cooperative association or nonprofit corporation were exempt from property taxation. The users now have to pay $100 a month for their water.

PROPONENTS

There were no proponents other than the sponsor.

OPPONENTS

There were no opponents to HB 460.

Questions from the committee were called for.

Senator Goodover asked where the $100 a month that the users were paying now goes. Representative Manuel stated that it goes to payment of the bonds. These associations are scattered throughout the state. People have questioned the status of the taxation of the property of these associations and Slim Slattery, a former member of the State Tax Appeals Board, suggested that the matter be brought before the legislature to be straightened out.

Senator Goodover asked how this would apply to the Seeley Lake Water Users Association. Senator Eck said that they ran into this law in local government. It took an initiative to get good and safe water.

Senator Turnage moved that HB 460 BE CONCURRED IN. The motion was seconded and passed unanimously. Senator Turnage will carry the bill on the floor.

DISPOSITION OF HOUSE BILL 125: Senator Eck moved that HB 125 BE CONCURRED IN. The motion was seconded.

Senator Hager questioned why the distribution of the deduction had to be equal between the spouses (page 2, lines 18-19). Senator Elliott explained that that was to prevent the taxpaying spouses from putting the entire deduction into the higher tax bracket of the two spouses for a greater benefit.

Senator Turnage thought the bill was equitable, since we allow the deduction to single persons and to married couples filing jointly. This penalizes married people who want to file separately.

A vote was taken on the motion, and it passed, with Senator Elliott voting no. (He thought the bill was fine, but he said he was opposed to both parents working when there are children to be cared for at home and opposed the bill for that reason.)

The meeting adjourned at 9:45 a.m.

Pat M. Goodover

Chairman

ROLL CALL

SENATE TAXATION COMMITTEE

48th LEGISLATIVE SESSION -- 1983 Date 3/4/83

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

(All visitors sign this sheet even if not testifying.)

DATE March 4, 1983

COMMITTEE ON TAXATION (SENATE)

VISITORS' REGISTER

NAME (PLEASE PRINT)	REPRESENTING	BILL #	Check One	
			Support	Oppose
HALVDAN BROSTEN	SELF	HB 33	✓	
Ken Hoovestol	Mt. Snowmobile Assn.	HB 33	✓	
Clair Johnson	Yellowstone Newspapers			
DAVID A JOHNSON	Montana Power Co	HB333	✓	
Doris Shepherd	MACo	HB 33		✓
Morris Brusett	Director, Dept. of Admin.	HB 448	X	
John Oitzinger	Attorney	HB 448	X	
Frank Hoadley	Boettcher & Co. investment bankers: (just here to answer questions)	HB 448	X	
Charles Graveley				
Carl Rickman	Montana Petroleum Association	333	x	

SENATE TAXATION COMMITTEE, EXH. H Brdner
MARCH 4, 1983, HB 448

PROPOSED AMENDMENTS TO HOUSE BILL 448 - THIRD READING COPY

1. Title, line 11
Following: "Section 17-5-301,"
Insert: "17-5-303,17-5-304,"

2. Page 9, line 11
Following: "the principal"
Insert: "and interest"

3. Page 9, line 12
Following: line 12
Insert: Section 8. Section 17-5-303, MCA, is amended to read:
"17-5-303. Application of refunding bond law. All of the provisions of the act authorizing the issuance of the bonds or debentures which are to be refunded, insofar as the same relate to the issuance and sale, term and rate of interest, tax levies or funds for the payment and interest thereof, and time and manner of such payments shall apply fully to such refunding bonds or debentures, except insofar as the same may be conflict with the provisions of this part~~, shall-apply-fully-to-such-refunding bonds-or-debentures.~~ or with the provisions of any law authorizing particular refunding bonds."

