MINUTES OF THE MEETING
BUSINESS AND LABOR COMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

February 11, 1985

The meeting of the Business and Labor Committee was called to order by Chairman Bob Pavlovich, on February 11, 1985 at 8:00 a.m. in Room 312-2 of the State Capitol.

ROLL CALL: All members were present with the exception of Representative Howe, who was excused by the chairman.

HOUSE BILL 234: Hearing commenced on House Bill 234. Representative Jerry Driscoll, District #92, sponsor of the bill, stated that this bill revised the law on workers' compensation to require that investment income of certain insurers be considered in formulation of rates, to provide a definition of "construction industry" and to provide that workers' compensation insurance rates in the construction industry be computed on the number of hours worked rather than on a percentage of payroll.

Proponent Gene Vukovich, Director of the Montana Ironworkers' Joint Apprenticeship and Journeyman Training Program Trust, supplied written testimony, which is attached hereto as Exhibit 1. Mr. Vukovich also presented Exhibit 2, to be placed off record.

Proponent Don Judge, representing the Montana State AFL-CIO, stated that the higher paying industries are subsidizing the lower paying industries.

Opponent William R. Palmer, Assistant Administrator, Division of Workers' Compensation, Department of Labor and Industry, presented testimony as shown on Exhibit 3, attached hereto.

Opponent Don Drake, representing the American Insurance Association, supported the comments made by Mr. Palmer.

Opponent Mike Camilleri, representing the National Council on Compensation Insurers, stated that 88% of all employees are unaffected by the amount earned. The safety record and wage differential are what is looked at. Mr. Camilleri, presented Exhibit 4, which is the council's proposal.

Opponent Bill Molmen, representing the American Insurance Association, explained that in 1972 a switch to the payroll base from the man hour base was studied, but due to transition problems the change never did occur. If you charge based on man hours, it will create new inequities and a change in premium for some. There is no credible data base for the man hour base and thus it cannot be audited as well as the payroll base.

Opponent George Allen, representing the Montana Retail Association, extended his opposition to the bill.

In closing, Representative Driscoll explained that a safe employer who pays high wages, will pay the same premium as an unsafe employer who pays low wages. There will be no additional bookkeeping requirements. The insurance industry resists change and if it continues on a percentage of payroll, inequities will remain, added Representative Driscoll.

Representative Schultz asked Representative Driscoll if the bill should be considered after the group studies the issue. Representative Driscoll explained that Washington has it, Orgeon has studied it, that it has been studied and is unnecessary for further study.

There being no further discussion by proponents or opponents, all were excused by the chairman and the hearing on HB 234 was closed.

HOUSE BILL 573: Hearing commenced on House Bill 573. Representative Mary Lou Peterson, District #1, sponsor of the bill, by request of the Department of Justice, Division of Motor Vehicles, stated that this bill requires that the seller of a motor vehicle shall record on the certificate of title a statement of the odometer reading and verification of the accuracy of the reading. Tampering with an odometer is a misdemeanor. Representative Peterson distributed to committee members, Exhibit 5, which is attached hereto.

Proponent Bud Schoen, Chief, Registrar's Bureau, Division of Motor Vehicles, Department of Justice, supplied written testimony, which is attached hereto as Exhibit 6.

Proponent Dean Mansfield, representing the Montana Automobile Dealers Association, offered his support of House Bill 573.

Representative Schultz asked Mr. Mansfield why his association had not taken the initiative to do this. Mr. Mansfield expalined that the association adopted and passed a resolution in favor of stronger odometer laws, but that the problem has become more apparent in the last few years.

Representative Simon asked how an odometer could be checking on a non-moving vehicle.

Rep. Wallin asked Mr. Schoen what the differnce will be between House Bill 573 and the present law. Mr. Schoen stated that an odometer statement is a federal requirement, but that his office never sees these statements.

There being no further discussion by proponents or opponents, all were excused by the chairman and the hearing on House Bill 573 was closed.

HOUSE BILL 568: Hearing commenced on House Bill 568. Representative Jack Moore, District #37, sponsor of the bill, stated that this bill establishes a limit of seven days on credit extended by a tobacco wholesaler to a retailer and allows revocation of a wholesaler's or a retailer's license for violation.

Proponent Tom Maddox, representing the Montana Association of Tobacco and Candy Distributors, supplied testimony as outlined on his witness statement, attached hereto.

Opponent Mike Garrity, representing the Department of Revenue, stated that problems with the Montana Administrative Procedure Act and administering would result.

Representative Pavlovich suggested to Mr. Garrity that the distributor maintain all records.

There being no further discussion by proponents or opponents, all were excused by the chairman and the hearing on House Bill 568 closed.

HOUSE BILL 574: Hearing commenced on House Bill 574. Representative Fred Thomas, District #62, sponsor of the bill, at the request of the Public Service Commission, distributed to committee members Exhibit 7, which is attached hereto. Representative Thomas explained that this bill allows a utility to correct a customer billing error by back billing for up to six months.

Proponent Taffy Miller, representing the Public Service Commission, supplied written testimony which is attached hereto as Exhibit 8.

Proponent Pamela Merrell, representing the Montana Power Company, supports the concept of House Bill 574. She stated that collecting on under billings, has been cloudy due to lack of authority. House Bill 574 will help the administration in collecting .

Proponent John Alke, representing Montana/Dakota Utilities, distributed to committee members Exhibit 9, which is attached hereto. Mr. Alke explained these amendments and added that the statute of limitations is for eight years and provides six months after the error occured.

Proponent David Dictrieh, representing Pacific Power and Light, offered his support of the bill and of the amendment proposed by Mr. Alke.

Proponent Opal Winebrenner, staff council for Public Service Commission, stated that the proposed amendment makes recovery a civil action and that assistance should be requested from the commission. She added that residents and small business customers should only be charged for service they have received.

Representative Driscoll asked Opal Winebrenner why municipal utilities have been excluded. Ms. Winebrenner explained that in chapter 7, they are given the ability to determine their own service rules.

Representative Kitselman asked Ms. Winebrenner if the role of the Public Service Commission is regulatory or managerial. Ms. Winebrenner stated that the commission sets rates and it is their responsibility to see that rates are applied correctly and to adjust errors.

Representative Kadas asked John Alke why a time period should be placed on the consumer when it is the utility that makes the error. Mr. Alke stressed that it is the occupant that makes the error, not the utility.

There being no further discussion by proponents or opponents, all were excused by the chairman and the hearing on House Bill 574 was closed.

<u>HOUSE BILL 527</u>: Hearing commenced on House Bill 527. Representative Bruce Simon, District #91, sponsor of the bill, stated that this bill would remove the state from the retail liquor business. The council supports the bill. Representative Simon, distrubuted to committee members Exhibit 10, which are proposed amendments to the bill. Shipping cost will not be affected and the price of liquor can not be accelerated greater than 110% of the posted retail price. A

package store license would cost $5,000 for a town of under 10,000 inhabitants and $10,000 for a town with over 10,000 inhabitants. A preferential bid would be granted to existing employees on the purchase of existing state stores. The effective date would be January 1, 1987 and no new package licenses would be issued until this date. In 1984 a reduction of 8.5% in sales was apparent and it is difficult for the department to reduce operating expenses. In 1978 there were 119 state stores, in December, 1984 there were 54 state stores, we are slowly taking ourselves out of the retail business added Representative Simon. A loss of employment will not occur, these people are the logical people to work in these package stores.

Opponent Representative Paul Pistoria, explained that similar bills were killed in previous sessions. Representative Pistoria distributed to committee members, Exhibit 11 which is attached hereto. The exhibits were explained and Pistoria added that the liquor store operation is profitable.

Opponent John LaFever, Director, Department of Revenue, stated that this will not be advantageous to the state or the consumer. Mr. LaFever, distributed to committee members Exhibit 12 and explained the same. this is the best written bill to allow for the closing of the state liquor stores, but it will cost the consumer millions of dollars per year, added Mr. LaFever.

Opponent Ronald B. Kazel, Assistant to the Regional Director, United Food and Commercial Workers International Union, AFL-CIO, CLC, presented written testimony, which is attached hereto as Exhibit 13.

Opponent Wade Ray, a liquor store landlord, explained that he entered into his lease in good faith and that the building was remodeled for the liquor store. House Bill 527 will create more pressure on our law enforcement agencies, added Mr. Ray.

Opponent Phil Strope, representing the Montana Tavern Association, extended his opposition to the bill.

Opponent Mike Grunow, an agent from Lolo, explained that this would be detrimental to a number of people. We must look at the legal problems, the cost of inveltory and the net profits. House Bill 527 will allow the chain stores to take over the whiskey business in the state, added Mr. Grunow.

Opponent Pearl Ann Greenshields, of Glacier Park, added that House Bill 527 will make it easier to drink and drive.

Opponent Joe Brand, speaking as a private citizen and taxpayer, explained that there is no plan to take care of our liquor store employees who have been dedicated and have no where to go.

Opponents Roland D. Pratt, representing the Restaurant Association, Don Judge, representing the Montana State AFL-CIO, Louise Dahl, state liquor store manager and Cliff Wilson, an agent from Augusta extended their opposition to the bill.

Approximately 30 state liquor store employees and approximately 40 other individuals extended their opposition by a show of hands.

In closing, Representative Simon stated that this is not a major change in the operation and that a loss of jobs will not occur. People will be needed to work in and operate these stores and those with experience, will be the logical choice. There are 80 agents that are running on a 10% margin, primarily in the smaller cities. Only one store has five full time employees, added Representative Simon. There will be no effect on the prices since the bill includes a 10% ceiling on markup. Discounts to quantity customers will continue. Representative Simon requested that a new fiscal note be prepared with consideration given to the proposed amendments and that the committee wait for the new fiscal note.

There being no further discussion by proponents nor opponents, all were excused by the chairman and the hearing on House Bill 527 was closed.

There being no further business before the committee, the meeting was adjourned at 11:00.

Rep Bob Pavlovich

BOB PAVLOVICH, Chairman

DAILY ROLL CALL

BUSINESS AND LABOR COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date Feb. 11, 1985

NAME	PRESENT	ABSENT	EXCUSED
Bob Pavlovich	✓		
Les Kitselman	✓		
Bob Bachini	✓		
Ray Brandewie	✓		
Jan Brown	✓		
Jerry Driscoll	✓		
Robert Ellerd			
William Glaser	✓		
Stella Jean Hansen	✓		
Marjorie Hart	✓		
Ramona Howe			✓
Tom Jones	✓		
Mike Kadas	✓		
Vernon Keller	✓		
Lloyd McCormich	✓		
Jerry Nisbet	✓		
James Schultz	✓		
Bruce Simon	✓		
Fred Thomas	✓		
Norm Wallin	✓		

CS-30

Exhibit 1
February 11, 1985
House Bill 234

TESTIMONY OF GENE VUCKOVICH

HOUSE BILL #234 BUSINESS AND LABOR COMMITTEE

My name is Gene Vuckovich and I am the Director of the Montana Ironworkers' Joint Apprenticeship and Journeyman Training Program Trust, which is jointly administered by representatives of Labor and Management.

In our investigation of ways, means and methods to increase worker productivity (work produced vs. dollar cost) we have discovered some severe inequities in the method by which Workers' Compensation insurance programs are funded.

House Bill #234 would initiate a major boost in worker productivity by reducing rates and more fairly distributing the cost of Workers' Compensation insurance programs throughout the construction industry.

Many contractors are being forced to unfairly subsidize Workers' Compensation premiums for lower paying contractors by outdated state insurance laws that base Workers' Compensation premiums on payroll dollars rather then using hours worked as the exposure index. The employers paying higher wages will pay higher W. C. premiums for the same coverage as his lower paying competitors even though it cost exactly the same to medically treat an injured worker regardless of his pay scale. **That's the insult, the injury comes when the higher paying contractor then loses a bid award to his lower paying competitor equal to the difference in premium costs**

As long as W. C. premium is based on payroll dollars, any wage increase automatically increases W. C. premiums without any increase in risk exposure to the insurance carrier or benefit increse to the worker. The high wage increases during the past 15 years in an inflationary economy have quadrupled W. C. premiums without any relationship to risk exposure. This is an addition to the rate increases granted relative to benefit increases.

The prevailing method of basing workers' compensation insurance rates on payroll is discriminatory and should be replaced by a worker hour system. **It is the number of hours worked in a specific occupation, not the pay that determines exposure to health and safety risks.**

In 1933, Washington State passed a Workers' Compensation Bill revision requiring premiums to be based on hours worked instead of payroll. The law remains in effect today. For over 50 years the statue has provided equity in premium without creating problems of implementation. The Washington Department of Labor and Industry reported "This (revision) accomplished more to stabilizing the rate structure and effecting equitable assessment of premiums than any amedatory legislation since the Act became law in 1911".

The Institute of the Ironworking Industry (I.I.I.), a management/labor group, are part of a broadly based industry team working to correct this inequity through the introduction of corrective legislation relating to workers' compensation throughout the country.

Because there was a concern about the equity of workers' compensation rates for employers in the State of Oregon's building and construction trades, the 1983 Oregon legislature mandated a study of 7,500 contracting employers to be sponsored by the National Council of Compensation Insurance (NCCI). The intent of the study, according to Governor Victor Atiyeh, was to obtain information so that "any remedial steps deemed necessary can be taken to ensure equity of workers' compensation insurance premium charges in Oregon". The results of the study are in and have been given to the 1985 Oregon Legislature. The Oregon Workers' Compensation Survey of Construction Employers conducted by the National Council on Compensation Insurance (NCCI), confirms our previous findings that higher paying employers are substantially overcharged for Workers' Compensation premiums.

In the past, NCCI has been opposed to the Institute of the Ironworking Industry's (I.I.I.) proposals for reform, but has now agreed to the need for remedial action to correct the inequities of the present system. Attached are four (4) articles of recent Triple 'I' correspondance which include portions of the Oregon Survey.

I.I.I. Exhibit #1

Minutes showing concerns of our industry.

I.I.I. Exhibit #2

Initial survey data suggesting action to correct inequities.

I.I.I. Exhibit #3

Seven proposals to limit overpayments by higher paying employers. The attached survey summery which is circled for your convenience shows that as a group, employers who pay an average weekly wage of over $500 repersent **24% of the risk, pay 45% of the premium and have 42% fewer losses.**

I.I.I. Exhibit #4

Shows the maximum weekly wages subject to premium needed to generate maximum state benefit levels (Montana as of 7/1/84 is $440.98/week).

I wish to thank the Committee for your indulgents and hope you all find time to look over the material I have presented. I am sure that upon study of same, you will conclude that there is an inequity in the present Workers' Compensation premium rate structure for the construction industry. **I urge you to give a 'DO PASS' consideration to House Bill #234.**

National Council on Compensation Insurance

Exhibit 2
February 11, 1985
House Bill 234
Submitted by: Gene Vukovich

Inter-Office Correspondence

I.I.I. EXHIBIT #1

To: Similar Employer Comparative Price Study Group

Date: 4/23/84

From: Mr. Camilleri

Your Memo:

Re: Minutes - Meeting of April 17, 1984

The meeting opened with a summary of the major areas discussed to date. These included an outline of the purpose and objective of the NCCI Oregon Survey, Florida Contracting Classification Premium Adjustment Program and the AGC Survey. The main concerns of the Ironworking Institute were also outlined. These include:

1. Establishment of an equitable ratemaking system, including basis of premium.
2. Proper auditing procedures to prevent abuses in mis-classification both for premium determinations and claim reporting purposes.
3. Cost containment by the insurance industry, especially of medical costs.
4. Rates should be made based on actual cost.
5. Proper recognition of investment income.
6. General classification problems caused, in part, by having too many classes.

The progress of the Oregon survey was then discussed. M. Camilleri advised that the first of data from the polling firm was enroute to NCCI and that all data is due by April 30, 1984. A complete analysis of the data will be conducted by NCCI, including the use of corresponding data provided under the Unit Statistical Plan. Checks on the accuracy of the survey data will be conducted both by the polling firm and NCCI. The NCCI "check" will be conducted in such a way as to assure the continued confidentiality of the information provided by respondents. It is expected that NCCI's analysis will be completed by June 1, 1984.

A brief summary of the workings of the Florida Contracting Classification Premium Adjustment Program was given, followed by a description of the AGC survey. The Florida program essentially provides a premium credit for higher wage-paying contractors. The AGC survey involves an analysis of unit statistical plan data combined with limited information regarding AGC members.

It was agreed that NCCI would furnish all SECPSG members with data received from the Oregon survey as soon as it is received. The data will be used by the group to aid in formulating a program(s) acceptable to all members.

A. Grippa next provided a summary of the alternate ratemaking research study presently being undertaken by NCCI. This involves a review of the severity and frequency of claims and how they may vary by classification and by state. The study, to date, indicates that the severity factor is more influenced by differences in state statutory and administrative factors, while frequency is more a variable of classification. After grouping present classifications as a function of these two factors (frequency and severity), a tentative listing of 137 classification "groups" was reached. A copy of this listing was provided to all SECPSG members, although it was cautioned that the study will not likely be completed before the end of 1984.

Attention was next focused on the general subject of classifications and the observations that the large number of classes might aggravate the problem of mis-classification. The Ironworkers' Institute provided SECPSG members with a first approach at condensing the construction classes into eight groupings. The groupings were essentially developed based on the nature of the project being performed and would include all contracting operations being performed on the project. NCCI agreed to attempt to assign current classes to these groupings and see what results.

Discussion next turned to insurance industry auditing practices. The Ironworkers' Institute advised that the construction industry involves some serious mis-classification problems which are frequently not corrected by audit. It was suggested that interpretative bulletins to NCCI members for those classes especially susceptible to mis-classification might help and it was agreed that the Ironworkers' Institute would provide NCCI with some examples of the more common areas of error and NCCI would follow-up with explanatory circulars to its membership.

The treatment of fringe benefits as they relate to the premium base was next looked at. The Ironworkers' Institute advised that many non-union employers are currently setting up special pension funds for a portion of the wages being paid to employers. It was felt that some insurance companies were treating these payments as remuneration while others were not. NCCI agreed to review the manual rules regarding this and the Ironworkers' Institute agreed to furnish a copy of an article providing details about this type of pension plan.

At the close of the meeting NCCI again agreed to send the group the initial Oregon data, as well as specifications on the type of summaries NCCI intends to produce. Following this, the next meeting date will be established in order to go over the first wave of data.

I.I.I. EXHIBIT #2

Attached please find five exhibits which display several variables extracted from the data collected under the auspices of the Oregon classification survey. Each exhibit assigns individual observations to one of 11 mutually exclusive weekly wage categories. The NCCI is trying to determine if any inequities are present in the current classification system and, if so, to attempt to isolate the causes of such inequities.

Specifically, the following exhibits are attached:

* EXHIBIT 1: Average costs (both per risk and per case).
* EXHIBIT 2: Number of risks, cases, and resulting frequency.
* EXHIBIT 3: Premiums, losses, and resulting loss ratios.
* EXHIBIT 4: Crewsize and number of employees.
* EXHIBIT 5: Percentage of union affiliation.

Actuarial analysis based on a data base consisting of 1893 observations revealed that the loss ratio does appear to be inversely related to wage levels, i.e., as wage levels increase, loss ratios decrease (Exhibit 3). This appears to be attributable almost entirely to a sharp drop in the frequency of recorded claims, as shown in Exhibit 2. Severity, as measured by the average cost of a case, is fairly stable across all wage categories (Exhibit 1). A particularly sharp break in the frequency for weekly wages exceeding $600 is evident and is suggestive of remedial action to correct the inequity by procedures aimed at smoothing out fluctuations in the loss ratios. A high degree of positive correlation was found to exist between wage levels and percentage of employees belonging to a union (Exhibit 5) - thus one approach could be to design a schedule of credits based on this variable or on a close proxy.

Further preliminary analysis led the NCCI to isolate two qualitative variables: 1. existence of a workcrew; 2. presence of a prevention program. These appear to be significantly related to fluctuations in loss ratios and wage levels. It should be noted that all analysis conducted to date was performed across the aggregate data base, i.e., no distinction has yet been made for individual classification experience.

NATIONAL COUNCIL ON COMPENSATION INSURANCE

EXHIBIT 1

STATE OF OREGON

PRELIMINARY

WEEKLY WAGE INTERVAL	AVERAGE COST PER RISK	AVERAGE COST PER CASE
< $101	$1122	$3740
$101-200	2425	10964
201-300	990	2701
301-400	1513	4081
401-500	3151	6508
501-600	4756	5329
601-700	3356	6301
701-800	2931	5862
801-900	2680	4297
901-1000	2893	6033
> 1000	4679	5078

NATIONAL COUNCIL ON COMPENSATION INSURANCE EXHIBIT 2

STATE OF OREGON

PRELIMINARY

WEEKLY WAGE INTERVAL	NUMBER OF RISKS	NUMBER OF CASES	FREQUENCY PER $100 OF PAYROLL
< $101	40	12	.61
$101-200	104	23	.22
201-300	251	92	.18
301-400	286	106	.21
401-500	283	137	.30
501-600	186	166	.34
601-700	184	98	.07
701-800	144	72	.08
801-900	101	63	.28
901-1000	98	47	.07
> 1000	216	199	.10

STATE OF OREGON

PRELIMINARY

WEEKLY WAGE INTERVAL	MANUAL PREMIUM	MODIFIED PREMIUM	TOTAL LOSSES	LOSS RATIO
< $101	$130103	$141960	$44876	.34
$101-200	234796	239496	252183	1.07
201-300	865647	870619	248459	.29
301-400	1773707	1718243	432583	.24
401-500	2261740	2121536	891608	.39
501-600	2265620	2030500	884614	.39
601-700	1743511	1688662	617510	.35
701-800	2036397	2091598	422046	.21
801-900	1403628	1413054	270702	.19
901-1000	1464669	1324709	283539	.19
> 1000	4713716	4561248	1010577	.21

STATE OF OREGON

PRELIMINARY

WEEKLY WAGE INTERVAL	AVERAGE CREWSIZE	AVERAGE MINIMUM # EMPLOYEES	AVERAGE MAXIMUM # EMPLOYEES
< $101	6.6	2	4
$101-200	6.8	2	4
201-300	6.6	3	6
301-400	6.7	3	8
401-500	7.0	3	10
501-600	7.0	4	14
601-700	8.2	4	12
701-800	7.2	5	13
801-900	7.9	6	19
901-1000	7.2	5	15
> 1000	7.2	6	20

STATE OF OREGON

PRELIMINARY

WEEKLY WAGE INTERVAL	% UNION MEMBERSHIP
< $101	10%
$101-200	4
201-300	9
301-400	18
401-500	24
501-600	33
601-700	34
701-800	40
801-900	45
901-1000	49
> 1000	53

National
Council
on Compensation
Insurance

1 Penn Plaza
New York, New York 10119
Tel (212) 560-1000

Michael Camilleri
Assistant Vice President
Director of National Affairs

I.I.I. EXHIBIT #3

July 26, 1984

Mr. Steve Cooper
Deputy Director
Institute of Ironworking Industry
1750 New York Avenue, NW
Washington, D.C. 20006

Dear Steve:

Enclosed is a list of alternatives which are under consideration to address the findings of the Oregon Survey. Also included is a summary of the responses, on a "question by question" basis.

I look forward to seeing you next Thursday.

Regards,

Mike

MC:mh

cc: R. Sullivan
C. Mullenix
T. Grippa
J. Porter
R. Hilton

OPTIONS DEVELOPED FROM OREGON SURVEY DATA

1. A cap on payroll indexed to a multiple of the state average weekly wage.

2. Florida - Type Credit Program

    a. Notification of potentially eligible employers, developed from experience rating data sheets, would be made by NCCI field office. Only those employers with credit mods may be eligible.

    b. Employers who feel they may be eligible would complete necessary documentation (i.e. actual wage paid) and mailed to field office.

    c. NCCI field office would compute credit (sliding scale based on actual wages paid in excess of class group AWW).

    d. NCCI field office would notify carrier. Credit would then be applied by carrier either at renewal or by endorsement.

3. Credit Program Based Upon Individual Risk Characteristic - Percentage Credit Based Upon Percentage of Certified Journeymen.

    a. All employers with employees in a construction class would be notified that they may be eligible for a credit.

    b. Eligibility for such credit would be measured as of the date of policy inception.

    c. Employer would have the burden of supplying information and documentation relating to number of certified journeymen.

4. Credit Program Based Soley Upon Whether Employer Retains Majority of Union Employees.

5. Classification Split, Using Existing Classes, Based Upon Whether Employer Retains Majority of Union Employees.

6. Classification Split, Using Existing Classes, Based Upon Wage-Paying Practices.

Options Developed From Oregon Survey Data

7. Classification Restructure

Two - Step Approach

a. Condense number of construction classes (responds to allegations of misclassification).

b. Split condensed classes based upon high-paying and and low-paying wage practices (responds to equity argument).

EXHIBIT I

OREGON EXPERIENCE BY EMPLOYER WAGE LEVELS

ALL RISKS

AVERAGE WEEKLY WAGE	NUMBER OF RISKS	MANUAL PREMIUM	NUMBER OF CLAIMS	INDEMNITY LOSSES	MEDICAL LOSSES	TOTAL LOSSES	INDEXED LOSS RATIO
< $101	59	$184,976	15	$64,287	$25,038	$89,325	1.66
101-200	151	419,834	40	181,586	105,910	287,496	2.34
201-300	381	1,545,600	125	281,677	168,459	450,136	1.00
301-400	505	3,198,836	199	643,517	383,925	1,027,442	1.10
401-500	409	5,352,771	385	309,879	703,746	2,013,625	1.31
501-600	221	4,008,245	160	529,552	330,702	860,254	0.72
601-700	151	2,349,297	100	388,523	206,892	595,415	0.86
701-800	55	1,973,052	62	178,497	113,113	291,610	0.52
> 801	51	678,731	20	75,672	36,020	111,692	0.55
TOTAL	1,983	$19,771,342	1,106	$3,653,190	$2,273,805	$5,726,995	1.00

SUMMARY

AVERAGE WEEKLY WAGE	NUMBER OF RISKS	% OF TOTAL	MANUAL PREMIUM	% OF TOTAL	INDEXED LOSS RATIO
≦ $500	1,505	75.9%	$10,702,017	54.3%	1.24
> $500	478	24.1	9,009,325	45.7	.72
TOTAL	1,983	100.0%	$19,711,342	100.0%	1.00

OREGON EXPERIENCE BY EMPLOYER WAGE LEVELS

ALL RISKS

AVERAGE WEEKLY WAGE	MODIFIED PREMIUM	TOTAL LOSSES	INDEXED LOSS RATIO
< $101	$198,889	$89,325	1.50
101-200	405,491	287,496	2.37
201-300	1,515,533	450,136	1.00
301-400	3,105,969	1,027,442	1.10
401-500	5,190,657	2,013,625	1.30
501-600	3,747,647	860,254	0.77
601-700	2,208,010	595,415	0.90
701-800	1,854,445	291,610	0.53
> 801	676,943	111,692	0.53
TOTAL	$18,903,584	$5,726,955	1.00

SUMMARY

AVERAGE WEEKLY WAGE	MODIFIED PREMIUM	PERCENT OF TOTAL	INDEXED LOSS RATIO
≤ $500	$10,416,539	55.1%	1.23
> $500	8,487,045	44.9	.73
TOTAL	$18,903,584	100.0	1.00

OREGON EXPERIENCE BY EMPLOYER WAGE QUARTILES

ALL RISKS

	AVERAGE WEEKLY WAGE	NUMBER OF RISKS	MANUAL PREMIUM	NUMBER OF CLAIMS	TOTAL LOSSES	INDEMNITY LOSSES	MEDICAL LOSSES	INDEXED LOSS RATIO
First Quartile	$210	488	$1,984,870	129	$810,302	$533,256	$277,046	1.41
Second Quartile	348	514	3,864,479	355	2,029,172	1,334,331	694,841	1.83
Third Quartile	440	502	6,214,616	298	1,238,310	734,149	504,161	0.69
Fourth Quartile	616	479	7,647,377	324	1,649,211	1,051,454	597,757	0.76
TOTAL	$402	1,983	$19,711,342	1,106	$5,726,995	$3,653,190	$2,073,805	1.00

EXHIBIT 4

OREGON EXPERIENCE BY EMPLOYER WAGE QUARTILES

ALL RISKS

	AVERAGE WEEKLY WAGE	MODIFIED PREMIUM	LOSSES	INDEXED LOSS RATIO
First Quartile	210	$1,945,927	$810,302	1.40
Second Quartile	348	3,739,378	2,029,172	1.80
Third Quartile	440	6,020,726	1,238,310	0.70
Fourth Quartile	616	7,197,553	1,649,211	0.77
TOTAL	$402	$18,903,584	$5,726,995	1.00

TABLE 1

DESCRIPTIVE STATISTI[illegible] FOR RESPONSES
TO BARDSLEY AND HASLACHER SURVEY

AGEINT		LOSSES	TOTYRS	BUSTYPE1	BUSTYPE2	BUSTYPE3	BUSTYPE4	BUSTYPE5	SUBCON	AVECON	CONWKS	AVEEMP
101	N	59	56	59	59	59	59	59	56	52	54	57
	MEAN	1513.993	16.054	19.305	13.847	25.254	6.034	35.119	35.089	22566.8	4.917	3.088
1-200	N	151	149	148	148	148	148	148	145	135	138	148
	MEAN	1903.947	14.517	22.074	8.750	23.716	4.912	40.230	34.428	22990.5	4.123	2.706
1-300	N	331	370	367	367	366	367	366	359	335	333	369
	MEAN	1181.459	15.627	17.785	9.967	23.388	5.540	42.025	32.496	47164.7	4.614	4.432
1-400	N	504	484	492	491	492	492	492	473	437	441	486
	MEAN	2030.575	20.021	19.020	15.399	32.014	8.169	34.480	34.535	61455.4	5.866	5.520
1-500	N	405	390	400	396	399	400	399	384	373	376	395
	MEAN	4888.089	18.641	18.992	16.293	40.559	8.938	25.544	32.148	189600	9.552	9.381
1-600	N	221	213	218	218	216	218	218	212	200	203	214
	MEAN	3892.552	23.066	13.693	25.229	52.903	10.946	18.087	45.321	255712	9.791	10.353
1-700	N	150	147	148	149	147	148	148	146	141	141	144
	MEAN	3968.833	20.578	11.284	25.168	41.599	6.682	14.473	38.226	269274	12.160	12.698
1-800	N	55	54	53	52	53	53	53	54	52	52	54
	MEAN	5302.000	25.185	7.547	21.846	47.509	9.774	11.509	41.574	692135	16.385	16.639
801	N	51	48	50	50	50	50	50	50	46	47	49
	MEAN	2190.039	19.771	8.000	19.200	48.000	5.820	17.080	44.020	318908	16.330	10.316
L	N	1977	1911	1935	1930	1930	1935	1933	1879	1771	1785	1916
	MEAN	2879.593	18.865	17.252	16.129	35.209	7.702	30.063	35.624	145356	7.771	7.332

TABLE 1

DESCRIPTIVE STATISTICS FOR RESPONSES
TO BARDSLEY AND HASLACHER SURVEY

WAGEINT		BENEFIT1	BENEFIT2	BENEFIT3	BENEFIT4	BENEFIT5	MEDDEN	APPRENT	CERTEMP	BONUS	VEHICLES	HEAVY
< 101	N	55	55	56	54	56	58	59	55	59	59	59
	MEAN	0.109	0.200	0.250	0.093	0.089	0.259	0.119	0.309	0.220	0.593	0.271
101-200	N	146	149	146	145	143	150	149	139	151	150	150
	MEAN	0.068	0.215	0.240	0.076	0.049	0.233	0.188	0.345	0.245	0.620	0.180
201-300	N	368	374	374	364	367	377	379	352	380	377	379
	MEAN	0.182	0.305	0.382	0.124	0.093	0.317	0.148	0.364	0.300	0.682	0.232
301-400	N	482	492	495	480	469	496	502	470	502	502	502
	MEAN	0.210	0.341	0.451	0.179	0.107	0.498	0.239	0.755	0.321	0.695	0.305
401-500	N	390	395	399	388	386	398	402	370	403	404	404
	MEAN	0.167	0.309	0.411	0.193	0.153	0.555	0.351	1.673	0.308	0.723	0.389
501-600	N	207	209	213	208	209	218	220	196	220	220	218
	MEAN	0.111	0.258	0.399	0.269	0.139	0.716	0.518	3.719	0.318	0.736	0.495
601-700	N	144	147	149	141	139	140	148	138	149	150	148
	MEAN	0.167	0.272	0.356	0.312	0.173	0.636	0.473	4.971	0.329	0.667	0.459
701-800	N	53	54	53	53	53	55	55	45	55	54	55
	MEAN	0.151	0.185	0.283	0.170	0.113	0.655	0.545	7.578	0.327	0.741	0.618
>801	N	50	50	50	51	51	50	50	48	50	51	51
	MEAN	0.200	0.300	0.380	0.294	0.176	0.730	0.480	3.542	0.440	0.725	0.431
ALL	N	1895	1925	1935	1884	1873	1942	1964	1813	1969	1967	1966
	MEAN	0.166	0.294	0.388	0.184	0.119	0.495	0.300	1.706	0.309	0.694	0.342

DESCRIPTIVE STATISTICS FOR RESPONSES
TO BARDSLEY AND MASLACHER SURVEY

WAGEINT		WRKCREW	PREVPROG	EMPTRM	EMPMOV	UNIONVAR
< 101	N	59	57	57	58	59
	MEAN	0.322	0.298	48.947	77.672	0.102
101-200	N	151	145	151	151	151
	MEAN	0.205	0.234	37.152	89.669	0.113
201-300	N	376	364	380	380	381
	MEAN	0.287	0.286	36.026	77.789	0.126
301-400	N	496	486	503	503	504
	MEAN	0.335	0.360	57.604	98.688	0.208
401-500	N	396	389	401	401	405
	MEAN	0.386	0.437	36.471	77.918	0.348
501-600	N	215	211	220	221	221
	MEAN	0.526	0.521	26.455	66.561	0.624
601-700	N	146	143	150	150	150
	MEAN	0.527	0.531	37.000	68.967	0.667
701-800	N	55	54	55	55	55
	MEAN	0.564	0.611	45.273	42.545	0.691
>801	N	49	47	50	50	51
	MEAN	0.429	0.383	15.700	56.700	0.667
ALL	N	1943	1896	1967	1969	1977
	MEAN	0.370	0.389	40.841	80.609	0.317

TABLE 2

DESCRIPTIVE STATISTICS FOR RESPONSES
TO BARDSLEY AND HASLACHER SURVEY

NIONVAR UNION

WAGEINT		LOSSES	TOTYRS	BUSTYPE1	BUSTYPE2	BUSTYPE3	BUSTYPE4	BUSTYPE5	SUBCON	AVECON	CONWKS	AVEEMP
< 101	N	6	5	6	6	6	6	6	5	4	4	6
	MEAN	2181.000	19.000	0.833	51.667	17.667	1.667	28.000	64.000	19400	7.250	5.167
101-200	N	17	17	17	17	17	17	17	16	16	15	16
	MEAN	1655.353	25.765	12.765	12.765	42.824	3.353	28.294	45.938	13668.8	12.467	5.250
201-300	N	48	46	48	48	48	48	48	46	39	40	47
	MEAN	1925.438	21.130	12.979	15.563	31.229	4.646	33.083	31.935	35576.9	5.250	6.426
301-400	N	105	101	102	101	102	102	102	98	84	84	102
	MEAN	3990.476	27.079	9.922	25.099	39.539	5.333	18.020	42.500	145523	5.774	10.451
401-500	N	141	137	139	138	138	139	139	136	132	135	139
	MEAN	10856.9	22.993	12.640	16.962	46.906	5.820	16.065	36.934	415407	12.770	15.960
501-600	N	138	133	137	137	136	137	137	133	131	130	133
	MEAN	4359.232	26.135	8.518	23.197	49.691	5.109	11.876	49.489	220173	10.527	12.680
601-700	N	100	97	99	100	98	99	99	98	96	96	97
	MEAN	5120.810	22.402	11.051	23.910	45.357	7.737	11.010	43.245	276616	13.401	14.644
701-800	N	38	38	36	35	36	36	36	37	35	35	37
	MEAN	5397.263	31.053	7.944	21.741	53.694	7.722	6.361	46.973	976443	20.157	21.514
>801	N	34	31	33	33	33	33	33	34	30	31	33
	MEAN	2368.147	22.645	5.758	27.121	52.576	4.576	9.364	48.676	421992	20.726	13.955
ALL	N	627	607	617	615	614	617	617	603	567	570	610
	MEAN	5554.616	24.657	10.293	21.725	45.148	5.734	15.499	42.993	301542	11.646	13.223

DESCRIPTIVE STATISTICS FOR RESPONSES
TO BARDSLEY AND HASLACHER SURVEY

IVAR UNION

INT		BENEFIT1	BENEFIT2	BENEFIT3	BENEFIT4	BENEFIT5	MEDBEN	APPRENT	CERTEMP	BONUS	VEHICLES	HEAVY
11	N	6	6	6	6	6	6	6	6	6	6	6
	MEAN	0.333	0.333	0.333	0.333	0.000	0.667	0.333	0.667	0.167	0.333	0.167
-200	N	16	15	15	16	15	17	17	16	17	17	17
	MEAN	0.125	0.200	0.267	0.313	0.067	0.765	0.471	1.438	0.353	0.765	0.353
-300	N	48	47	48	47	48	48	48	46	48	46	47
	MEAN	0.208	0.277	0.313	0.213	0.146	0.604	0.333	1.348	0.292	0.826	0.277
400	N	99	103	103	101	95	103	104	96	105	105	105
	MEAN	0.222	0.320	0.398	0.376	0.063	0.767	0.519	2.000	0.267	0.686	0.400
500	N	139	140	143	139	138	137	138	125	140	141	141
	MEAN	0.108	0.179	0.236	0.259	0.159	0.708	0.630	3.904	0.286	0.745	0.433
-600	N	132	132	133	133	131	135	137	122	137	137	135
	MEAN	0.068	0.159	0.316	0.286	0.099	0.770	0.723	5.508	0.277	0.752	0.519
-700	N	99	99	99	98	98	90	98	91	100	100	99
	MEAN	0.111	0.192	0.293	0.306	0.092	0.733	0.622	6.495	0.260	0.640	0.475
-800	N	38	38	38	39	38	39	38	30	38	37	38
	MEAN	0.132	0.132	0.237	0.184	0.079	0.711	0.737	11.233	0.316	0.838	0.632
I	N	34	34	34	34	34	33	33	32	34	34	34
	MEAN	0.147	0.176	0.265	0.324	0.059	0.788	0.667	5.031	0.441	0.765	0.382
	N	611	614	616	612	603	607	619	564	625	623	622
	MEAN	0.133	0.207	0.299	0.289	0.104	0.733	0.609	4.486	0.288	0.729	0.445

TABLE 2

DESCRIPTIVE STATISTICS FOR RESPONSES
TO BARDSLEY AND HASLACHER SURVEY

UNIONVAR UNION

WAGEINT		WRKCREW	PREVPROG	EMPTRN	EMPMOV
< 101	N	6	6	6	6
	MEAN	0.333	0.500	331.667	361.667
101-200	N	17	16	17	17
	MEAN	0.294	0.375	10.294	39.706
201-300	N	47	45	48	48
	MEAN	0.426	0.400	18.854	51.563
301-400	N	100	98	105	105
	MEAN	0.470	0.480	86.048	144.619
401-500	N	138	137	140	140
	MEAN	0.514	0.577	28.214	72.571
501-600	N	135	132	138	138
	MEAN	0.526	0.523	27.391	63.116
601-700	N	98	96	100	100
	MEAN	0.592	0.615	25.200	54.700
701-800	N	38	37	38	38
	MEAN	0.658	0.676	30.789	41.053
>801	N	32	32	34	34
	MEAN	0.531	0.469	17.059	56.176
ALL	N	611	599	626	626
	MEAN	0.517	0.536	38.506	77.181