Insert: "Section 9. Section 17-5-304, MCA, is amended to read:
"17-5-304. Cost and expense of refunding. The board of examiners may require the purchaser to bear the cost and expense of refunding any issue of bonds or debentures in connection with the bid submitted, or the cost and expense may be paid out of the sinking and interest fund when there is money in such fund. The balance remaining in such sinking and interest fund shall be transferred ~~to-and-shall-become-the-sinking-and-interest-fund--for-such-refunding-bonds-or-debentures.--Any-and-all-moneys thereafter-received-by-the-state-treasurer-for-such-sinking and-interest-fund-shall-be-placed-in-the-sinking-and-interest fund-of-such-refunding-bonds-or-debentures.~~ in accordance with the provisions under which the refunded bonds were issued or as otherwise provided by law."

Renumber: all subsequent sections.

Merrill Lynch

No. 4 January 31, 1983

Municipal Bond Perspective

"Refunded" Municipal Bonds: An Analyst's Primer

Why and How Bonds Are Refunded; and How Refunded Bonds Are Secured

A more expanded version of this research report will appear in *A Framework for Determining the Credit Worthiness of Municipal Bonds*, Sylvan G. Feldstein, Frank J. Fabozzi, and Irving M. Pollack, editors (Homewood, Illinois: Dow Jones-Irwin Publishing Company, forthcoming 1983).

Sylvan G. Feldstein
(212) 637-0604

Merrill Lynch, Pierce, Fenner & Smith, Inc.
Municipal Research Department

864/

Introduction

While originally issued as either general obligation or revenue bonds, municipals are sometimes "refunded." A refunding occurs when the original bonds are escrowed or collateralized by either direct or indirect obligations or by those guaranteed by the United States government. The maturity schedules of the securities in the escrow fund are such as to pay when due the bond and coupon payments, as well as a premium payment, if any, on the refunded bonds. Once this cash flow match is in place, the refunded bonds are no longer secured as either general obligation or revenue bonds. They now have a new security: the escrow fund. Such bonds, if escrowed with United States government securities, have little to no credit risk. They are the safest municipal bond investments available.

In this report, refunded bonds are discussed in terms of: (1) the general structure of an escrow fund; (2) the reasons why bond issuers refund their bonds; (3) the two major types of refunded bonds; and (4) how the analyst or investor should determine the degree of insulation from adversity of an escrow fund, thereby determining the credit worthiness of the refunded bonds.

"Pure" Versus "Mixed" Escrow Funds

An escrow fund is an irrevocable trust established by the original bond issuer with a commercial bank. Government securities are deposited in an escrow fund which will be used to pay debt service on the refunded bonds. A "pure" escrow fund is one in which the deposited securities are solely direct obligations of the U.S. government, whereas a "mixed" escrow fund is one in which the deposited securities are not 100% direct U.S. government securities. Other securities that have been placed in mixed escrow funds include federal agency bonds, certificates of deposit from commercial banks, indirect U.S. government obligations, and even state general obligation bonds.

Reasons for Refunding

To Remove Restrictive Bond Covenants: Many refunded municipal bonds were originally issued as revenue bonds. Revenue bonds are usually secured by the fees and charges generated by completed projects such as toll roads, water and sewer systems, hospitals, airports, and power generating plants. The specific security provisions are promised by the bond issuer in the bond trust indenture before the bonds were sold. The trust indenture describes the flow-of-funds structure, the rate or user-charge covenant, the additional bonds test requirements, and other covenants. Many refundings occur because an issuer wants to eliminate restrictive bond covenants such as rate charge covenants, additional bonds tests, or mandatory program expenditures. A refunding eliminates, or defeases, the earlier covenants since the bonds are deemed to have been paid, once they are refunded, and cease to exist on the books of the issuing jurisdiction.

To Change the Debt Maturity Schedule: Some bonds are refunded in order to change the issuer's debt maturity schedule, either to make the yearly debt service payments more level, or to stretch out the maturity schedule. An example of the latter are certain bonds of the New York State Municipal Assistance Corporation for the City of New York (MAC).

To Save Money for the Bond Issuer: Another reason for issuers to refund municipal bonds is in order to reduce their interest payment expenses. Typically, substantial interest cost savings can occur when interest rates decline approximately 200-300 basis points from the levels when the bonds were originally issued. By refunding the outstanding bonds with a new issue, the bond issuer in effect is refinancing the loan at a lower interest rate. Additionally, based upon certain interpretations of Internal Revenue Service arbitrage procedures, some refundings that save money for the issuer can even take place in an interest rate environment that has not dramatically declined.