TABLE 2
DESCRIPTIVE STATISTI FOR RESPONSES
TO BARDSLEY AND HASLACHER SURVEY

:LONVAR NON-UNION

		LOSSES	TOTYRS	BUSTYPE1	BUSTYPE2	BUSTYPE3	BUSTYPE4	BUSTYPE5	SUBCON	AVECON	CONWKS	AVEEMP
AGEINT												
101	N	53	51	53	53	53	53	53	51	48	50	51
	MEAN	1438.472	15.765	21.396	9.566	26.113	6.528	35.925	32.255	22830.7	4.730	2.843
01-200	N	134	132	131	131	131	131	131	129	119	123	132
	MEAN	1935.485	13.068	23.282	8.229	21.237	5.115	41.779	33.000	24243.8	3.106	2.398
01-300	N	333	324	319	319	318	319	318	313	296	293	322
	MEAN	1074.219	14.846	18.508	9.125	22.204	5.674	43.374	32.578	48691.5	4.527	4.141
01-400	N	399	383	390	393	390	390	390	375	353	357	384
	MEAN	1524.917	18.159	21.400	12.887	30.046	8.910	38.785	32.453	41450.7	5.888	4.210
01-500	N	264	251	261	250	261	261	260	248	241	241	256
	MEAN	1730.192	16.231	22.375	15.988	37.161	10.598	30.612	29.524	65920.9	7.749	5.805
01-600	N	83	80	81	81	80	81	81	79	69	73	81
	MEAN	3116.627	17.962	22.444	28.667	50.362	20.926	28.593	38.304	323184	8.479	6.531
01-700	N	50	50	49	49	49	49	49	48	45	45	47
	MEAN	1664.880	17.040	11.755	27.735	34.082	4.551	21.469	27.979	253609	9.511	8.681
01-800	N	17	16	17	17	17	17	17	17	17	17	17
	MEAN	5099.059	11.250	6.706	22.059	34.412	14.118	22.412	29.824	106794	8.618	6.029
801	N	17	17	17	17	17	17	17	16	16	16	16
	MEAN	1633.824	14.529	14.706	3.824	39.118	8.235	32.059	34.125	125625	7.813	2.813
LL	N	1350	1304	1318	1315	1316	1318	1316	1276	1204	1215	1306
	MEAN	1637.194	16.169	20.510	13.512	30.572	8.623	36.891	32.142	71802.5	5.953	4.580

TABLE 2

DESCRIPTIVE STATISTICS FOR RESPONSES
TO BARDSLEY AND HASLACHER SURVEY

UNIONVAR NON-UNION

WAGEFIT		BENEFIT1	BENEFIT2	BENEFIT3	BENEFIT4	BENEFIT5	MEDBEN	APPRENT	CERTEMP	BONUS	VEHICLES	HEAVY
< 101	N	49	47	50	48	50	52	53	49	53	53	53
	MEAN	0.082	0.184	0.240	0.063	0.100	0.212	0.094	0.265	0.226	0.623	0.283
101-200	N	130	134	131	129	128	133	132	123	134	133	133
	MEAN	0.062	0.216	0.237	0.047	0.047	0.165	0.152	0.203	0.231	0.602	0.158
201-300	N	320	327	326	317	319	329	331	306	332	331	332
	MEAN	0.178	0.309	0.393	0.110	0.085	0.298	0.121	0.216	0.301	0.662	0.226
301-400	N	383	389	392	379	374	393	398	374	397	397	397
	MEAN	0.206	0.347	0.464	0.127	0.118	0.427	0.166	0.436	0.335	0.698	0.280
401-500	N	251	255	259	249	248	261	264	245	263	263	263
	MEAN	0.199	0.380	0.536	0.157	0.149	0.475	0.235	0.535	0.319	0.711	0.365
501-600	N	75	77	80	75	78	83	83	74	83	83	83
	MEAN	0.187	0.429	0.537	0.240	0.205	0.627	0.181	0.770	0.386	0.711	0.458
601-700	N	45	48	50	43	41	50	50	47	49	50	49
	MEAN	0.289	0.438	0.480	0.326	0.366	0.460	0.180	2.021	0.469	0.720	0.429
701-800	N	15	16	15	15	15	17	17	15	17	17	17
	MEAN	0.200	0.313	0.470	0.133	0.200	0.529	0.118	0.267	0.353	0.529	0.588
>801	N	16	16	16	17	17	17	17	16	16	17	17
	MEAN	0.313	0.563	0.625	0.235	0.412	0.529	0.118	0.563	0.438	0.647	0.529
ALL	N	1284	1311	1319	1272	1279	1335	1345	1249	1344	1344	1344
	MEAN	0.181	0.335	0.430	0.133	0.126	0.387	0.158	0.451	0.318	0.678	0.295

DESCRIPTIVE STATISTICS FOR RESPONSES
TO BARDSLEY AND HASLACHER SURVEY

UNIONVAR NON-UNION

WAGEINT		WRKCREW	PREVPROG	EMPTRM	EMPMOV
< 101	N	53	51	51	52
	MEAN	0.321	0.275	15.686	44.904
101-200	N	134	129	134	134
	MEAN	0.194	0.217	40.560	96.007
201-300	N	329	319	332	332
	MEAN	0.267	0.270	38.509	81.581
301-400	N	396	388	398	398
	MEAN	0.301	0.330	50.101	86.570
401-500	N	258	252	261	261
	MEAN	0.318	0.361	40.900	80.705
501-600	N	80	79	82	83
	MEAN	0.525	0.519	24.878	72.289
601-700	N	48	47	50	50
	MEAN	0.396	0.362	60.600	97.500
701-800	N	17	17	17	17
	MEAN	0.353	0.471	77.647	45.882
>801	N	17	15	16	16
	MEAN	0.235	0.200	12.813	57.813
ALL	N	1332	1297	1341	1343
	MEAN	0.303	0.321	41.931	82.208

I.I.I. EXHIBIT #4

Exhibit 1 depicts state wages which result in the maximum level of weekly benefits being awarded to the claimant, as of the legislation in effect on the given effective dates. Effective dates are the dates when the various state maxima first became effective.

Exhibit 2 depicts the impact of limiting class payroll, to the maximum effective wages given in Exhibit 1. For illustration purposes, two states were chosen: Florida and Illinois, with respective maximum effective wages of 458.98 (as of 1/1/85) and 712.00 (as of 7/15/84). Data used to develop the appropriate increase factors were obtained from the Detailed Claim Call, a random survey of workers' compensation indemnity claims. Intermediate steps entering into the calculation of the ultimate increase factor include adjustments to project wages to the midpoint of the effective period. These adjustments, when applied to the actual state average weekly wage, produces the state adjusted average weekly wage shown in the exhibit.

It should be noted that the increase factors do not necessarily represent the actual rate increases to be filed since class computations are based for the most part on data which is sparse. For example, classification code 5069 shows an increase factor in excess of 60% in Florida, but a negligible figure in Illinois - they may be attributable to some extent to the paucity of the data collected for this particular class code. Furthermore, comparisons between Florida and Illinois increase factors should take into consideration the fact that there is a 8.5 monthly time lag between the dates used in the projections of the adjusted weekly wages (July 1, 1985 in Florida, the midpoint of the effective date of 1/1/85 and the next anticipated change in the maximum weekly benefit to take place on 1/1/86 vs. 10/15/84 in Illinois, again the midpoint between the effective date of 7/15/84 and the next change scheduled to take place on 1/15/85).

EXHIBIT 1:

STATE WAGE LEVELS PRODUCING MAXIMUM BENEFITS

STATE	EFFECTIVE DATE	RATIO TO MAXIMUM	MAXIMUM WAGE
Alabama	7/1/84	1.00	290.00
Alaska	1/1/84	4.00	2,145.70
Arizona	7/31/80	1.50	457.37
Arkansas	8/1/82	1.00	230.99
California	1/1/84	1.00	335.98
Colorado	7/1/84	1.25	473.95
Connecticut	10/1/84	1.50	571.47
Delaware	1/1/84	1.00	335.64
Dist. of Col.	7/26/82	2.25	753.51
Florida	1/1/85	1.50	458.98
Georgia	4/22/82	0.75	202.49
Hawaii	1/1/84	1.50	421.48
Idaho	1/1/84	1.25	373.93
Illinois	7/15/84	2.00	712.00
Indiana	7/1/84	1.25	373.48
Iowa	7/1/84	3.75	1,084.44
Kansas	7/1/84	1.00	340.48
Kentucky	1/1/85	1.50	457.18
Louisiana	9/1/84	1.25	382.48
Maine	7/1/84	2.50	671.86
Maryland	1/1/84	1.50	466.48
Massachusetts	10/1/83	1.50	481.48
Michigan	1/1/85	1.50	598.16
Minnesota	10/1/84	1.50	497.98
Mississippi	7/1/84	0.75	188.99
Missouri	7/1/84	1.00	334.08
Montana	7/1/84	1.50	440.98
Nebraska	8/26/83	1.25	299.99
New Hampshire	7/1/84	2.25	665.97
New Jersey	1/1/84	1.00	364.29
New Mexico	1/1/84	1.50	433.78
New York	7/1/84	1.25	412.48
North Carolina	1/1/85	1.50	416.98
Oklahoma	11/1/84	1.00	325.00
Oregon	7/1/84	1.50	486.22
Pennsylvania	1/1/84	1.50	487.48
Rhode Island	9/1/83	1.50	412.48
South Carolina	1/1/85	1.50	425.42
South Dakota	7/1/84	1.50	370.48
Tennessee	7/1/82	1.00	203.99
Texas	9/1/84	0.75	304.48
Utah	7/1/84	1.25	395.98
Vermont	7/1/84	1.50	416.98
Virginia	7/1/84	1.50	442.48
Wisconsin	1/1/84	1.50	457.48

DD/79

EXHIBIT 2:

IMPACT OF LIMITING CLASSES TO MAXIMUM EFFECTIVE WAGES

FLORIDA

CODE	ADJUSTED WAGE	INCREASE FACTOR
5040	530.69	1.2955
5057	493.30	1.2410
5059	454.53	1.1879
5069	711.85	1.6028
5213	480.58	1.1578
5538	390.05	1.1115
All construction codes	367.81	1.0898

ILLINOIS

CODE	ADJUSTED WAGE	INCREASE FACTOR
5040	625.62	1.0919
5057	607.37	1.0776
5059	601.97	1.0734
5069	393.53	1.0027
5213	550.81	1.0376
5538	518.36	1.0206
All construction codes	538.78	1.0303

LOSS RATIO ADJUSTMENT PROGRAM

A. DESCRIPTION The LRAP was developed by NCCI to address the concerns of the construction industry on the issue of high pay vs. low pay. It is the only approach which fairly and accurately addresses the issue and the Oregon survey data.

NCCI's Board has reviewed all possible responses to manhours in great detail and unanimously agreed that the LRAP is the only alternate to total payroll and mandates that staff proceed on that basis.

B. CLASSES AFFECTED NCCI's Board has instructed staff to apply the program on as limited a basis as possible. This would include filing the program in only those states where necessary as well as having it apply to as few classes as possible. For now, we intend to limit the filing to only construction classifications and to possibly make filings in the states of Florida, Illinois, Oregon, Maryland, Nebraska, Montana and Oklahoma.

(Two Classification and Rating Committees have already considered the filing. The Maryland C&R has voted to make a filing by 1/31/85. The Florida C&R voted to allow staff to make a filing if needed).

It should be noted that while the program is intended to be filed only for a limited number of classes, one of its great advantages is that it is flexible enough to be filed for all or any combination of classes without any required rate increase.

C. TECHNICAL The program compares an individual employer's actual loss experience to his expected losses. Depending on whether this comparison indicates a good or poor loss pattern, the employer would have a credit or debit factor applied to his premium. This would be in addition to any other modifications that might have already been made, including premium discount, deviation, schedule rating, experience modification, retro adjustment, etc.

The program will apply only to experience rated risks. It will not apply to nonrated risks for several reasons:

1) Oregon survey data did not indicate a need for further premium adjustment for non-rated risks.

2) In some states (i.e., Florida), a nonrated construction risk would not generally even be subject to the Workers Compensation Act.

3) Concern has been raised over potential significant premium savings for small risks.

In order to qualify for the LRAP, the rated risk's expected losses for his construction classes must be greater than 50% of the expected losses for all classes.

D. <u>BENEFITS OF LRAP</u> -

1. It is the only approach which considers the loss history of a risk in addition to resolving the differences raised by the Oregon survey.

2. As pointed out in the attached report, an indexed cap ignores the fact that an employer might run a very unsafe shop. For example, an employer paying his employees wages in excess of a cap, with losses four or more times a competitor paying his employees a wage equal to the cap would get a premium reduction, while his competitor would receive no benefit.

3. Other proposals, such as an indexed cap and the Florida program, would require a coincident rate increase; the LRAP does not, as it is self-adjusting. Taken together with the experience rate increases necessary in 1985, there is a strong likelihood that a 6-12% premium inadequacy would result if a cap were applied to all classes because of pressure the regulator not to approve the indicated increase.

4. Concern has been raised over the ability of NCCI and the trades to sell the LRAP. While the technical aspects of LRAP are somewhat more complex than some other proposals, the concept is not. NCCI is currently preparing a brochure for the completely uninitiated audience which describes the issue and LRAP. In addition, a question and answer formatted insert will be available to handle the technical side of the issue and LRAP.

COMPARISON OF EMPLOYER ANNUAL STANDARD PREMIUM UNDER DIFFERENT RATE ALTERNATIVES

SMALL EMPLOYERS

(1) RISK	(2) CURRENT PREMIUM	(3) ACTUAL LOSSES ÷ EXPECTED LOSSES	(4) UNION	(5) FLORIDA PROG. PREMIUM	(6) LIM. PAY PREMIUM	(7) LIM. PAY MAN HRS. PREMIUM	(8) NCCI PROPOSAL PREMIUM
A	886	.80	NO	881	783	712	886
B	1,346	102.15	NO	1,389	1,474	1,957	1,346
C	307	.80	YES	255	270	256	307
D	406	102.94	YES	328	244	230	406
E	2,826	.50	YES	2,917	2,967	3,056	2,496
F	2,878	.99	NO	2,711	3,200	2,989	2,475
G	2,535	1.78	YES	2,339	2,820	2,495	2,557
H	1,846	.02	NO	1,913	2,036	2,257	1,591

COMPARISON OF EMPLOYER ANNUAL STANDARD PREMIUM UNDER DIFFERENT RATE ALTERNATIVES

MEDIUM EMPLOYERS

(1) RISK	(2) CURRENT PREMIUM	(3) ACTUAL LOSSES - EXPECTED LOSSES	(4) UNION	(5) FLORIDA PROG. PREMIUM	(6) LIM. PAY PREMIUM	(7) LIM. PAY MAN HRS. PREMIUM	(8) NCCI PROPOSAL PREMIUM
A	42,831	.53	YES	35,579	38,783	36,434	36,122
B	35,293	.10	YES	33,671	38,852	37,746	21,884
C	45,576	.34	YES	48,196	50,184	56,611	34,977
D	26,997	.36	YES	28,554	38,798	34,014	28,830
E	8,612	1.76	NO	8,980	8,801	10,163	8,160

COMPARISON OF EMPLOYER ANNUAL STANDARD PREMIUM UNDER DIFFERENT RATE ALTERNATIVES

LARGE EMPLOYERS

(1) RISK	(2) CURRENT PREMIUM	(3) ACTUAL LOSSES ÷ EXPECTED LOSSES	(4) UNION	(5) FLORIDA PROG. PREMIUM	(6) LIM. PAY PREMIUM	(7) LIM. PAY MAN HRS. PREMIUM	(8) NCCI PROPOSAL PREMIUM
A	124,576	.26	YES	111,801	130,541	110,673	82,488
B	85,218	1.95	YES	88,246	88,845	84,575	76,272
C	368,780	.50	YES	372,856	377,804	383,782	338,085
D	176,436	.36	YES	177,422	180,884	182,734	141,846
E	110,573	2.06	YES	88,963	84,017	88,861	136,452

Exhibit 3
February 11, 1985
House Bill 234
Submitted by: William Palmer

TESTIMONY ON HOUSE BILL 234 BEFORE THE HOUSE

BUSINESS AND LABOR COMMITTEE BY WILLIAM R. PALMER,

ASSISTANT ADMINISTRATOR, DIVISION OF WORKERS' COMPENSATION,

DEPARTMENT OF LABOR AND INDUSTRY

House Bill 234 addresses two issues: (a) the consideration of investment income by insurers in determining equitable rates, and (b) substituting the number of hours worked for each occupational classification in the construction industry rather than using the current percentage of payroll method. The Division of Workers' Compensation takes no position on the first issue, investment income; but would like to direct this testimony to the second issue, the use of hours worked rather than a percentage of payroll for premium determination purposes.

Only one state that I am aware of currently uses the hours worked basis as a means of computing workers' compensation premiums, the State of Washington. They have used this method for many years. However, all other states use the payroll basis as does Montana. The payroll method is simple for both insurers and employers. The amounts to be reported are readily available from other required reports, unemployment insurance, social security, federal and state withholding.

I cannot speak for the private carriers, but the State Insurance Fund has the advantage of cross-checking reported amounts with its sister division, Unemployment Insurance, to verify if a similar payroll amount was used. Of course, this advantage would be lost under the provisions of House Bill 234.

In comparison with other states, Montana has a relatively small population, and consequently by comparison, a relatively small labor force, and yet the people of Montana have been very sensible about considering the impact of new ideas that come along from time to time. A proposal very similar to this one has been presented to the Oregon legislature for the past four sessions. Finally, in 1983, both the Oregon legislature and the insurance division of that state felt that questions and allegations raised concerning a possible lack of equity in premiums paid by different employers performing the same work (which is the essence of this bill), was deserving of further study. The legislature then called for a thorough study of the matter and an independent public pollster was commissioned to survey Oregon employers in the construction industry.

In her January 1985 letter to the Speaker of the House and the President of the Senate, Commissioner Jo Driscoll (some of you may know her as she was Deputy Commissioner of Insurance here in Montana for many years) states that the survey results show: (a) a relatively small degree of inequity appeared to exist for large high wage paying construction employers, and (b) that there was insufficient risk characteristics within these employment groups to establish a new subclass for rating purposes with a high degree of accuracy.

Commissioner Driscoll goes on to say that after hearing extensive testimony and after reviewing the findings of the survey, she remains unconvinced that a conversion to a cents per hour basis from the current payroll basis would result in greater premium equity for employers.

The National Council on Compensation Insurance has prepared and is ready to implement a system rating plan which addresses the issues brought out in the cents per hour proposal. Oregon will test this plan in the very near future. The results of the field test impacting the new rating plan will be made known as soon as it is completed.

The State of Montana and the State of Oregon are very similar in the way they handle workers' compensation coverage. Therefore, I am requesting that the committee kill this bill for now and evaluate it again once the outcome of the Oregon experiment is known. I would like to suggest that Representative Driscoll, who is a member, present this issue to the Governor's Advisory Council on Workers' Compensation for consideration and evaluation. The Governor's Council will hold its initial meeting this Thursday, February 14th, here in Helena. Thank you.

WRP/nmb

Exhibit 4
February 11, 1985
House Bill 234
Submitted by: Mike Camilleri

NATIONAL COUNCIL ON COMPENSATION INSURANCE

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A PRELIMINARY ANALYSIS

OF CONSTRUCTION CLASSIFICATIONS

IN OREGON

INTRODUCTION

In Oregon, there has been concern about the equity of workers' compensation rates for employers in the state's building and construction trades. In 1983, the legislature mandated a study of 7,500 contracting employers to be sponsored by the National Council on Compensation Insurance. The intent of the study, according to Governor Victor Atiyeh, was to obtain information so that "any remedial steps deemed necessary can be taken to ensure equity of workers' compensation insurance premium charges in Oregon". The results of the study would be given to the commissioner in the fall of 1984. The commissioner, in turn, would report them to the 1985 legislature.

The NCCI hired Bardsley and Haslacher, Inc., an Oregon market research firm, to conduct the study. Twenty-three comprehensive questions were developed by NCCI staff to be asked of employers in 42 construction classifications. A pilot study was then mailed to approximately 450 employers in three classifications. After analyses of the replies, some questions were modified and the complete study was sent to approximately 7,500 employers. Bardsley and Haslacher received 4,276 replies, which were forwarded to the NCCI in April and May of this year.

Preliminary analyses of the data have been completed. This draft report will discuss such analyses and indicate probable future direction.

THE SURVEY

The survey form is reproduced at the back of this report. Because one focus of the study was on total payroll as an exposure base, a major goal was to test premium equity among employers paying different wage rates to their employees. Thus, the critical question, #22 on the form, dealt with employer wage information.

Unfortunately, out of the 4,276 employers who completed the form, only 1,983 provided wage information. The risk characteristics of these employers were then matched with NCCI internal insurance data for the latest year, containing loss and premium experience on an individual employer basis. The resulting data base was used to analyze premium equity among employers.

DESCRIPTION OF ANALYSIS

To achieve equity among employers, manual rates are established in relation to expected benefits. Two components of the ratemaking system are the exposure base and the classification system. The NCCI has shown that total payroll is the most equitable exposure base for workers' compensation insurance. However, whenemployers are grouped together in classifications, inequities can occur if different employers are grouped together. The Experience Rating Plan, based on individual employer experience, usually corrects for these differences. In some cases, though, the Plan may not make sufficient correction and further equity refinements may be required.

The NCCI analyzed the Oregon data in three steps:

1. Is there premium equity among employers with different wage levels? Loss and premium experience was summarized across wage intervals. This was done for individual classifications and all combined.
2. Does the Experience Rating Plan eliminate inequities? Manual premium was compared to modified premium for each employer.
3. Are there additional rating variables which can be used for further refinement? The risk characteristics from the Oregon survey were examined. Examples of such characteristics are percentage of employees belonging to a union, existence of an employer apprenticeship program and existence of an accident prevention program.

RESULTS

For a large share of the 42 classifications, the number of responses were not sufficient to analyze individual class data. Though losses, premium and loss ratios were developed for each class, aggregate data was used for analysis.

Exhibit 1 displays experience by wage levels for all employers. It can be seen that, for employers with average weekly wages below $500, their indexed loss ratios are higher than the indexed loss ratio for all employers. (The interval $201-300 is an exception, where the loss ratio index is 1.00.) On the other hand, indexed loss ratios from employers with average weekly wages above $500 are lower than the indexed loss ratio for all employers.

Thus, indications are that inequities exist at the manual rate level for higher wage paying employers as compared to lower wage payers.

The next question is: does the Experience Rating Plan correct for this? Exhibit 2 compares losses to modified premium. It can be seen that the modified loss ratio leads to the same conclusion as the manual loss ratio.

There is another question: since average weekly wages differ by classification, can the tendencies of some classifications to pay higher wages distort the loss ratio experience results? To test this, employers were ranked in each classification from low to high wage levels, then divided into equal quartiles. All the employers in individual classification quartiles were then included in the aggregate quartiles. Exhibit 3 details the analysis of loss experience by quartiles. The indexed loss ratio decreases when wage levels increase, thus supporting Exhibit 1.

Exhibit 4 looks at the modified loss ratio by quartile; again the conclusion is the same as for Exhibit 2 - the indexed loss ratio tends to decrease when employer wage levels increase.

ADJUSTMENT FOR EQUITY

One year of insurance data was used to compile experience for Oregon employers. Currently, NCCI staff is enlarging this data base by adding more years of experience. Staff is also looking into the effect of individual carrier dividends and deviations on employer premium. However, staff felt that, because of the survey's preliminary indications, equity at the manual rate level among employers should be adjusted. The adjustment could then be reviewed after survey results were completed. Various options to address the equity issue are shown on a separate exhibit.

DRAFT

AN EQUITABLE BASIS FOR WORKERS' COMPENSATION PREMIUMS

PREPARED BY

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DECEMBER 12, 1984

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SUMMARY

In most states, an employer's workers' compensation premium is determined by three factors: (1) the employer's manual rate, (2) the employer's total payroll, and (3) the employer's experience modification factor. The manual rate applies to all employers in the state that perform similar activities; there are up to 600 different classifications of activities in some states. The use of total payroll is reasonable if employers within the same class pay reasonably similar wages. However, when one employer's wages are much higher than the average wages in that class, its manual premium will be out of line with its costs, other things equalling out. Experience rating is a process of comparing an individual employer's claims experience with the average experience of its class. Experience rating can remove inequities in the classification and total payroll parts of premium determination, but it is less effective in doing so, the smaller the employer. (See Section I).

Workers' compensation costs can be divided into two components: (1) claim frequency or number of claims, and (2) claim severity or average claim amount. The most reasonable assumption with respect to frequency, is that employers in the same class will have the same number of claims per hour worked. Claim severity can also be divided into two components: (1) duration, and (2) average weekly benefit. The most reasonable assumption is that all employers within the same class will have the same proportion of the various types of injuries; and that the duration of each injury will be the same for all employers within the class. Thus costs will vary with wages only to the extent that the average weekly benefit varies. For medical expenses and for compensation with either a low maximum or a lump sum benefit, costs should be the same for all workers; costs will only vary with frequency, which varies with hours worked. For high benefit compensation; costs should vary with limited payroll; that is, with payroll limited to the amount qualifying for the maximum weekly benefit. Thus the workers' compensation benefits structure does not correspond to total payroll; statutory benefits correspond most closely in some cases to hours worked and in other cases to limited payroll. (See Section II).

Experience rating modifies manual rates, based on two considerations: (1) how much better or worse the employer's claims experience was than the average, and (2) how large the employer is. Average wage differentials are large in the construction industry and the average contractor is quite small (about 8 employees). The current NCCI experience rating system does very little to alleviate the inequity of using total payroll. (See Section III).

The NCCI funded and performed the Oregon Study in order to provide support for two of its contentions: (1) that large wage differentials within the same class did not exist, and (2) that high wage payers do not pay more premiums than they should. The Oregon Study proved the opposite. In addition, the Oregon Study showed that medical costs are not proportional to total payroll. (See Section IV).

To remedy the problems demonstrated by the Oregon Study, the NCCI has proposed a modification to its experience rating system (to apply only to the construction industry). The system gives more weight to the employer's claim experience and produces greater year to year fluctuations in premium costs. The NCCI proposal, according to its own test results, actually increases the inequities for the high wage payers. Indeed, an experience rating system can not do much for smaller employers. Given the large size of wage differentials and the small size of the average contractor, the NCCI proposal can not "solve" the problems caused by using total payroll. (See Section V).

We propose using hours worked and limited payroll. Costs for medical expenses and low maximum benefit compensation are most closely related to hours worked. Costs for high benefit compensation are most closely related to limited payroll. This is the direct approach to removing the inequity of total payroll. (See Section VI). We review the unstated and stated objections to our proposal. The NCCI has not documented the problems they say exist with using hours and limited payroll. (See Section VII).

INTRODUCTION

The construction industry, in particular the higher wage paying and union segments, has been concerned for many years about the equity of basing premiums on total payroll. This concern has been communicated to insurers, insurance regulators, and legislatures, in many states, over a period of years. Legislation has been introduced in several states to mandate that hours worked be the basis for premiums. The State of Washington has used hours worked for over fifty years. Most states used some sort of payroll limitation (e.g., $100 per week) at some time in the past. Nevada still does. Most other states use total payroll. Exceptions are used for certain unusual classes (e.g. jockeys) or occupations (e.g. corporate officers). In addition, extra compensation paid for overtime is not generally included within the definition of "total payroll".

This report will briefly discuss why this has become an issue and what alternatives can be taken. A leading character in the controversy is the National Council on Compensation Insurance ("NCCI"), the insurance industry's trade organization that makes and files workers' compensation rates in about 30 states and provides other services in about half of the remaining states. During 1983 and 1984, the NCCI conducted a study in Oregon to analyze the problem. This study (the "Oregon Study") has provided some of the most definitive information on this issue.

Future Cost Analysts, Inc. has been employed since 1982 by the Florida Labor/Management Council (an organization of labor unions and union contractors) to review workers' compensation insurance rate filings in Florida and to assist in obtaining a more equitable basis for premiums. The principals of Future Cost Analysts have been employed by the states of Ohio and West Virginia for several years for the promulgation of rates and rating plans by their exclusive state funds.

I. THE BASICS

There are three elements that determine an employer's workers' compensation premium in most states: (1) the manual rate for the employer's class, (2) the employer's payroll, and (3) the employer's experience modification factor.

<u>The Manual Rate</u> - Employees are categorized into about six hundred classes. (For example, Class 5022 is masonry - not otherwise classified and Class 5213 is concrete construction - not otherwise classified.) A class represents a segregation of employees into groups that can be expected to produce different workers' compensation costs. Costs can be different from one class to another because: (1) workers in one class have more or fewer injuries, or (2) because the cost of the injuries may be higher or lower. (This will be explained in greater detail below.) Class definitions group together workers that are doing similar types of work and hence are subject to similar types of injuries. Even though individual workers within the same class may do different things, the basic assumption of classification is that each employer within that class will have a representative share of workers who are performing the different tasks.

<u>Payroll</u> - The employer's payroll is multiplied by the manual rate (for each of the employer's classes) to produce the "manual premium". The basic assumption here is that higher payroll implies more workers who are subject to injury or more hours worked. The explicit assumption is that twice as much payroll (for an employer in the same class) will produce twice the claims cost. This assumption raises some serious difficulties. Individual employees who make higher wages, such as supervisors, may actually be subject to lower claims costs (because they have a lower frequency of injuries). In addition, wage rates may vary for reasons other than the type of work performed, such as seniority pay or shift differential. In particular, the crucial issue involved in this entire controvesy, is the fact that pay scales for essentially the same job duties may vary greatly from employer to employer. This has been true and continues to be true in the construction industry, where union pay scales are often considerably higher than non-union pay scales. Union pay scales may also vary greatly between different geographical areas. Thus a union carpenter may make double the hourly wage of a non-union carpenter who performs essentially the same tasks. The union employer may thus pay twice as much in premium for essentially the same number of workers doing the same type of work, who are subject to the same types of injuries.

Experience Rating - All states have an experience rating system that modifies the individual employer's premium based on the employer's own claim experience. Eligibility varies, but $2,500 in annual premium is a typical threshhold. The vast majority of employers (e.g., 80%) in most states are too small to be experience rated. These employers, by definition, are very small, however, and produce only a small percentage of statewide premium (e.g., 5%).

Experience rating systems develop a "modification factor" that is applied to the manual premium. This factor is generally less than 1.0 if the employer's class experience has been better than the average for his class, and is generally greater than 1.0 if the employer's claims experience has been worse than the average. The maximum credit (for no claims) is generally small for the very small employer (e.g., 5% for the employer just large enough to qualify for experience rating). The maximum surcharge is generally unlimited, although the impact of a single claim is usually limited through some mechanism.

Experience rating systems use formulas to determine how much of a credit or surcharge an employer should receive for its claims experience. These are based on various actuarial formulas, methods, and judgments. Experience rating may be able to alleviate some of the inequity in the classification and payroll stages of premium determination; its ability to do so, however, is limited by the employer's size. For the smaller employer, experience rating is not a very effective means of removing significant inequities in classification and payroll.

II. THE COST FUNCTION

Workers' compensation costs can be thought of as being composed of two parts: (1) the number of claims (often called "frequency"), and (2) the average cost per claim (often called "severity"). "Frequency" can formally be defined as the number of claims per $100 of payroll, per worker, or per hour worked. For purposes of this report, we will define "frequency" to be the number of claims per hour worked (or per some multiple of hours worked, such as one thousand or one million).

Frequency - Of the three main elements of the premium determination (manual rate, payroll, and experience rating), frequency has the most direct impact on the manual rate and has some impact on experience rating. Manual rates thus differ when claim frequency differs. Coal miners, for example, have a much higher claim frequency than office personnel. Indeed, different jobs within the same classification may have different frequencies. Supervisors probably do not have the same number of injuries per hour worked as do workers. Activities that are more strenuous probably have a higher frequency than those that are less strenuous. Certain activities may be more hazardous than others, such as logging on steeper versus flatter hillsides. In addition, actions of the employer may make a substantial difference in accident rate. Training, supervision, safety equipment, safer working conditions, and other factors may reduce the frequency of accidents.

The basic assumption in using manual rates is that all employers in the classification will have the same claim frequency per $100 of payroll. This is subject to experience rating (see below). (A higher or lower frequency could be offset by an equally lower or higher severity, discussed below). This assumption is open to challenge on several grounds. It is probably more reasonable to assume that workers performing the same jobs will have the same claim frequency per hour worked. That is, higher pay for seniority or shift differential for supervisors probably does not translate into more claims for these workers. Thus the above basic assumption is only correct to the extent that different employers within the same classification pay approximately the same wages. That is, that they have approximately the same percentage of employees that perform differently paid jobs and that receive seniority and shift differentials. In the case of union versus non-union construction where significantly different hourly wages are paid, the assumption breaks down seriously. The more correct assumption is that claim frequency for employers within the same class varies with hours worked.

Severity - Benefit types and benefit amounts are prescribed by statute. Generally, benefits can be divided into two categories: (1) medical expenses, and (2) compensation (or "indemnity"). The split between the two varies greatly between state, but ranges between approximately 25% to 50% for medical.

Medical benefits are virtually never prescribed in terms of the injured workers wages. Generally, all reasonable and necessary expense, including rehabilitation, must be paid. There may be fee schedules o time limits. The basic assumption underlying the manual rate is th the cost of medical benefits is proportional to the workers' wage. Th is, if worker A makes $20 per hour, his medical expenses for the sam injury will cost twice as much as worker B, who makes $10 per hour (Again, a higher or lower frequency (per $100 of payroll) could offset a lower or higher medical expense per claim. As another possible offset more highly paid workers could also suffer more medically severe injuries.) This assumption is almost certainly incorrect as applied to individual workers. For medical expenses that are controlled by a fee schedule, it is unlikely that the individual worker's wages have much t do with medical charges. As applied to individual employers, this assumption is reasonable only if the different employers within the same classification pay approximately the same average wage (or if one of th above offsets applies). The more reasonable assumption is that medica costs are independent of wages. For the union construction contractor that pays double the average hourly wage of a non-union contractor, the share of its premium covering medical expenses is probably double wha it should be, other things equalling out.

Indemnity benefits come in several types and vary greatly fro state to state. The usual categories are: (1) temporary total disability, (2) permanent total disability, (3) survivor (for dependents of deceased workers), (4) temporary partial disability, and (5) permanen partial disability.

The severity portion of indemnity costs can be divided into two components: (1) duration, and (2) the average weekly benefit. T duration generally varies by benefit type. Temporary total extends while the worker remains totally disabled, but may be limited to a given number of weeks (e.g. 200). Permanent total is generally for the lif of the worker. Survivor benefits are often paid to children until specified age (e.g., 18 or 23, if in school) and to spouses until death or remarriage. Permanent partial disabilities are usually based on schedule (e.g., 50% loss of use of one eye may result in 100 weeks o payments). The "duration" component may also be commuted to a lump sum payment. For all of these benefits, the essential manual rate making assumption is that the frequency of each type of benefit and the duration of each type of benefit for a given injury, will be the same for every employer in the class. (Again, higher or lower frequency may offset lower or higher severity, or its components). In other words the average worker for every employer doing the same type of work (i.e. classified in the same manual classification) will sustain the same types of injuries and receive the same types and duration of benefits.

The other severity portion of indemnity costs is the average weekly benefit. Most weekly benefit amounts are related to the injured workers' wages. (In some states, some benefits, such as survivor benefits, ar paid as a lump sum). The usual formula is to pay some percentage (ofte two-thirds) of the worker's wages, subject to a minimum and maximum weekly benefit. Many states specify the minimum and maximum benefits i terms of a percentage of the "statewide average weekly wage" ("SAWW") that is adjusted annually.

As an example, a typical state may define the minimum and maximum temporary total benefit as one-third and 100% of the SAWW. If the benefit is two-thirds of the workers' wages, subject to the limits, workers earning less than 50% of the SAWW will receive the minimum; workers earning more than 150% of the SAWW will receive the maximum; workers earning wages between 50% and 150% of the SAWW will receive a benefit proportional to their wages.

The basic manual rate making assumption is that the average weekly benefit will be proportional to each employer's average wage. Finally we have a situation where this basic assumption may be largely correct. If the vast majority of benefits are such that the vast majority of workers receive weekly benefits proportional to their own wages, the manual rate will be equitable with respect to indemnity costs. (The manual rate will still not be equitable with respect to medical costs).

There are several situations where this assumption will not be correct. First, for some benefits the maximum may be quite low. Relatively few workers earn less than 50% of the SAWW. Thus, if the maximum benefit is two-thirds of wages, with a maximum of one-third of the SAWW, most workers will receive the maximum benefit. In this case, the more accurate assumption is that the cost of this benefit is a fixed cost per hour worked. (That is, the indemnity cost (duration and average weekly benefit) is the same for each claim and the claim frequency is the same per hour worked.) This reasoning also applies to all benefit that are paid as lump sums or are not related to the workers' wages.

Second, for most benefits there are a substantial number of workers who will be limited to the maximum benefit. That is, many workers will receive a smaller percentage of their wages. For example, about 15% of all workers earn more than 150% of the SAWW. When the maximum benefit is the SAWW, these 15% will receive less than two-thirds of their wages. In the Oregon Study over 40% of the workers earned more than the wages qualifying for the maximum benefit. Thus this ratemaking assumption is inaccurate for more than 40% of the workers in the construction industry.

The obvious solution to this inaccuracy is to limit wages in the premium calculation to the amount that qualifies for the maximum benefit. For example, assume that $300 is the maximum weekly benefit and that an injured worker receives two-thirds of his wages up to the maximum benefit. If the worker earns $450 a week, his benefit will be $300. If the worker earns $600 a week, his benefit will still only be $300. Thus the excess of his wages above $450 per week does not increase his benefits. Compare two employers, one of which pays $450 per week, and one of which pays $600 per week. They should pay the same premium per employee, because the benefit costs will be the same. This can be accomplished by limiting payroll to the amount qualifying for the maximum benefit.

Summary - Claims costs can be divided into two factors: (1) frequency, and (2) severity. Within a given classification, it is reasonable to assume that claim frequency for an employer (number of injuries of certain types) will be most directly related to the number of hours worked. Medical costs will be the same for each type of injury and unrelated to the wages of the worker. Indemnity costs generally will be proportional to wages, limited to the wages qualifying for the maximum benefit. Indemnity costs with low maximums will be related to hours worked.

III. THE IMPACT OF EXPERIENCE RATING

Experience rating can remove some of the imperfections from the rating system. Some of these imperfections have been mentioned above: workers within the same class may perform different duties; some employers may provide more effective training or supervision; some employers may provide more effective safety programs or safer working conditions; some employers may hire workers who are more accident prone (e.g., less experienced) or who may require higher benefits (e.g., older workers may have longer healing times); pay policies vary from employer to employer.

Experience rating generally proceeds by comparing an employer's claims costs (usually over a three-year period) with the average claims costs in the same class. The credit or surcharge that the employer receives depends on two general factors: (1) how much better or worse the employer is from the average, and (2) how large the employer is. This latter point may need some explanation.

The size of the employer is significant because it determines how credible or meaningful the employer's experience is in a statistical sense. If the employer has one employee and the average experience for the class is one accident every 100 years, it would not be surprising that the employer would have no cliams at all in its three-year experience period. Should the employer pay no premium, because it has had no claims? Of course not, because most of similarly situated employers will likewise have no claims; the employer still faces an average risk of one claim every 100 years. On the other hand, the employer which has thousands of claims every year will have a relatively stable claims experience year in and year out. That employer's experience is deemed highly credible; if the experience is 50% better than the average for its class, it will get a credit of about 50% off the manual rate.