The Two Types of Refunded Bonds

The escrow fund for a refunded municipal bond can be structured so that the refunded bonds are to be called at the first possible date, as was established in the original bond indenture. The call price usually included a premium of from 1% to 3% above par. This type of structuring usually is used for those refundings which either reduce the issuer's interest payment expenses, or change the debt maturity schedule.

While many refunded bonds are to be retired at the first callable date, some escrow funds are structured differently. In these refundings, the maturity schedules of the escrowed funds match the regular debt service requirements on the refunded bonds, as originally stated in the bond indenture. This type of structure usually is used when the objective is to defease any restrictive bond covenants.

Refunded bonds can be called by the issuer before the first call date and prior to the stated maturity of the bond, if there is a mandatory sinking fund provision in the original bond indenture. As an example, in 1977 the state of Massachusetts refunded an issue of 9% general obligation bonds that had been issued in 1976 and were to mature on June 1, 2001. Under the refunding, the bonds—now fully secured by U.S. governments—are to be called on June 1, 1987 at 104%. However, under the original sinking fund provisions, each June 1 from 1978 to 1987 the state of Massachusetts must call at a par a preset portion of the outstanding 9% bonds.

Determining the Safety of the Refunded Bonds

Refunded municipal bonds are generally the safest investments because they are the most insulated from adversity, provided that the escrow funds have only direct U.S. government securities, or those backed by the U.S. government, i.e. that they are "pure" escrows. Specific questions for the analyst to ask are:

(i) Have sufficient monies been deposited in an escrow fund at a commercial bank or a state treasurer's office to pay the bondholder?

(ii) Has the bond issuer signed an escrow agreement naming the bank or state treasurer as the irrevocable trustee for the escrow fund?

(iii) Have certified public accountants reviewed the contents of the escrow fund to determine if it consists of either direct U.S. government obligations (U.S. Treasury Notes, State and Local Government Series) or obligations unconditionally guaranteed by the U.S. government? Examples of the latter would include obligations of the Government National Mortgage Association (Ginnie Mae), Federal National Mortgage Association (Fannie Mae), obligations which have a Ginnie Mae guarantee, Farmers Home Administration (FMHA) Insured Notes, and Export-Import Bank obligations, among others.

(iv) Have the certified public accountants also certified that the cash flow from the escrow fund will provide sufficient revenue to pay the debt service as required in the refunding?

(v) Has a qualified attorney reviewed the complete transaction and given an opinion that no federal state, or local laws have been violated? This includes arbitrage limitations in Section 103 of the Internal Revenue Code of 1954, as amended.

Refunded bonds that meet all of the above requirements are also rated "AAA" by Standard & Poor's or Moody's.

SENATE TAXATION COMMITTEE
EXHIBIT C
MARCH 4, 1983
HB 33
SUBMITTED BY REP. KITSELMAN

Year and Make	Size	Assessed Value	Tax
1981 Honda	500	$1,475	$ 45.46
1981 Honda	1000	2,350	72.69
1981 Harley Davidson	1100	3,825	118.16
1977 Honda	250	177	19.00
1977 Yamaha	750	461	51.00
1980 Honda	250	593	65.00
1980 Yahama	650	819	90.00
1975 Honda	250	185	20.00
1974 Yahama	750	288	32.00

EXHIBIT -
MARCH 4, 1983
HB 33

NAME: Ken Hoovestol DATE: 3/4/83

ADDRESS: 505 33rd St. No. Great Falls

PHONE: 406/452-2242

REPRESENTING WHOM? Mt. Snowmobile Assn.

APPEARING ON WHICH PROPOSAL: HB-33

DO YOU: SUPPORT? X AMEND? ______ OPPOSE? ______

COMMENTS: ______

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

EXHIBIT D
MARCH 4, 1983
HB 33

NAME: HALVDAN BROSTEN DATE: 3-4-83

ADDRESS: 1612 CHOTEAU, Helena, Montana 59601

PHONE: 442-4564

REPRESENTING WHOM? Self

APPEARING ON WHICH PROPOSAL: HB33

DO YOU: SUPPORT? Yes AMEND? OPPOSE?