In other words, experience rating is limited in its applicability to the statistical credibility of the employer's claims experience. Very small employers, with no claims, will not receive a significant credit off the manual rate because the fact of no claims is not an unusual occurrence; that is, the fact of no claims does not indicate that the employer's claims cost potential is significantly less than the average.

A typical threshhold for experience rating is $2,500 in annual premiums. An employer at this premium level would receive about a 5% credit off the manual rate under the NCCI's current experience rating system. One $5,000 claim would produce a surcharge of about 13%, or a change in costs for the one claim of 19%.

The average construction contractor has about 8 employees. Assuming a $15 per hour wage, 1,500 hours worked per year, and a $10 workers' compensation manual premium, yields an annual premium of about $18,000. If the employer had no claims for three years, it could receive a credit of about 20% off the manual premium.

IV. THE OREGON STUDY

For many years the union construction industry has objected to the use of total payroll in the calculation of premiums. To our knowledge, no serious study of this problem was undertaken until recently in Oregon. The insurance industry conducted the study and undoubtedly thought the study would support their position in two key areas: (1) that wage levels do not vary significantly within a given class, and (2) that higher wage paying employers were not paying too much in premiums. The conclusions of the study showed the opposite. (Varying wage levels, of course, were no surprise to the construction industry.) Another of the NCCI's unsubstantiated contentions, that medical costs are proportional to payroll, also proved untrue.

Variability in Wages - The following is the data produced, for all 42 construction classes combined.

Average Weekly Wage	Number of Employers	Percentage of Employers	Number of Employers
- 100	59	3%	176
101 - 200	151	8	400
201 - 300	381	19	1,635
301 - 400	505	25	2,683
401 - 500	409	20	3,764
501 - 600	221	11	2,216
601 - 700	151	8	1,839
701 - 800	55	3	898
801 -	51	3	505
TOTAL	1,983	100%	14,116

Overpayment by High Wage Payers - The following data includes claim data for policy years beginning between July, 1980 and June, 1981. The wage data applies to 1984 levels, when the survey was conducted. Thus there is an implicit assumption that high wage payers during 1984 were also high wage payers during 1980-81. The loss ratio (claims cost to premium) is ratioed to the overall loss ratio for the entire group of insureds, to produce an "indexed loss ratio". If this "indexed loss ratio" is greater than 1.0, it implies that claims applicable to that group of employers, compared to their premium, were relatively higher than the average. Thus where the ratio is greater than 1.0, the employers paid too little premium; where the ratio is less than 1.0, the employers paid too much premium. A result is that low wage payers (below $500 weekly) should have paid 23% more premium than they did and high wage payers (above $500 weekly) should have paid 27% less than they did. Thus the current premium determination system is inequitable to high wage payers.

Average Weekly Wage	Standard Premium ($000's)	Total Losses ($000's)	Indexed Loss Ratio
- [illegible]	198.9	89.3	1.50
101 - [illegible]	405.5	287.5	2.37
201 - [illegible]	1,515.5	450.1	1.00
301 - [illegible]	3,106.0	1,027.4	1.10
401 - [illegible]	5,190.7	2,013.6	1.30
501 - [illegible]	3,747.6	860.3	.77
601 - [illegible]	2,208.0	595.4	.90
701 - [illegible]	1,854.4	291.6	.53
801 -	676.9	111.7	.55
Under [illegible]	10,416.6	3,867.9	1.23
Over [illegible]	8,487.0	1,859.1	.73
TOTAL	18,903.6	5,727.0	1.00

[illegible]egon Study indicates that total payroll is not equitable. The [illegible] loss ratios, shown above, are based on standard premium, that [illegible]s the effect of experience rating.

[illegible] Costs - The NCCI has also maintained that medical costs are propo[illegible] to wages; if ture, this would imply that total payroll is a fair [illegible]of charging for medical benefits. The Oregon Study refutes the NCCI contention, as the following data indicates.

Average Weekly Wage	Number of Employees	Number of Claims	Medical Losses ($000's)	Average Medical Cost Per Employee	Average Medical Cost Per Claim
- [illegible]	2,211	180	299.4	135.4	1,663
301 - [illegible]	6,447	584	1,087.6	168.7	1,862
501 - [illegible]	4,055	260	537.6	132.6	2,068
701 -	1,403	82	149.1	106.3	1,818
TOTAL	14,116	1,106	2,073.7	146.9	1,875

[illegible]rage cost per claim is approximately the same for all weekly wage [illegible]. The average cost per employee is actually <u>lower</u> for high wage [illegible] since they have a lower claim frequency. The proposal to charg[illegible]s per hour worked is essentially the same as charging costs per e[illegible] (if the average number of hours worked per employee are the same) [illegible]s the Oregon Study would indicate that even an hours-worked syste[illegible] not be completely equitable to high wage payers.

V. THE NCCI PROPOSAL

In the wake of the Oregon Study, the NCCI has proposed a solution to the inequities demonstrated by that study. NCCI proposes to loosen up the credibilities of the current experience rating system (but only for the construction industry). More credit will be given for good experience and higher surcharges will apply to poor experience. The system applies an additional factor to the modification factor calculated under the current system.

The new system will have the effeect of creating greater variability in rates from year to year. For example, under the current system the smallest employer qualifying for experience rating receives about a 5% credit for claims-free experience; one $5,000 claim would result in a 13% surcharge, or a 19% increase. Under the NCCI proposal, claim-free experience would generate a 14% credit; one $5,000 claim would result in a 24% surcharge; thus the one claim represents a 45% increase in premium.

As another example, take an employer with an annual premium of about $15,000. Under the current system, claim-free experience would yield a 19% credit. One $5,000 claim added to the expected losses would increase the employer's premium by 11%. Under the NCCI proposal, claim-free experience would generate a 43% credit; one $5,000 claim added to the expected losses would increase the employer's premium 18%.

The NCCI proposal has been presented in at least three different stages. It may possibly be revised again. One area that probably needs modification is the impact of one very large claim. One death, permanent total or severe medical claim could cause a large increase in the employer's premium for three years. For the employer with an annual premium of $15,000, for example, a single claim exceeding $30,000 would increase the employer's premium 135%, assuming there were no other claims.

Thus the NCCI proposal will lead to more fluctuations in employer rates from year to year. For the very small employers, fluctuations may be quite severe. The impact of one very large claim can also be severe. These are approximations. There are differences by state and class.

The basic problem with the NCCI proposal, however, is that it does not provide equity to the high wage payers. This can be demonstrated in three ways - (1) by general actuarial theory, (2) by test results on the Oregon Study data, and (3) hypothetical examples.

General Actuarial Theory - Experience rating can not solve the problem because of two basic factors: (1) wage differentials are large, and (2) the average contractor simply does not have enough claims to provide credible claims experience.

Commonly, wage differentials between high paying and low paying employers within the same trade are 50%; 100% is not uncommon. Experience rating does not generate credits of this magnitude for the smaller employer. For example, the smallest employer qualifying for experience rating now receives about a 5% credit for claims-free experience; under the NCCI proposal it will be about 14%. This can not offset the difference in premiums due to higher hourly wages. Indeed, the lower wage paying employers without claims will receive the same credits. More examples follow later.

The average contractor has about 8 employees. The frequency of lost-time injuries for the construction industry is about 8% annually. Thus the average contractor can expect about 1.9 lost-time injuries over its three-year experience period. If this is the expected number, certainly 0, 1, 3, or 4 claims over that period would not be unusual. Thus, statistical, widely varying claims experience would not lead to a conclusion that the employer was particularly better or worse than the average, and hence a change in its premium.

(It should be noted that the NCCI does not presently intend that its proposal be applied outside of the construction industry. This seems to indicate that the NCCI does not think that this proposal is sound for other types of employers.)

Thus, the statistical significance of the average contractor's claims experience is not particularly credible. As such, premiums can not and should not vary much

Test Results - The NCCI has put together several case studies, comparing the efficacy of its proposal with the current system and with alternative systems based on limited payroll and limited payroll - hours worked.

There are two important considerations before reviewing the test results: (1) the NCCI eliminated about one-half of the employers before running the tests, and (2) the NCCI's methodology regarding their own proposal is heavily biased towards a favorable result. Each will be explained in more detail.

Selection of Data - Questionnaires in the Oregon Study were sent to 7,500 employers. About 4,500 responded and 1,983 provided wage data. In conducting its tests, the NCCI selected only 1,061 employers out of the 1,983. There was a very significant difference in the bias against high wage payers shown in the larger group. The indexed loss ratios for low wage payers (under $500) and high wage payers (over $500) are as follows:

	1,983 Employers	1,061 Employers
Low Wage Payers	1.23	1.04
High Wage Payers	.73	.93

Therefore, whatever bias is shown against high wage payers in the NCCI test results, it is likely that the bias would be much larger if all of the employers providing wage data were included.

Methodology - The NCCI proposal uses actual claim experience to modify the current experience rating system. In order to measure the equity of its proposal, the NCCI then compares the premium that would have been charged with its revised system to "actual losses". The flaw is that the "actual losses" are the same losses that the NCCI uses in order to determine its adjustment to premium. In practice, rates are based on claims during a certain time period; the rates apply prospectively, however, to a future time period. By the very nature of insurance, it can be expected that claims in the future period will not replicate exactly the claims from the past. The same employers will have different numbers of claims and claims in different amounts. Thus the calculated effect of the NCCI proposal greatly exaggerates its efficacy. A more appropriate test would be to base the rates on one set of experience and test it against claims from a later period in time.

The two above problems make the NCCI's results less meaningful than it might seem. Nevertheless, it is instructive to review the comparison the NCCI did. The indexed loss ratios for low and high wage payers are given below.

	Current System	NCCI Proposal	Limited Payroll	Ltd. P/R - Hours
Low Wage Payers	1.04	1.07	1.01	.99
High Wage Payers	.93	.89	.97	1.02

As can be seen, high wage payers are relatively worse off under the NCCI proposal. Both the limited payroll and limited payroll-hours worked proposals improve equity for the higher wage payers.

The NCCI claims that its proposal is an effective solution to the inequity of the current system. This has not been demonstrated. Indeed, the NCCI's purported proof indicates that the situation is exacerbated.

Hypothetical Examples - We can test the efficacy of the NCCI proposal on some hypothetical example. Assume, for example, that employer C is exactly the same as employer D in every way, except that C pays its workers $12 per hour and D payts its workers $8 per hour. Without experience rating, C would pay 50% more in premium, while its claims costs are only 10% higher. C pays 15% too much and D pays 16% too little. We assume both C and D have 10 employees. We make various other assumptions in order to calculate premiums under the current and proposed NCCI systems. In particular, we assume that each employer faces five possible outcomes of actual loss experience, equivalent to 0, 50, 100, 200, and 500% of its expected losses. These are denominated trials 1, 2, 3, 4, and 5, respectively.

The results are shown in Exhibit I. Under the current experience rating system, C pays 12% too much and D pays 13% too little. This is a modest improvement over the manual rates (described above). The under and over charges are relatively consistent by loss level. Under the NCCI proposal, C still pays 8% too much and D pays 9% too little. This is a modest improvement over the current system. The inequities vary considerably by loss level, however. The major improvement under the NCCI proposal occurs for the claim-free situation.

Thus, under hypothetical examples, the NCCI proposal appears to improve the situation. Does it solve the problem by removing the inequity between high and low wage payers? Absolutely not. The example applies to a 10-worker contractor, which is slightly larger than average. For this sized employer, the NCCI proposal removes about one-third of the inequity in the current system. (It removes about one-half of the inequity in the manual rates, but the current NCCI experience rating system removes about one-sixth of the inequity in the manual rates).

In conclusion, the NCCI proposal does not solve the inequity in total payroll. Wage differentials are too large and the average contractor is too small. Both NCCI test data and hypothetical examples illustrate that the NCCI proposal does not go very far at alleviating the inequity of using total payroll.

EXHIBIT I

EFFECT OF NCCI PROPOSAL

I. PREMIUMS UNDER CURRENT NCCI SYSTEM

Trial	Premiums C	Premiums D	Equitable Sharing C	Equitable Sharing D	Actual v. Equitable C	Actual v. Equitable D
1	13,860	9,720	12,351	11,229	+12	-13
2	15,660	11,040	13,986	12,714	+12	-13
3	17,460	12,480	15,683	14,257	+11	-12
4	21,060	15,120	18,951	17,229	+11	-12
5	32,220	23,160	29,009	26,371	+11	-12

II. PREMIUMS UNDER NCCI PROPOSAL

Trial	Premiums C	Premiums D	Equitable Sharing C	Equitable Sharing D	Actual v. Equitable C	Actual v. Equitable D
1	7,740	6,360	7,386	6,714	+ 5	- 5
2	13,320	10,080	12,257	11,143	+ 9	-10
3	16,020	11,760	14,551	13,229	+10	-11
4	22,140	18,720	21,403	19,457	+ 3	- 4
5	42,480	29,160	37,526	34,114	+13	-15
Average	15,507	11,886	14,349	13,044	+ 8	- 9

NOTES (ASSUMPTIONS):

1. Expected losses by trial as percentage of overall expected losses: 1 - 0%, 2 - 50%, 3 - 100%, 4 - 200%, 5 - 500%.

2. Frequency of trials: 1 - 30%, 2 - 10%; 3 - 40%, 4 - 15%; 5 - 5%.

3. Class losses divided between C and D in ratio 11:10.

4. Actual primary losses 45% of actual total losses.

5. C pays $12/hour; D pays $8/hour.

6. 10 employees, 1,500 hours per year, expected loss rate is $4, manual is $10.

VI. OUR PROPOSED SOLUTION

We propose that the fairest basis for premiums is the following:

(1) Medical costs and compensation costs with low maximum benefits should be based on hours worked;
(2) Other compensation should be based on payroll limited to the wages qualifying for the maximum benfit.

This proposal makes the most sense because:

- It corresponds to the cost structure of workers' compensation benefits;
- There is documented evidence that the current system is unfair to high wage payers;
- Other proposals do nothing for non-experience rated employers and too little for the average contractor.

The simplest functional approach would be to publish two rates for each class, one to be applied against hours worked and one to be applied against limited payroll.

The same result can be achieved in other ways by measuring the employer's average hourly wage. For example, a credit off the manual rate can be given. This would require a substantial increase in the manual rate (but not to collected premiums). As a variation, a credit or surcharge could be applied based on the employer's average hourly wage. As a final alternative, a factor could be applied to the experience modification factor, based on the employer's average hourly wage. For employers not otherwise qualifying for experience rating, this adjustment would become the employer's experience modification.

Examples of the credits and factors are shown in Exhibit II. These values were developed for Florida, for 1985 premiums. It was assumed that $8.74 was the benefit statewide average weekly wage ($306 divided by 35 hours). Thus the payroll limitation would apply at $13.11 per hour.

VII. OBJECTIONS TO OUR PROPOSED SOLUTION

The NCCI has posed various objections to the use of hours worked and limited payroll. As to the feasibility of such a proposal, Washington uses hours, Nevada uses limited payroll, and Florida (construction only) provides a credit based on the average hourly wage. Clearly such program are feasible. The broader issue is whether the benefit of an equitable premium base is worth the expense of its implementation and maintenance. We will discuss the unstated and stated objections of the NCCI, as we understand them.

At this point it is important to note that most of the NCCI's objections are based upon speculations. They have speculated on this issue in the past and they proved themselves wrong in the Oregon Study. They used to maintain: (1) that significant wage differentials within a class did not exist; (2) that high wage paying employers were not paying too much; and (3) that medical costs were proportional to wages. These were all disproved by the Oregon Study. If the NCCI asserts that limited payroll and hours worked are not feasible or not practical, they should be prepared to present objective evidence to support their contentions.

UNSTATED OBJECTIONS

(1) "The premium bases are not inflationary."

When wages increase, total payroll increases and premiums increase. Thus an inflationary premium base, such as total payroll is beneficial to the insurance industry. They do not have to ask for as many rate increases. This reduces the NCCI's work load and reduces the insurance industry's risk of inadequate rates.

We do not object to an inflationary premium base, per se. In fact, the limited payroll portion of our proposal will be automatically indexed to changes in benefits. In addition, one of our other proposals, such as credits and surcharges, based on the average hourly wage, will provide inflationary premium increases.

Our objection to the use of total payroll is that it does not relate to the underlying cost of benefits.

(2) "The system must be changed."

This is true. The current system is inequitable to high wage payers and should be changed.

(3) "The segment most disadvantaged currently is a small portion of the insurance marketplace."

This is true. The current system is most unfair to very small high wage paying employers. Larger employers, that receive moer credibility under the current experience rating system, are not as seriously overcharged. The construction industry is a relatively small percentage of all industry; high wage payers are probably less than half of the construction industry; the very small to average contractors produce much less than half of construction industry premiums.

Why should the insurance industry remain unconcerned if this market is inaccurately priced? First, it is a relatively small proportion of total premiums. Second, the industry essentially applies cartel pricing to this segment. That is, every insurer will consistently price this market inaccurately. Since no insurer finds it financially rewarding to price the segment accurately, all of the others can be assured that they will not be hurt.

(4) "Manual rates will have to increase too much."

This is partly correct, but misleading. The converse of the high wage payers paying too much is the low wage payers paying too little. To provide equity to the high wage payers, the low wage payers must pay higher premiums (or the offset must come from other industries). We do not advocate that the construction industry pay less than its share of costs. Our proposal only fairly allocates the industry's costs among high and low wage payers.

There is a logical fallacy in this argument. In effect, it says that since high wage payers have paid too much in the past, they should continue to pay too much in the future. Conversely, since low wage payers have been subsidized in the past, they should continue to be subsidized into the future. What can be more unjust than penalizing a group because they have been unjustly penalized in the past?

STATED OBJECTIONS

(5) "Employers do not maintain the required information."

Two new items would be used in calculating premiums: limited payroll and hours worked. It is unlikely that this information would not be readily available. Employers must limit payroll fof other purposes, such as FICA and unemployment insurance. Until recently, most states had some sort of payroll limitation (e.g., \$100 or \$300 per week) for workers' compensation insurance. With respect to hours, virtually all union employers must maintain the records for fringe benefit purposes. Virtually all non-union employers pay workers based upon hours worked. There is no objective evidence that the required information would be unavailable.

(6) "It is too easy to manipulate the information. It is too difficult to verify the information."

The essential issue here is whether the proposed system, hours-limited payroll, is significantly less effective than the current system. Some objective evidence may be available. Washington uses hours and the insurance industry has used limited payroll. Was there significantly more fraud and under-reporting under the old system? Does Washington have problems collecting sufficient premium?

It should be noted that in most states there is now a credit for overtime hours. That is, the extra wages paid for overtime are not included in the premium base. In order to justify this credit, an employer must keep records of hours worked within a week. Is this system currently abused? If it is, why does the insurance industry permit it to continue. If not, how can the proposed system be any easier to manipulate or more difficult to verify? Again, there is no objective information to support the NCCI's contention.

(7) <u>The proposal is too expensive to implement</u>."

There will be expenses involved in changing over to another system. Whether the proposed system is significantly more expensive to administer is doubtful. The entire current expense for payroll audit and processing is a nominal percentage of premiums. Even a 10% or 20% increase in this cost would hardly impact overall premium costs. To the high wage paying employer, who is paying 25% too much in premiums, the nominal increase in expenses is well worth paying for. Again, the NCCI has provided no objective information.

Robert J. Finger, Fellow
Casualty Actuarial Society

RJF:jmm

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To Follow

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December 10, 1984

RE: Response to Blue Book

Dear Bob:

Enclosed is our response to the NCCI's Blue Book. Please let us know if you would like to see any additions or modifications.

Sincerely,

Bob

Robert J. Finger

RJF:jmm
enclosure

A RESPONSE TO:

"STUDY OF PREMIUM EQUITY
BY EMPLOYER GROUPS"

PREPARED BY

FUTURE COST ANALYSTS, INC.
1100 QUAIL STREET, SUITE 211
NEWPORT BEACH, CA 92660

DECEMBER 10, 1984

INTRODUCTION

The construction industry, in particular the higher wage paying and union segments, has been concerned for many years about the equity of basing premiums on total payroll. This concern has been communicated to insurers, insurance trade associations, regulators and legislatures, in many states, over a period of years. During 1983 and 1984, the National Council on Compensation Insurance ("NCCI") conducted a study in the state of Oregon to analyze the situation. ("The Oregon Study".) In the fall of 1984, the NCCI proposed a modification to its experience rating formula to "solve" the inequity of using total payroll. This proposal was presented in both Oregon and Florida to regulators, construction industry representatives, and other interested parties. The main documentation released for the proposal is a report entitled "Study of Premium Equity by Employer Groups". The report released in Oregon was essentially the same as the report released in Florida, except that the Florida report had two additional appendices (which covered limited payroll and limited payroll-manhours options); the order of the appendices was also reversed.

Future Cost Analysts, Inc. has been employed since 1982 by the Florida Labor/Management Council (an organization of labor unions and union contractors) to review workers' compensation insurance rate filings in Florida and to assist in obtaining a more equitable basis for premiums. We have reviewed the NCCI's proposal and documentation. We think that many statements made by the NCCI are either wrong or misleading. This response covers the more significant points following the NCCI's order of presentation.

(Page 1) "The Apparent Issue" - The real issue is that total payroll is not a fair basis for premiums. The number of injuries should be most directly related to the number of hours worked. The maximum weekly benefit for compensation is always limited; thus wages paid in excess of the amount corresponding to the maximum benefit are not related to costs. Medical costs do not vary proportionately with wages; in fact, in the Oregon Study, the average medical cost per claim was less for higher wage payers (over $500 weekly) than for lower wage payers (under $500 weekly). Thus higher wage paying employers pay too much and lower wage paying employers pay too little. The former group are subsidizing the latter group, who are business competitors.

(Page 1). "Why the Issue Must Be Clarified" - The statement is made: "Workers in more hazardous occupations are the ones that receive higher wages." This is irrelevant. Manual rates are established for each identifiable class or occupation. (There were 42 construction classes included in the Oregon Study.) The issue is that some workers, doing the same work (e.g. union carpenters or ironworkers), and classified in the same manual rate class, are paid significantly different wages. Thus their employers pay significantly different premiums for essentially the same exposure to injury.

(Page 2). "Less than 2% of injured workers receive the maximum weekly benefit." - This statement is both wrong and misleading. The NCCI's own "Standard Wage Distribution" indicates that about 15% of all workers earn wages in excess of 150% of the benefit statewide average wage (adjusted for inflation). In the Oregon Study about 40% of the workers earned in excess of $500 per week (which exceeded the amount required for the maximum benefit). For higher paid occupations, a large percentage of workers may earn more than the amount qualifying for maximum benefits. Thus there is a serious inequity in charging premiums for wages above the amount qualifying for the maximum benefits.

(Page 2). "Medical benefit costs increase as injured worker's wage increases." - We have not received detailed data on this point and the Oregon Study refutes the conclusion. (See below). Based on the sketchy data the NCCI has provided to us, medical costs might be 20% higher for a worker that has 100% higher wages. Even if this is true, the hypothesis that medical costs are related to hours worked is far closer to the truth than the hypothesis (used in current premium determination) that medical costs are proportional to total payroll.

(The cost per claim of medical benefits for low wage payers (under $500 weekly) was $1299; for high wage payers (over $500 weekly) was $1169, according to Exhibit V (p. 18, Oregon; p. 34, Florida).)

SECTION 3

(Page 6). "What the Special Survey Shows" - The statements are made: "There is no bias against (small) union employers as a group"; "There is no bias against (small) high wage paying employers as a group." These statements are blatantly false. The rationale for these conclusions is not stated. Presumably it is Exhibit III (p. 16, Oregon; p.32, Florida). The premium involved is $72,000 for higher wage payers and $74,000 for union employers. This is far too small a sample to draw the conclusion reached. The basic inequity, that is acknowledged by the NCCI for larger insureds, results from the premium basis: total payroll. Total payroll is not an accurate measure of costs. This is true for larger employers; this is also true for smaller employers, even though the Oregon sample was so small.

(Page 6). The statement is made: "Non-experience rated employers in the survey represented 2.2% of the premium." This demonstrates why the insurance industry is not worried about this inequity. The small employer, however, can be severely disadvantaged by the inequity of total payroll.

(Page 6). The conclusions of the Oregon Study are understated. High wage payers are paying too much and low wage payers are paying too little. Exhibit 1 (p. 14 Oregon; p. 30, Florida) shows that high wage payers should pay 27% less and low wage payers 23% more.

SECTION 5

(Page 10). The NCCI proposal does not solve the problem, which is that total payroll is not a good measure of costs. Actuarially, the NCCI proposal can not solve the problem, because: (1) the average construction contractor is small (averaging about 8 employees), and (2) claims are relatively rare (less than 10% of construction workers have a lost-time injury in a given year). Thus historical claims costs for the individual contractor will not be indicative of prospective costs.

We asked the NCCI to compare three rating proposals with the current situation. The three are: (1) the NCCI's proposed change to their experience rating formula; (2) premium based on limited payroll (i.e., payroll limited to the amount qualifying for the maximum benefit); and (3) premium based on limited payroll for compensation costs and manhours for medical costs. The results, given in terms of indexed loss ratios for employers in the Oregon Study, are:

	Current	NCCI Proposal	Limited Payroll	Ltd. P/R and Hours
Low Wage Payers	1.04	1.07	1.01	.99
High Wage Payers	.93	.89	.97	1.02

(The closer the ratios are to 1.0, the fairer the system is in allocating costs between high and low wage payers).

There are several pertinent observations:

(1) the disparity between high and low wage payers has been greatly diminished from the original survey results (1.23 - .73 versus 1.04 - .93); the NCCI failed to match up the experience of about half of the employers that reported wage information;

(2) the NCCI proposal worsens the inequity between high and low wage payers;

(3) the limited payroll and limited payroll-hours proposals are much better at alleviating the inequity between high and low payers.

SECTION 6

(Page 21, Oregon; p. 14, Florida). The indexed loss ratios are misleading. More appropriate ratios are given in the above comment.

NOTES ON THE OREGON STUDY

The NCCI tries to demonstrate various points with reference to the Oregon Study. Two points should be considered: (1) the Oregon Study produced data on only a small sample of employers, which may or may not be representative, and (2) the amount of data available to test certain hypothesis (e.g., whether high wage payers are subsidizing low wage payers) is far more reliable than that for other hypotheses (e.g., whether non-experience rated employers pay too much). On the first point, 7500 employers were sent questionnaires; only 4500 responded; of these, only 1983 gave wage data, and only 1061 of these were "matched" by the NCCI for analysis of the three alternative rating proposals. To demonstrate how this selection of employers can dramatically affect the results: for the 1983 employers, the high wage payers should have paid 27% less and the low wage payers 23% more; for the 1061 employers, however, the high wage payers should have paid only 7% less and the low wage payers 4% more.

CONCLUSIONS

1. There are serious inequities in the current system of premium determination. (Even the NCCI admits this.)

2. The inequity results from using total payroll. (High wage payers as a group pay too much. Total payroll does not relate to the cost structure of workers' compensation.)

3. The NCCI proposal does not solve the problem. (In theory, it can not solve the problem because the average contractor is too small. In practice, based on the Oregon Study, it exacerbates the problem).

4. The most equitable solution is to base compensation costs on limited payroll and medical costs on hours worked.

Robert J. Finger

Robert J. Finger, Fellow
Casualty Actuarial Society

JF:jmm

FOUR PROPOSALS FOR PREMIUM EQUITY - EXHIBIT I

INFO ONLY NOT ACCEPTABLE

AVERAGE HOURLY WAGE	PROPOSAL NO. 2 ($6 TRIGGER) CREDIT (PERCENT)	PROPOSAL NO. 2 ($8 TRIGGER) CREDIT (PERCENT)	PROPOSAL NO. 3 SURCHARGE OR CREDIT (PERCENT)	PROPOSAL NO. 4 ADDITIONAL FACTOR
6.01- 6.50	5.2	0.0	37.4	1.374
6.51- 7.00	9.7	0.0	31.0	1.310
7.01- 7.50	13.6	0.0	25.4	1.254
7.51- 8.00	16.9	0.0	20.5	1.205
8.01- 8.50	19.9	3.5	16.2	1.162
8.51- 9.00	22.5	6.7	12.5	1.125
9.01- 9.50	24.8	9.5	9.1	1.091
9.51- 10.00	26.9	12.0	6.1	1.061
10.01- 10.50	28.8	14.3	3.3	1.033
10.51- 11.00	30.5	16.3	0.8	1.008
11.01- 11.50	32.0	18.2	-1.4	0.986
11.51- 12.00	33.5	19.9	-3.5	0.965
12.01- 12.50	34.8	21.5	-5.4	0.946
.51- 13.00	36.0	22.9	-7.1	0.929
13.01- 13.50	37.4	24.7	-9.3	0.907
13.51- 14.00	39.7	27.4	-12.6	0.874
14.01- 14.50	41.8	30.0	-15.6	0.844
14.51- 15.00	43.8	32.4	-18.5	0.815
15.01- 15.50	45.6	34.6	-21.2	0.788
15.51- 16.00	47.4	36.7	-23.7	0.763
16.01- 16.50	49.0	38.6	-26.0	0.740
16.51- 17.00	50.5	40.4	-28.2	0.718
17.01- 17.50	51.9	42.2	-30.3	0.697
17.51- 18.00	53.3	43.8	-32.3	0.677
18.01- 18.50	54.6	45.3	-34.1	0.659
18.51- 19.00	55.8	46.8	-35.9	0.641
19.01- 19.50	56.9	48.2	-37.5	0.625
19.51- 20.00	58.0	49.5	-39.1	0.609

FOUR PROPOSALS FOR PREMIUM EQUITY

1. 2 Manual Rates - Medical costs based on hours worked
   - Indemnity costs based on limited payroll

2. Extension of current Florida System to $6

3. Modification of Florida System to provide both credits and surcharges ("CASE 1")

4. Modification of Experience Rating System

PROPOSAL NO. 1

1. There would be two manual rates.

2. One rate would cover medical costs and would apply to the number of hours worked.

3. The other rate would cover indemnity costs and would apply to "Limited Payroll". Limited Payroll would be defined as the wages qualifying for the predominant maximum benefit. The limit would be adjusted each year as statutory benefits change.

PROPOSAL NO. 2

1. A credit is allowed based on the average hourly wage.

2. The manual premium is adjusted to account for the average credit.

3. Credits are available for wages exceeding \$6 per hour, according to the accompanying schedule.

PROPOSAL NO. 3

1. A credit or surcharge is applied to the otherwise payable premium, based on the average hourly wage.

2. Manual premiums do not need to be adjusted.

3. Credits of surcharges follow the accompanying schedule.

PROPOSAL NO. 4

1. An additional factor is applied to the experience modification factor, as calculated under the National Council's procedure.

2. For construction employers not normally qualifying for experience rating, the additional factor becomes their modification factor.

3. Manual premiums do not need to be adjusted.

4. The additional factor depends upon the relativity of the employer's average wage to the prevailing statutory statewide average wage (benefit level).
   (For example, for Florida for 1985 wages the comparison is to $8.74/hour, or $306 divided by 35 hours).

5. The additional factor is given on the accompanying schedule.

FLORIDA
LABOR/MANAGEMENT
COUNCIL, INC.

1040 N.W. 70th WAY • PLANTATION, FLORIDA 33313 • TELEPHONE 305/583-8392 OR 305/583-7828

September 7, 1984

Steve Cooper, Deputy Director
Institute of the Ironworking Industry
1750 New York Ave. N.W.
Washington, D.C. 20006

RE: N.C.C.I. - Study Group

Dear Steve,

The National Council members seem to be concerned about the complexity of our proposal (Case No. 1), as well as the complications it may cause with respect to rate quotations and policy administration. As I discussed with you on the phone yesterday, I believe that a two tiered rate structure would be less complicated and more acceptable by the N.C.C.I.

The two tiered manual rate would consist of a rate for medical based upon hours worked and a rate for indeminity based upon wages capped at a multiple of the maximum benefit.

I will not be surprised if the N.C.C.I. objects to this approach mainly due to the use of hours worked. I believe this objection can be overcome, particularly in the event hours worked legislation is pushed.

Below is an example of how the two tiered solution would work -

Reference Case No. 1 (@ $10.00/hr.)

1. Medical Cost - flat per worker hour - ($ .36)
   Medical Manual rate = $ .36 x 1.25 (indicated expense) = $ .45
   Thus a 40 hour week would generate manual premiums of 40 x .45 = $18.00

2. Indeminity cost - proportional to wages up to $10.00 per hour
   x $4.00 x 1.25 (indicated expense) = $5.00 per $100.00/pay roll
   Thus a 40 hour week would generate manual premiums of

40 x $10.00 ÷ 100 x $5.00=	$20.00
Total Premium	$38.00

3. Case No. 1 as proposed would generate manual premiums of
40 x $10.00 + 100 x $9.50 = $38.00

Please let me have your thoughts on this matter.

Sincerely,

Robert D. Edwards
Chairman

RDE:mme

October 25, 1983

CASE #1

ASSUMPTIONS:
(1) Average Wage in Class \$9
(2) Manual Rate \$10
- Medical \$4, Comp. \$4, Expense & Profit \$2
(3) Medical Costs - Flat per worker hour (.36¢)
(4) Comp. Costs - Proportional to Wages up to \$10/hr., flat thereafter
(5) Expenses & Profit - Proportional to Medical & Comp. Costs.

Average Hourly Wage (1)	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Medical Cost (2)	36¢	36¢	36¢	36¢	36¢	36¢	36¢	36¢	36¢	36¢	36¢	36¢	36¢	36¢
Indicated Medical Rate (3) (2)/(1)	7.20	6.00	5.40	4.50	4.00	3.60	3.27	3.00	2.77	2.57	2.40	2.25	2.12	2.00
Comp. Cost (4)	20¢	24¢	28¢	32¢	36¢	40¢	40¢	40¢	40¢	40¢	40¢	40¢	40¢	40¢
Indicated Comp. Rate (5) (4)/(1)	4.00	4.00	4.00	4.00	4.00	4.00	3.64	3.33	3.08	2.86	2.67	2.50	2.35	2.22
Indicated Expense Rate(6) [(3) + (5)] x .25	2.80	2.50	2.35	2.13	2.00	1.90	1.73	1.58	1.46	1.36	1.27	1.19	1.12	1.06
Indicated Total Rate (7) (3) + (5) + (6)	14.00	12.50	11.75	10.63	10.00	9.50	8.64	7.91	7.31	6.79	6.34	5.94	5.59	5.28
Indicated Credit (8) [14.00-(7)]/14.00	0	11%	16%	24%	29%	32%	38%	43%	48%	51%	55%	58%	60%	62%

Exhibit 5
February 11, 1985
House Bill 573
Submitted by: Rep. Peterson

RESOLUTION

NATIONAL ODOMETER ENFORCEMENT ASSOCIATION

WHEREAS, used car buyers rely heavily on the odometer reading of a vehicle in determining the resale value and safety of the vehicle; and

WHEREAS, odometer tampering costs consumers an estimated $2.8 billion annually; and

WHEREAS, odometer tampering is facilitated by the "washing" of titles in order to alter or otherwise falsify odometer readings upon odometer statements and title documents; and

WHEREAS, it is recognized that only concerted efforts among state and federal agencies, auto auctions, fleet and leasing companies, manufacturers and dealers in all states will stem this illegal activity; and

WHEREAS, the National Odometer Enforcement Association (NOEA) is a four year old ad hoc organization of individuals working for state, provincial and federal law enforcement agencies, consumer protection agencies and state licensing and motor vehicle departments who are responsible for investigating and enforcing odometer tampering laws;

THEREFORE, BE IT RESOLVED, that NOEA calls upon all states to enact legislation to prevent title washing activity, to require secure printing features, to place odometer readings on title documents and to require careful examination of title documents for alterations and forgery, and to provide felony penalties for odometer tampering;

BE IT FURTHER RESOLVED, that NOEA urges that all states cooperate with federal and out-of-state law enforcement officials in the investigation and prosecution of odometer law violations and title washing schemes; and

BE IT FURTHER RESOLVED, that NOEA encourages all states to return all foreign titles to the state of origin and encourages all states receiving those titles to examine them for alterations and forgery; and

BE IT FURTHER RESOLVED, that NOEA invites and encourages all states to participate in the activities of NOEA especially the annual conference; and

BE IT FURTHER RESOLVED, that NOEA authorizes these views to be made known to the Congress, the administration, all states and other interested parties.

Exhibit 6
February 11, 1985
House Bill 573
Submitted by: Bud Schoen

HOUSE BILL 573

A vehicle without a functioning odometer also has a non-functioning speedometer. Operating such a vehicle upon roads and highways is an unsafe practice as a person may be travelling too fast for road conditions or may be following a vehicle too closely for the speed of the vehicle.

Odometer tampering is the unlawful practice of altering the cumulative mileage reading on an automobile odometer to reflect less than the actual mileage a vehicle has traveled. A person who alters an odometer is called a "spinner". At the present time 36 states require the odometer reading to be recorded on the certificate of title to a motor vehicle and subsequent assignment of title, including dealer reassignment of title.

A spinner who alters the odometer of a vehicle titled in a state that requires a notation of the odometer reading on their title will transfer that title in a state or province that does not require odometer readings. This is called "laundering" a title. The new title will not show the odometer reading. The spinner will then turn back the odometer of a high mileage vehicle to a low mileage either for a dealer or for themselves. The vehicle is then sold for much more than its true value.

The National Highway Traffic Safety Administration of U.S. Department of Transportation conducted a recent study in which they traced the ownership of 1,150 motor vehicles sold by national lease car companies. It was determined that 1,068 of the vehicles (93%) had been altered to reflect substantially lower mileage readings. The average wholesale profit on the vehicles sold with altered odometers was $750 per vehicle. It was determined that for every 10,000 miles that a vehicle's odometer was altered there was a $300-$500 increase in the retail value, depending on the model. Nationally, odometer fraud costs consumers roughly $2.8 billion each year.

Montana had a problem with spinners last year. There were six wholesalers operating out of one of our counties. Montana was alerted by Indiana officials that these people were spinners. They were charging dealers in eastern states $165 per vehicle to alter the odometer and "launder" the title in Montana.

During a 12 month period last year these spinners laundered 1,758 titles in Montana, which could have earned them $290,000 in spinner fees. 276 of those titles have been transferred and returned for cancellation. 177 of the returned titles had the mileage reading on them and nearly all indicated a tampered odometer. In one example, an odometer had been rolled back from 139,191 miles to 31,624 -- a rollback of 107,567 miles. Another example is a rollback from 141,605 miles to 46,622 -- a rollback of94,983 miles. In a sampling of 30 titles, the average rollback was 44,500 miles. Using an average of $400 increased value for each 10,000 miles, the potential increase in retail value of the laundered titles issued in that 12 month period would be over $3,000.000.

Since Montana has no laws against odometer tamperings, this spinning operation was turned over to the FBI. During the next few months the FBI had not yet taken any action and the spinners evidently became suspicious that they may be under investigation and moved out of Montana last August to two other states who were forewarned to expect them. Word has been received from one of those states that two of the spinners have to appear before their grand jury. The other five apparently are still operating.

If Montana had an odometer tampering law, the spinners could have been charged and hopefully convicted in Montana, which would have prevented them from continuing their fraudulent operations elsewhere.

Exhibit 7
February 11, 1985
House Bill 574
Submitted by: Rep. Thomas

49th Legislature LC 1107

STATEMENT OF INTENT

____ BILL NO. ____

A statement of intent is required by this bill because it grants the public service commission the authority to promulgate rules to implement this section if necessary. The utility service billing errors described in subsections (2)(a) and (2)(b) may take many forms, as each type of utility service provided is billed in a manner peculiar to the particular service, e.g., telephone versus electrical billing. Given this utility billing diversity, the legislature finds it necessary to allow the public service commission rulemaking authority to allow the commission to address unanticipated billing error problems.