COMMENTS: I support a flat ~~tax~~ system for motorcycles similar to the system now in effect for automobiles. It costs more to license my 8 year old motorcycle than my old VW cars and the motorcycle is usually stored from November thru March each year.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION COMMITTEE
EXHIBIT E
MARCH 4, 1983
HB

NAME: DAVID A. JOHNSON DATE: MAR 4, 1983

ADDRESS: 40 EAST BROADWAY BUTTE MT 59701

PHONE: 406-723-5421

REPRESENTING WHOM? MONTANA POWER CO.

APPEARING ON WHICH PROPOSAL: HB 333

DO YOU: SUPPORT? X AMEND? ____ OPPOSE? ____

COMMENTS:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

E

48th Legislature

House Bill No. 333 - "An Act to Extend for a Ten-Year Period the Three-Year Exemption From the Severance Tax and One-Half the Net Proceeds Tax on Natural Gas Produced From a Well 5,000 Feet Deep or Deeper."

Statement Before the Senate Taxation Committee, February 4, 1983, on Behalf of The Montana Power Company, by David A. Johnson, Manager of Planning and Economics, Gas Supply Department.

Montana's economy was fueled by readily available, cheap Canadian gas for nearly 25 years, into the mid-1970's. Since the Arab Embargo in 1973, Canadian gas has become increasingly more expensive, and increasingly less secure. The Montana Power Company supports House Bill 333 because we believe it will provide incentives to develop gas reserves for Montana's future and reduce our dependence on Canadian gas.

Montana Power was the first company to import significant quantities of Canadian gas in the early 1950's. Our dependence on Canadian gas grew until 1973 when it represented 50 billion cubic feet or over 80 percent of our 60 billion total supply. As Canadian prices have risen since the Embargo, our market has declined sharply and we have cut back our Canadian supply. In 1982 Canadian gas represented about 45 percent of the supply for our Montana market.

Montana needs to develop its own gas reserves to ensure a secure, low cost supply of energy for the future. We are projecting Montana Power's market to stay about level at near 30 billion feet per year out to the year 2000. We anticipate supplying this demand with about 10 billion feet from Company owned, Canadian reserves and with about 20 billion feet from owned and purchased sources in Montana.

To carry out this strategy and maintain a supply of 20 billion feet per year from Montana, we will have to continue to explore and purchase new gas from independents to replace the gas we use each year. That is why we think the 3-year tax exemption proposed in House Bill 333, is important - it will help efforts to maintain our domestic Montana supplies. Provisions of the bill would have the following beneficial impacts on exploration in Montana:

1. Encourage Deeper Drilling - Drilling costs increase sharply with depth: our experience is that 3 to 5,000 foot gas wells now cost approximately $2 to $300,000 while 8 to 10,000 foot wells can cost $1.0 to $1.5 million or more. The proposed 3-year tax exemption would help offset the higher cost of deep drilling.

2. Improve Reserves - Any incentive is a plus in developing Montana reserves. This Bill, however, should encourage deeper exploration with the potential for larger reserves. This would compliment shallower efforts that generally result in high deliverability but short-lived, small reserves.

3. Provide gas for Montana's Future - In addition to the benefit of encouraging exploration, restricting the tax exemption to gas distributed within Montana would be a detriment to potential gas exports from the state.

In 1982 Montana Power, including our nonutility operations, drilled seven wells out of 20 that were deeper than 5,000 feet. Of those seven, four were dry holes, two resulted in gas production and one resulted in oil production. I would like to point out that, in the case of our gas utility operations, it is not the Company that would benefit most from the proposed tax exemptions, it is our customers. The Company would not see increased profits because of lower taxes. Instead, our customers would benefit because our rates would include a lower cost of service pass through.

Montana Power is confident that there is still a lot of undiscovered gas within the state. The western part of the state is relatively "unexplored," particularly the deeper zones. We strongly support and urge passage of House Bill 333 to provide additional incentives that will encourage exploration for and development of Montana's gas reserves.