Exhibit 8
February 11, 1985
House Bill 574
Submitted by: Taffy Miller

S'14

PUBLIC SERVICE COMMISSION 2701 Prospect Avenue • Helena, Montana 59620
Telephone: (406) 444-6199

Thomas Schneider, Chairman
John Driscoll
Howard Ellis
Clyde Jarvis
Danny Oberg

POSITION STATEMENT

The Montana Public Service Commission is proposing a new statute to address problems that have arisen concerning a public utility's discovery of a customer billing error. The most common billing errors are when the utility finds that a customer has been underbilled for service received, or when the utility finds that a customer has not been properly billed under normal billing practices. The proposed statute defines what a billing error is, and clearly provides that if the failure to bill a customer is due to the customer committing a theft of the service, the provisions of this statute will not apply to that customer.

The proposal also provides that once a billing error is discovered by a utility, the utility may only backbill a customer for a period of six months. This time limit provides for a balancing between the interests of both the customer and the utility. The utility should strive to prevent any billing errors from occurring, but should also be allowed to receive compensation for service that has been rendered to the customer involved. The customer should be able to rely on the utility bill he receives as an accurate reflection of his service cost, but he should not be allowed to receive service for no charge because a billing error has occurred. The Commission believes that the six month time limit will encourage utilities to do what is necessary to prevent billing errors, while protecting customers from being required to pay for service billing errors that may have been in existence for a number of months or years.

The Commission has proposed that the new statute apply to public natural gas and electric utilities, telephone utilities, and privately-owned water and sewer utilities, thus exempting municipally-owned water and sewer utilities. Since the Commission has only partial regulatory jurisdiction over municipally-owned utilities, the Commission's jurisdiction does not extend to the determination and settlement of such billing errors.

The proposed statute would also exempt industrial class customers from its provisions. Industrial class customers are more likely to be aware of any variations in their bills that might indicate a billing error has occurred, and should bear greater responsibility for bringing the possible error to the utility's attention.

Residential and smaller commercial customers of gas and electric utilities, on the other hand, are less likely to be aware of variations in their billing that would indicate an error because of their smaller consumption and more varied energy usage.

The bill does not limit the time period for a customer to recover for overbilling by a utility; the appropriate Statute of Limitations would apply in those instances.

Exhibit 9
February 11, 1985
House Bill 574
Submitted by: John Alke

AMENDMENTS - HB 574

Strike Page 1, lines 5 through 9 in their entirety, and substitute therefore:

> A BILL FOR AN ACT ENTITLED: "AN ACT ESTABLISHING A SIX MONTH STATUTE OF LIMITATIONS FOR CIVIL ACTIONS ARISING FROM PUBLIC UTILITY BILLING ERRORS."

Strike Page 1 line 25 through Page 2 line 11 in their entirety and substitute therefore:

(2) No civil action arising from a customer billing error shall be instituted by or against a public utility more than six months after the error occurred, regardless of when the error was discovered.

vlp

Exhibit 10
February 11, 1985
House Bill 527
Submitted by: Rep. Simon

For Rep. Simon

Proposed Amendments to HB 527, introduced copy.

1. Title, line 9.
Following: "HOLDERS OF"
Strike: "LIQUOR AND WINE"
Insert: "PACKAGE STORE"

2. Page 5, line 13
Following: "paid by"
Insert: "package store"

3. Page 5, line 14.
Following: "warehouse by"
Insert: "package store

4. Page 8, line 22.
Following: "to"
Insert: "package store"

5. Page 11, line 8.
Following: "~~purchasers~~"
Insert: "package store"

6. Page 15, line 2.
Following: line 1
Insert: "package store"

7. Page 15, line 16
Following: line 15
Insert: "package store"

8. Page 16, line 23.
Following: "to"
Insert: "package store"

9. Page 17, lines 17 and 18.
Following "by a"
Strike: "retain" through "liquor" on line 18
Insert: "package store"

10. Page 19, line 11
Following: line 10
Insert: "package store"

11. Page 19, line 20.
Following: "sell to"
Insert: "package store"

12. Page 20, line 2.
Following: "to"
Insert: "package store"

13. Page 46, line 7.
Following: "warehouse"
Insert: "or a package store"

Page 46, line 10.
Following: "warehouse"
Insert: "or a package store"

THE WESTERN CASUALTY AND SURETY COMPANY
THE WESTERN FIRE INSURANCE COMPANY

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F. B. "RED" WELSH

PROFESSIONAL INSURANCE SERVICE
No. 9 North 24th St. P. O. Box 1216 Phone: 252-2078
BILLINGS, MONTANA 59103

6 February 1985

Representative Bruce Simon,
Montana House of Representatives,
Capitol Station,
Helena, Montana. 59601

Dear Bruce:

During the seven years I served as a member of the Montana Liquor Control Board, elimination of the State Liquor Stores was a subject discussed on many occasions.

However, the common sense economics involved were always overlooked when the realities of politics became a consideration.

I don't know the ratios today, but during my time on the Board the majority of sales in all but the few outlying commission stores were made directly to customers holding retail liquor licenses.

We were interested in installing a wholesale warehouse operation with the retail liquor license holder either coming to the warehouse for merchandise or forwarding an order with a certified check and having the merchandise shipped to this retailer by common carrier.

This procedure would have eliminated the tremendous costs in rentals, wages, inventory, and other related expenses now incurred in operating the many stores throughout the system.

Practically all retail liquor operations today offer carry-out merchandise facilities in addition to the usual bar service. The efficiencies of these operations was well tested during the past holiday season when the state stores were closed on two of the busiest days of the year--Christmas Eve and New Year's Eve. The retail liquor operators handled public demands without any trouble.

There would be no concern about costs to the public for alcoholic beverages. Competition among the retailers would keep the costs of merchandise within reasonable limits.

State officials could continue to exercise control over the sale of alcoholic beverages as is done today via the issuance of retail liquor licenses. I might add in this regard that I am unaware of any community anywhere in Montana where a shortage of retail liquor outlets is evident.

The one serious concern associated with the entire state liquor operation is the lack of absolute and complete control in the transfer of retail licenses. With the perfect vision of hindsight, it is easy to see now that the sale of these licenses from one private entity to another should never have been allowed.

The purchase of a retail liquor license from the state for $800.00 and then being permitted to sell this same license to another party for something in the neighborhood of $100,000.00 has created a financial dilemma that will take the wisdom of Solomon to correct. Many people own licenses today that were purchased at impressive amounts of money.

Meanwhile, Montana has an ample supply of retail liquor establishments at the present time.

These are well supervised by state and local law enforcement officials.

There is no reason why these licensed retail liquor operators cannot provide adequate service to the alcoholic consuming public with merchandise purchased from a state operated wholesale franchise.

I believe the Governor's Council on Management study concluded that elimination of the state owned liquor stores would be practical and financially feasible.

Sincerely,

Red

F. B. "Red" Welsh
P. O. Box 1216,
Billings, Montana.
59103

ROBERT E. CHAMBERS, M.D., P.C.
Orthopaedic Surgery

Lincoln Medical Court
2509-7th Avenue South
Great Falls, Montana 59405
727-7641

February 5, 1985

The Honorable Bruce Simon
House of Representatives
State Capitol Building
Helena, Montana 59604

Dear Mr. Simon:

I read with interest your proposal to abolish the State liquor monopoly in Montana, and I want you to know that you have my complete support in this area.

Government on all levels from local to national have consistently shown their ineptitude in running a business. If the State and Federal Governments, as well as County and City Governments, were run in a proper business fashion, we would see much less, if any, red on our ledger sheets. The function of Government is to do a number of important social things, but one of them is not to engage in business or private type enterprise.

I certainly believe that the State of Montana should get out of the wholesale and retail liquor business, and leave that to the private business sector in the State. I believe, without too much trouble, the revenues generated would be equal to or greater than those presently realized, and it would certainly save many taxpayer dollars if the State did not have to engage in the business aspects of liquor sales.

I certainly wish you all success in this legislative effort. Thank you for your kind attention.

Sincerely yours,

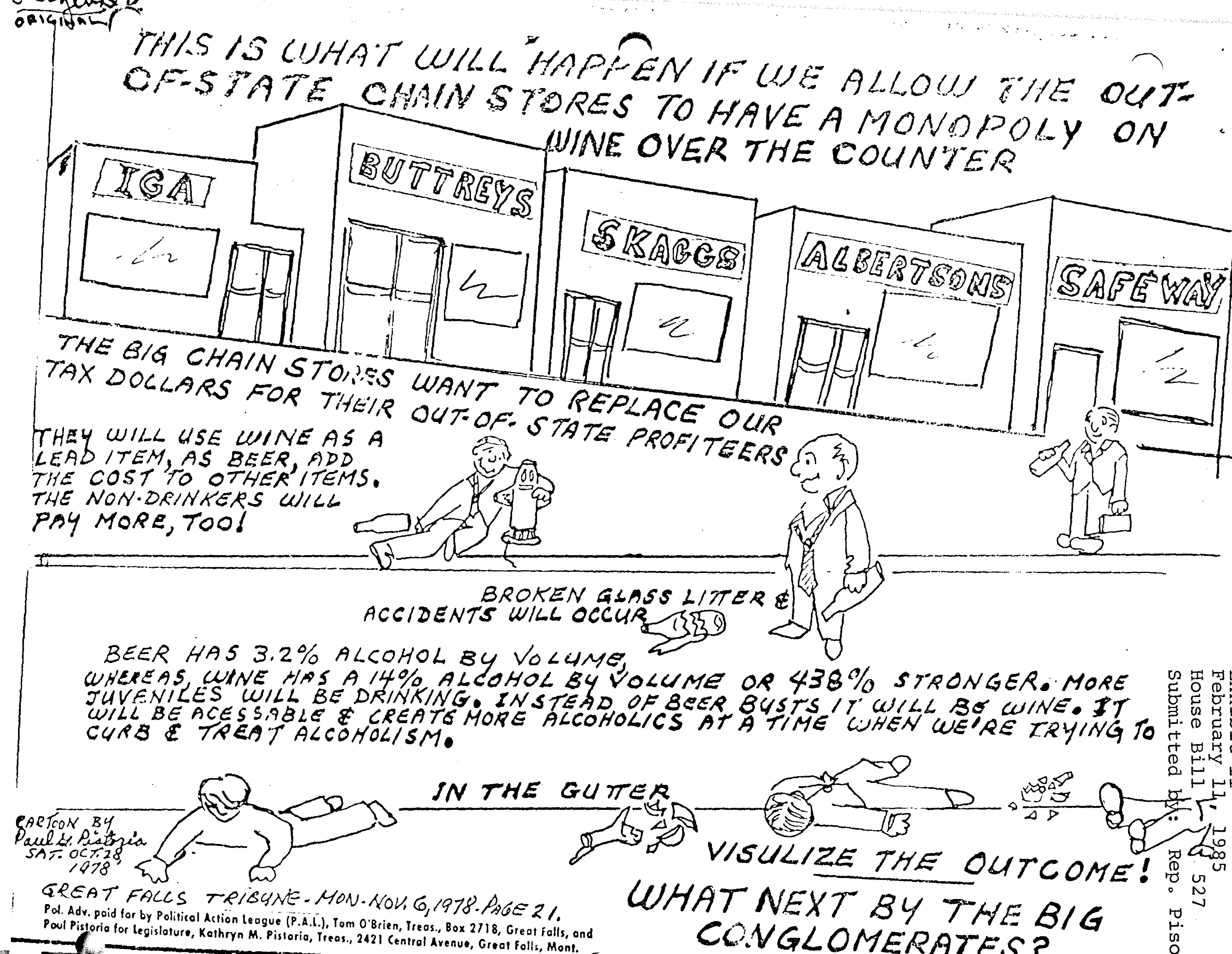
Robert Chambers MD

Robert E. Chambers, M.D.

REC/rmh

cc: The Honorable Jesse O'Hara, House of Representatives, State Capitol Building, Helena, Montana 59604

Exhibit 11
February 11, 1985
House Bill 527
Submitted by: Rep. Pisotria



Rec'd - Wed - Nov. 28 1984 1984 Paul L. Pistoria

ANNUAL FINANCIAL REPORT

OF THE

LIQUOR ENTERPRISE FUND

ADMINISTERED BY THE

DEPARTMENT OF REVENUE

ADMINISTRATIVE OFFICERS

X ELLEN FEAVER . . . . . . DIRECTOR, DEPARTMENT OF REVENUE
X HOWARD HEFFELFINGER . . ADMINISTRATOR, LIQUOR DIVISION

* Rev Pages

GENERAL INFORMATION

Fiscal year 1984 was a productive period for the Liquor division's merchandising operation. In spite of declining sales, the Division increased its profit by $398,730, or 7.96 percent from the year before, while reducing its operational expenses by $448,715, or 6.16 percent. Gross sales declined by $1,555,201, or 2.84 percent from the prior fiscal year. Since fiscal year 1982, gross sales have declined by $2,142,341, or 3.87 percent. This decline is consistent with national trends. It is generally attributed to changing lifestyles and attitudes which have contributed to more moderation in consumption of beverage alcohol and includes, among other factors, the intensive and well-publicized crackdown on drinking and driving. As an alcohol beverage control state, Montana, along with its other control state counterparts, experienced less average per capita consumption of alcohol than "open" states even before current trends towards more moderation began.

Total revenues from the merchandising system, including profits and taxes, amounted to $15,928,477 in fiscal year 1984. In addition to such revenues, the Division also reduced its inventories by $1,300,568; from $8,703,306 in fiscal year 1983 to $7,402,738 in fiscal year 1984. Since fiscal year 1982 the Liquor Division has decreased its investment in inventory by $3,605,396, or 32.8 percent. Interest on investment of these savings has resulted in increased general fund net earnings of approximately $222,000.

The merchandising operation funds the cost of the Licensing Bureau and the cost of the Department's Legal and Enforcement Division's activities involving liquor licensing and enforcement. These costs amounted to $139,045 and $241,418 respectively in fiscal year 1984. These expenses are not associated with the merchandising system and do not contribute to its profits. Licensing revenues of $1,545,252 in fiscal year 1984 were deposited directly to the State General Fund.

The following represents a summary of the activities of the four bureaus of the Liquor Division in fiscal year 1984.

Stores: The Liquor Division operated 138 retail sales outlets at the end of fiscal year 1984, 59 of which were state stores and 79 agency stores. Agency stores are generally low-volume outlets where it is more inexpensive for the Division to pay an agent a fixed commission on sales rather than operate a store where net profit is retained after all expenses are deducted. During fiscal year 1984, three agency stores were closed and ten state stores were converted to agencies. Since most marginally profitable, low-volume stores have already been converted to agencies, the Division anticipates few additional conversions. The Store's Bureau's four district supervisors made 951 store visitations during the 1984 fiscal year.

Warehouse: The warehouse received 630,214 cases from suppliers in fiscal year 1984, compared to 609,306 cases in fiscal year 1983, for an increase of 3.4 percent. Cases shipped from the warehouse to the state stores/agencies totaled 636,591 in fiscal year 1984, compared to 664,402 in fiscal year 1983, a decrease of 4.19 percent. The number of actual shipments from the warehouse out to stores/agencies decreased slightly, from 3,941 in fiscal year 1983 to 3,894 in fiscal year 1984, a decline of 1.19 percent.

Purchasing: The Purchasing Bureau ordered and maintained inventory on approximately 789 regularly listed products consisting of 527 distilled spirits, 56 dessert wines, 195 table wines, and 11 nonalcoholic beverages.. Inventory was also maintained for 281 product codes classified as "specialty". The bureau processed 418 special order requests during the fiscal year.

Licensing: A total of 3,379 licenses were issued during fiscal year 1984, 2,906 of which were for the retail sale of distilled spirits, beer, or wine. A total of 928 special permits and 262 catering permits were issued. The grand total of 4,569 licenses/permits issued in fiscal year 1984 compared to 4,282 the year before. The bureau held 60 licensing hearings during the year. License transfers numbered 426.

The following financial statements are for the Liquor Enterprise Fund, which is a component unit of the State of Montana reporting entity.

Information on other revenues resulting from the sale of alcoholic beverages in Montana, including taxes on beer and wine sold in the private sector, is shown as supplementary information beginning on page 23 of this report.

DEPARTMENT OF REVENUE - LIQUOR ENTERPRISE FUND
COMPARATIVE BALANCE SHEET
June 30, 1984 and 1983

	1984	1983
ASSETS		
CURRENT ASSETS		
CASH		
Petty Cash Funds	$ 5,550	$ 5,715
Change Funds in Stores	19,600	20,325
Cash in Treasury	983,060	2,030,810
Cash on Hand	584,555	364,362
Total Cash	$ 1,592,765	$ 2,421,212
RECEIVABLES		
Employee Expense Advances	$ 2,100	$ 1,507
Receivable From Agents	34,193	23,347
Due From Other Funds	26,007	33,231
Accounts Receivable - Freight Claims	5,049	7,073
Total Receivables	$ 67,349	$ 65,158
SUPPLIES INVENTORY	$ 39,685	$ 46,858
MERCHANDISE INVENTORIES		
In Stores	$ 4,667,917	$ 5,439,205
In Warehouse	2,734,821	3,264,101
Total Merchandise Inventories	$ 7,402,738	$ 8,703,306
PREPAID RENTS	$ 61,541	$ 62,706
TOTAL CURRENT ASSETS	$ 9,164,078	$ 11,299,240
FIXED ASSETS		
Warehouse Building	$ 1,736,218	$ 1,711,932
Furniture and Equipment	839,079	825,430
Less Allowance for Depreciation	(820,951)	(545,932)
TOTAL FIXED ASSETS	$ 1,754,346	$ 1,991,430
TOTAL ASSETS	$ 10,918,424	$ 13,290,670
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 2,920,687	$ 4,706,431
FUND EQUITY		
Retained Earnings	$ 7,997,737	$ 8,584,239
TOTAL LIABILITIES AND FUND EQUITY	$ 10,918,424	$ 13,290,670

See accompanying notes to financial statements

DEPARTMENT OF REVENUE - LIQUOR ENTERPRISE REVOLVING FUND
COMPARATIVE STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN RETAINED EARNINGS
For The Years Ended June 30, 1984 and 1983

	1984		1983	
Gross Liquor & Wine Sales		$ 53,213,722		$ 54,768,923
Less Discounts Granted		849,679		905,518
Adjusted Gross Liquor & Wine Sales		$ 52,364,043		$ 53,863,405
Less Cost of Goods Sold				
Beginning Inventory, July 1,	$ 8,703,306		$ 11,008,134	
Liquor & Wine Purchases	26,855,970		26,997,241	
Freight to Warehouse	872,135		891,921	
Freight to Stores	595,455		617,875	
Goods Available for Sale	$ 37,026,866		$ 39,515,171	
Ending Inventory, June 30,	7,402,738	29,624,128	8,703,306	30,811,865
Gross Income from Liquor & Wine Sales		$ 22,739,915		$ 23,051,540
Other Income		29,133		15,572
Gross Income		$ 22,769,048		$ 23,067,112
Operating Expenses:				
Salaries	$ 3,169,895		$ 3,514,609	
Employee Benefits	706,174		763,980	
Contracted Services	938,370		978,232	
Supplies and Materials	58,985		93,865	
Communications	97,960		93,075	
Travel	30,827		27,320	
Rent	755,926		747,748	
Utilities	170,624		168,551	
Repairs and Maintenance	57,062		52,405	
Breakage, Shortages, and Bad Check Loss	114,964		92,402	
Depreciation	117,682		106,007	
Other Expenses	34,621		24,630	
Insurance & Audit Costs	21,908		0	
Research & Info. Div. Expenses Allocable	324,155		379,505	
Legal & Enforcement Division Expenses Allocable	241,418	6,840,571	246,957	7,289,286
Operating Income		$ 15,928,477		$ 15,777,826
Less Operating Transfers Out For Taxes:				
Liquor Excise Tax	$ 6,415,784		$ 6,554,828	
Liquor License Tax	4,006,857		4,096,768	
Wine Tax	96,893	10,519,534	116,017	10,767,613
Net Income from Operations		$ 5,408,943		$ 5,010,213
Less Operating Transfer Out of Profits		5,782,000		4,500,000
Net Addition (Deduction) to Retained Earnings		$ (373,057)		$ 510,213
Retained Earnings, July 1	$ 8,584,239		$ 8,082,723	
Prior Year Net Corrections of Income/Expenses	(213,445)	8,370,794	(8,697)	8,074,026
Retained Earnings, June 30		$ 7,997,737		$ 8,584,239

See accompanying notes to financial statements

DEPARTMENT OF REVENUE - LIQUOR ENTERPRISE FUND
COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 1984 AND 1983

	1984	1983
SOURCES OF WORKING CAPITAL:		
OPERATIONS:		
Net Income From Operations	$ 5,408,943	$ 5,010,213
Item Not Requiring Working Capital-Depreciation	117,682	106,007
	$ 5,526,625	$ 5,116,220
Net Prior Year Income/Expenditure Corrections	(213,445)	(8,697)
Total Sources of Working Capital	$ 5,313,180	$ 5,107,523
USES OF WORKING CAPITAL:		
Acquisition of Fixed Assets	$ (119,402)	$ 118,854
Net Profits Distributed to General Fund	5,782,000	4,500,000
Total Uses of Working Capital	$ 5,662,598	$ 4,618,854
NET INCREASE (DECREASE) IN WORKING CAPITAL	$ (349,418)	$ 488,669
ELEMENTS OF NET INCREASE (DECREASE) IN NET WORKING CAPITAL:		
Cash	$ (828,447)	$ 1,486,685
Accounts Receivable	9,415	4,725
Supplies Inventory	(7,173)	17,730
Due From Other Funds	(7,224)	14,169
Prepaid Expenses	(1,165)	(266)
Merchandise Inventory	(1,300,568)	(2,304,828)
Accounts Payable	1,785,744	1,270,454
NET INCREASE (DECREASE) IN WORKING CAPITAL	$ (349,418)	$ 488,669

See accompanying notes to financial statements

HELENA INDEPENDENT-RECORD - SAT - NOV. 19, 1983

Recd - Sat - Nov. 26, 1983
Paul K. Pistoria
State Representative

Defunct council to try reselling cost cutting

IR 11-19-83

By STEVE SHIRLEY
IR State Bureau

Members of the now-disbanded Governor's Council on Management agreed Friday to ask the Legislature to reconsider some of their cost-cutting proposals.