230099

SENATE TAXATION COMMITTEE
EXHIBIT F
MARCH 4, 1983
HB 333

PUBLIC SERVICE COMMISSION
1227 11th Avenue • Helena, Montana 59620
Telephone: (406) 449-3007 or 449-3008

January 27, 1983

Representative Dan Yardley
Chairman, House Taxation Committee

RE: House Bill No. 333

Dear Representative Yardley:

For ratemaking purposes, if a regulated utility pays severance taxes on gas it produces, the Montana Public Service Commission allows that expense as a cost of service. Passage of House Bill No. 333 would result in a continued reduction in the cost of service due to the exemption from severance taxes.

If the Committee requires further information with regard to this matter, please contact Bill Opitz.

Sincerely,

PUBLIC SERVICE COMMISSION

Eric Eck

Eric Eck, C.P.A.
Chief of Revenue Requirements

EE/jb

March 4 19 83

MR. PRESIDENT

We, your committee on taxation

having had under consideration House Bill No. 448

Bardanouve (Towe)

Respectfully report as follows: That House Bill No. 448

third reading copy, be amended as follows:

1. Title, line 11.
Following: "17-5-301,"
Insert: "17-5-303, 17-5-304,"

2. Page 9, line 11.
Following: "the principal"
Insert: "and interest"

3. Page 9.
Following: line 12
Insert: "<u>SECTION 8. SECTION 17-5-303, MCA, IS AMENDED TO READ:</u>
"17-5-303. Application of refunding bond law. All of the provisions of the act authorizing the issuance of the bonds or debentures which are to be refunded, insofar as the same relate to the issuance and sale, term and rate of interest, tax levies

~~DO PASS~~

(continued on page 2)
Chairman.

STATE PUB. CO.
Helena, Mont.

HB 448

March 4 19 83

3 (continued)

or funds for the payment and interest thereof, and time and manner of such payments shall apply fully to such refunding bonds or debentures, except insofar as the same may be in conflict with the provisions of this part~~,, shall apply fully to such refunding bonds or debentures~~ or with the provisions of any law authorizing particular refunding bonds."

SECTION 9. SECTION 17-5-304, MCA, IS AMENDED TO READ:
"17-5-304. Cost and expense of refunding. The board of examiners may require the purchaser to bear the cost and expense of refunding any issue of bonds or debentures in connection with the bid submitted, or the cost and expense may be paid out of the sinking and interest fund when there is money in such fund. The balance remaining in such sinking and interest fund shall be transferred ~~to and shall become the sinking and interest fund for such refunding bonds or debentures. Any and all moneys thereafter received by the state treasurer for such sinking and interest fund shall be placed in the sinking and interest fund of such refunding bonds or debentures~~ in accordance with the provisions under which the refunded bonds were issued or as otherwise provided by law.""

Renumber: subsequent sections.

And, as so amended,

BE CONCURRED IN.

Pat M. Goodover Chairman.

STATE PUB. CO.
Helena, Mont.

STANDING COMMITTEE REPORT

March 4 19 83

MR. PRESIDENT

We, your committee on taxation

having had under consideration House Bill No. 333

Roush (Gage)

Respectfully report as follows: That House Bill No. 333

third reading copy

BE CONCURRED IN

~~DO PASS~~

Pat M. Goodover Chairman.

STATE PUB. CO.
Helena, Mont.

STANDING COMMITTEE REPORT

March 4 19 83

MR. PRESIDENT

We, your committee on taxation

having had under consideration House Bill No. 460

Manuel (Turnage)

Respectfully report as follows: That House Bill No. 460

third reading copy

BE CONCURRED IN
~~DO PASS~~

STATE PUB. CO.
Helena, Mont.

Pat M. Goodover Chairman.

STANDING COMMITTEE REPORT

March 4 19 83

MR. PRESIDENT

We, your committee on taxation

having had under consideration House Bill No. 125

Hansen (Eck)

Respectfully report as follows: That House Bill No. 125

third reading copy

BE CONCURRED IN

DO PASS

STATE PUB. CO.
Helena, Mont.

Pat M. Goodover Chairman.