Some of the proposals were among the most controversial pieces of legislation considered and rejected during the 1983 session. They include raising grazing fees on state lands; eliminating the state liquor retailing system; closing Boulder River School and Hospital; and selling the state prison ranch.

Wes Eyre of Glendive said the council members learned a lot during the last session and it "would be a waste to not do anything with that knowledge."

"We have to continue or we'll have failed to do the job we set out to do," added Norm Stedge of Ronan.

The council was set up in 1982 by Gov. Ted Schwinen to do a three-month study of state government and recommend ways to save money and raise new income.

The independent council, comprised of 34 business executives on loan to the state, came up with 344 recommendations which it said could save taxpayers $65 million annually and $27 million in one-time savings.

The Schwinden administration implemented 75 percent of the council suggestions that could be administratively adopted. The Legislature adopted 39 percent of the recommendations brought to it by the council.

State Budget Chief Dave Lewis told the council members who met here Friday that, while it isn't yet known what amount the state will save by adopting the council's recommendations, "there's no question the savings will exceed $10 million."

Council members at Friday's reunion meeting indicated they were pleased with the high rate of acceptance of their recommendations by the administration. And several said the council did well at the Legislature considering the nature of the legislative process.

Two council members suggested that the council members select no more than about 10 issues for refinement and reintroduction to the 1985 Legislature.

* "We need to start today in a program to educate the legislators," Bruce Simon of Billings said.

INSTEAD, US LEGISLATORS WILL EDUCATE YOU & YOUR COHORTS. I WILL DO EVERY THING POSSIBLE TO STOP YOUR RECKLESS VENTURE. WHO DO YOU THINK YOU ARE? A DICTATOR!

* Chairman Jim Spring said the council still has some $20,000. The money could be used to lobby the 1985 Legislature or for other purposes, he said.

WHERE DID THEY COME UP WITH THIS MONEY ($20,000)? I KNOW.

* Spring also acknowledged that the council may have violated the state's lobbying law because he failed to register as a lobbyist during the 1983 session.

ANYONE ELSE WOULD HAVE GOTTEN INTO TROUBLE. I WILL PERSUE THIS. THEY DON'T SCARE ME. YES, YOU & YOUR COHORTS HAVE VIOLATED THE LAW.

* However, Spring said later that he had been advised by a lawyer that he wouldn't have to register if he didn't lobby for the council's proposals but simply answered legislators' questions about them.

YOU ARE WRONG "MR. SPRING"! YOU & "MR. SIMON" DID TESTIFY. I HEARD BOTH OF YOU ON SEVERAL BILLS, ESPECIALLY FOR S.B. 405 - SPONSORED BY SENTORS "DOVER" - "CRIPPEN" & "HAGER" FOR REMOVING THE RETAIL LIQUOR BUSINESS FROM STATE CONTROL. ONLY, TO ENTIRELY BENEFIT THE OUT-OF-STATE CHAIN STORE CONGLOMERATS. THANK GOD THE BILL FAILED IN THEIR SENATE BUSINESS COMMITTEE. WE WILL DEFEAT IT AGAIN. HOW WILL THE STATE MAKE UP THE $15,000,000 LOSS PER YR?

* Dave Evenson, who staffed the council, added that, since the council was disbanded by the time the Legislature convened, it was felt that council members could lobby the Legislature just as any other individual citizens can without having to register.

NO DOUBT, MR. EVENSON IS THE STOOGE FOR THE "GOV'S MANAGEMENT COUNCIL" & GOV. SCHWINDEN. YOU ARE REPRESENTING THEM NOT ME. WHO IS PAYING YOUR SALARY? THE TAX-PAYER? LETS NOT HAVE THEM CONTINUE TO SHOVE THEIR POLICIES DOWN ARE THROATS.

Paul K. Pistoria
State Representative

Exhibit 12
February 11, 1985
House Bill 527
Submitted by: John LaFever

BLACK VELVET

	(1) Present	(2) HB527	(3) (limit package outlets) HB527	
Unit Cost	3.93	3.93	3.93	
Freight Out	.09	.36	.09	
	4.02	4.29	4.02	
40% Markup	1.61	1.72	1.61	
	5.63	6.01	5.63	
26% Tax	1.46	1.56	1.46	
Base Price	7.09	7.57	7.09	
		x1.1	x1.1	
Consumer Price	$7.10	$8.33	$7.80	(.90)
	(.95)	(.90)		
Tavern Price	$6.75	$6.80	7.05	(+4.4%) variable
			(1.1)	
Package Store Price	N/A	$6.80	$6.40	

1. Consumer Price increases 20% in version #2 due to higher transportation cost and package store markup.

2. Consumer Price increases 10% in version #3 due to package store markup.

3. Tavern price increases 4.4% in version #3 because of package store markup.

Exhibit 13
February 11, 1985
House Bill 527

Testimony of Ronald B. Kazel, Assistant to the Regional Director, United Food and Commercial Workers International Union, AFL-CIO, CLC
Before the House Business and Labor Committee
February 11, 1985

Before my formal testimony on House Bill 527, I would just like to give a preliminary comment.

It was my pleasure to be transferred to Montana in 1979, just at the time the law was changed to allow wine to be sold in various retail outlets, i.e. grocery stores. The arguments used by the proponents of the change were two-fold: 1) The increased competition would reduce prices to the consumer; and 2) The consumer would have a much better selection of the various products on the market.

However, in reality, the end result was quite different. Each and every one of you here today can judge the results for yourselves. I suggest you will find what appears to be "price fixing". With over twenty-five years of experience in retail sales, I find it very hard to believe that the vast majority of retail outlets have identical cost factors that have a direct relationship to a sale price. Yet, using the grocery chains as an example, you will find the cost of popular, high-volume wines to be identical. I would also suggest to you that, as far as selection goes, you will find a wider selection at the state liquor stores. In addition, unless the retail outlet is using a wine as a "loss leader," it is more economical for the consumer to purchase wine at a state liquor outlet.

It is my personal observation that at best, the legislature and the people of Montana were sold a bill of goods that is nothing more than a sham and the only real benefit derived from the change in the law was the increased profit by big business.

It is my pleasure to inform the members of the committee that this bill is opposed by the Montana chapter of MADD, Mothers Against Drunk Drivers. The authorization to make this announcement comes from Ms. Fisher, founder of this chapter.

It is my intent to keep my testimony as brief as possible, yet to cover a number of important issues that must be considered. While members of the legislature may be familiar with some of the arguments against this proposal, as it was defeated in previous sessions, there are a few points we would like to call to your attention.

One of the primary arguments offered in favor of passage of House Bill 527 is the alleged <u>one-time</u> savings which would be realized by selling off the stores' inventories and any other state property connected with the liquor stores. The <u>assumed</u> profit figure is $7,000,000. Proponents offer this sum to help balance the state budget.

However, we believe that the method used to derive this figure is flawed. The bill states, "The department shall establish a minimum sale price for each state-operated store that may not be less than the value of the average daily inventory at the store . . ." (Lines 2-4, Page 47). There is no guarantee that someone wanting to enter the retail liquor business in the state of Montana would buy one of these stores when it is more economical and easier to simply pay an appropriate fee ($5,000-$10,000), and order stock from the state warehouse. Since the bill provides that anyone who meets the requirements of the act <u>must</u> be issued a license, any number of stores can be opened. It is difficult to imagine anyone expending extensive funds when a reasonable alternative is available.

Currently, the state has 138 outlets. If we assume that that number is maintained, the maximum amount of revenue that could be raised by passage of House Bill 527 would be $1,380,000, plus required inventory. Thus, it is highly questionable to automatically assume the state will realize a profit of $7,000,000.

The bill also presupposes that the potential purchaser of the store would take over the existing inventory. We maintain that this is not an automatic situation, and would point out that a question would arise about the potential cost of shipping inventory back to the warehouse if it is unwanted by the purchaser.

The argument of a windfall to the state based on a "sell-off" is, at best, misleading.

Another complication overlooked by the proponents of this measure involves consideration of the various lease agreements which exist. Without a comprehensive review of all agreements and the existing liability to the state, one cannot assume that we will escape without some substantial cost.

Serious logistical problems exist in the take-over time and cost factors involved in the scenario proposed by those who support passage of House Bill 527.

The license ownership as proposed in this piece of legislation offers no protection for small Montana owners who will undoubtedly face an onslaught of out-of-state, big money competition for control of the liquor market. There is no restriction which would limit the number of licenses any one individual or company may obtain. Corporations enjoy an obvious advantage in access to financing and marketing technique than the vast majority of main street Montana merchants. We can expect this lucrative market to be dominated in the future by companies controlled from outside our borders. Once the small owners are priced out of the market, we can also expect the same type of price control that we have witnessed in the wine market.

By destroying the current liquor distribution system enjoyed by this state, another serious problem will be created. Currently about 1,570 licensed premises are serviced by the liquor system.

If House Bill 527 passes, we will face a potential number of at least 1,708 licensees being serviced by one warehouse. The workload would increase tremendously, causing a concurrent increase in number of personnel needed and hours worked. Time limitations to fill orders would result in case sales. Product selection would drop while the overall cost of inventory would increase.

In addition, based on Wyoming's experience, additional outbound freight cost of $2,439,000 per year will be incurred.[1]

Under this proposal, the warehouse would be remodeled and re-equipped at a cost of $350,000.[2]

Expenditures for Licensing Bureau salaries, benefits, travel and communications would increase by 30 percent. Legal and enforcement expenses allocated to the Liquor Division would also increase by an estimated 30 percent.

The fiscal note prepared for this proposal addresses a onetime expenditure of $275,000 to "cash out" store personnel for accumulated sick leave and vacation.[4] However, we believe the figure to be closer to $385,000, plus the cost to the state of bargaining the effects of closure. That cost cannot be calculated because of the dynamics of the bargaining process.

House Bill 527 states, "A license may not be granted to an applicant that operates, manages, or directly or indirectly owns a controlling interest in a grocery store or supermarket of any size that is adjacent to the premises where the license will be exercised" (Lines 3-7, Page 2). Therefore, nothing would prohibit a "minority owner" from holding a license. In addition, nothing would prohibit a grocery and retail liquor store under one roof if a wall was placed between the two areas. This is the case in Wyoming.

If this proposal passes, what will be the legal status of the liquor stores that are currently operating adjacent to grocery stores in Great Falls, Boulder, Lolo, Superior or Billings?

The stated advantages of a wholesale-only system are extremely speculative, at best.

The long-range effects would increase the price of liquor by an estimated 20 percent.[5] This rise in price could cause a more rapid decline in sales than was anticipated in the fiscal note, and could result in an encouraged illegal trade of liquor.

We believe that the social issues, as well as the possible economic impact of this proposal must be examined.

None of the retail clerk positions in the state stores cost the state general fund a single penny. These jobs are totally funded by the liquor system. Therefore, what justification can there be to eliminate approximately 180 jobs that pay their own way?

If lost, these jobs will probably not be recreated by private industry, as was the experience when wine was placed in the grocery chains.

The annual store salaries of $2,983,761 is spent in local communities throughout the state. Our entire economic structure benefits from this payroll, from the bank to the local grocery store and car dealership. This figure does not account for the spin-off capital that is generated by the circulation of salaries through the economy. Will the elimination of this payroll add to the erosion of the Montana community which has already been hit by falling agriculture prices and the lingering effects of the most recent recession?

The average age of liquor store employees is slightly over 47 years of age. Where will these workers turn for employment in today's labor market?

The average years of service with the state is slightly over eight years. These employees will not qualify for any state retirement benefits. Is the state of Montana in such a bad situation that it can justify actions which will leave state workers with no where to go?

Where is the economic justification for eliminating liquor store jobs in order to give liquor retailers an added profit in the form of an increased discount? What is the cost to the state for unemployment benefits that will result from the loss of jobs, and social service costs that will result from the inability of former state workers to find similar employment?

Administrative costs would increase. Montana would be faced with large out-of-state corporations in control of the market at the expense of small Montana businesses. The elimination of state stores and the retailing of liquor by "new licensees" would mean the loss of control now exercised by the state over the sale of liquor to those of minority age.

During the last legislative session a study was done on the effects of abolishing the state liquor system. The conclusion was that the process was "not feasible." The state of Washington recently conducted a similar study, which came to the conclusion that the state should not abolish their current system of doing business.

During the past 10 years the state of Montana has realized $209,215,000 from the liquor store system. Now the proponents of this bill would trade that income for a one-time questionable shot at $7,000,000. If we maintain the present system, using the formula of an anticipated 20 percent increase factor in liquor profits provided in the fiscal note analysis of this bill, Montana would realize an increase in profits of $9.6 million; increased liquor tax revenues of $3.7 million; and an additional $11.9 million of general fund revenues each year.

Therefore, given the disadvantages weighed against the alleged advantages of House Bill 527, we ask that this committee oppose passage of this bill.

Thank you.

[1]Fiscal Note, p. 1.

[2]Fiscal Note, p 1.

[3]Fiscal Note, p 2.

[4]Fiscal Note, p 2.

[5]Fiscal Note, p 5.

[6]Fiscal Note, p 5.

WITNESS STATEMENT

Name Thomas W. Maddox, Executive Director
Montana Association of Tobacco and Candy Distributors

Committee On Business and Labor

Address P.O. Box 1 2 3, Helena MT 59624

Date Monday, Feb. 11, 1985

Representing Montana Association of Tobacco and Candy Distributors

Support HB 5 6 8

Bill No. HB 5 6 8

Oppose

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY. ATTACHED.

Comments:

1. The state's revenues, involving millions of dollars, need to be protected among controls of cigarette sales in line with section 16-10-102 (and103), as with beer and wine sales.

2. The restrictions and limitations on extension of credit to retailers which are set forth in their respective statutes should be extended to regulate cigarette sales for the same reasons.

3. For further, refer to details in attached four pages of presentation.

4. NO FISCAL IMPACT. SELF-ENFORCING. VIOLATORS PAY WHATEVER COSTS FROM PENALTIES BY VIOLATORS.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

FORM CS-34
1-83

WHY?

GOVERNMENT HAS A MAJOR INTEREST IN THE CIGARETTE INDUSTRY. ANALYSIS OF THE FIGURES INDICATE ABOUT HALF OF WHAT THE MONTANA CIGARETTE CONSUMER PAYS TODAY GOES TO GOVERNMENT TAX COLLECTORS, OR FOR GOVERNMENT SERVICES.

IN MONTANA, THE LATEST CALCULATIONS RESULT IN A MINIMUM COST FOR 100-MILLIMETER OR LONGER BRANDS OF $9.41 A CARTON. The MONTANA DEPARTMENT OF REVENUE COMPUTES MINIMUM CIGARETTE COSTS IN CARTON UNITS. THUS, ABOUT $4.70 OF THE MONTANAN'S PURCHASE OF A CARTON OF CIGARETTES GOES FOR TAXES.

"WHEN THE WHAT"

OUR STATE GOVERNMENT, AS WELL AS MOST OTHER STATES, COMPUTE MINIMUM COSTS BECAUSE THAT'S THE LAW. YOU MAY REFER TO SECTION 16-10-102. THIS STATES IN PART:

"IT IS THE POLICY OF THE STATE TO . . . MAXIMIZE AND PROTECT THE STATE REVENUES FROM THIS SOURCE (—CIGARETTES)."

MONTANA'S REVENUE OFFICIALS WENT TO COURT TO ASCERTAIN PRECISELY HOW THE COSTS OF CIGARETTES MUST BE COMPUTED. ON NOVEMBER 12, 1970, THE MONTANA SUPREME COURT *NOTE SET FORTH THE SPECIFIC COST COMPONENTS OF CIGARETTES; AND THE COURT POSITIONED EACH COST COMPONENT IN SPECIFIC ORDER OR FORMULA. STATE REVENUE OFFICIALS IMPLEMENTED THE SUPREME COURT'S DETAILED DETERMINATION. ALL OF THIS IS SET FORTH IN 16-10-103 (10)(b), and 16-10-103 (11)(b), AND RELATED STATUTES.

MONTANA 'S STRICT CONTROL OF THE CIGARETTE BUSINESS IN THE STATE IS IN CONFORMITY WITH OTHER STATES AND THE FEDERAL GOVERNMENT. THE REASON IS CLEAR: GOVERNMENT IS A PROFIT-TAKING PARTNER IN SALES OF CIGARETTES. FOR THE LATEST YEAR OF STATISTICS AT HAND, CIGARETTE SALES GENERATED

SEVEN-POINT-EIGHT (b) BILLION DOLLARS IN TAX

REVENUES FOR GOVERNMENT AT ALL LEVELS. OUR SOURCE STATES THAT CIGARETTES YIELDED GOVERNMENT FIVE (5) TIMES THE AMOUNT RECEIVED BY FARMERS FOR THE TOBACCO USED IN CIGARETTES SOLD IN THOSE 12 MONTHS!

(CONTINUING: GOVERNMENT SHARE: PAGE 2)

*NOTE
CASE *NO. 11851 (4-0)

HOW MUCH DID CIGARETTE SALES PROFIT THE STATE OF MONTANA? CHECK THE FISCAL NOTE ON HB45. BUDGET DIRECTOR DAVID HUNTER STATES THAT UNDER THE CURRENT TAX LAW, THE CIGARETTE SALES TAX FOR THE ENSUING TWO FISCAL YEARS SHOULD BE NEARLY 30 MILLION DOLLARS. AS YOU KNOW, GOVERNOR SCHWINDEN WANTS MORE. IF HIS HB45 IS ENACTED BUDGET DIRECTOR HUNTER STATES OR PROJECTS THE STATE REVENUES WOULD TOTAL MORE THAN 42 (m) MILLION DOLLARS THE NEXT TWO FISCAL YEARS.

SEE DISPLAY SHEET:

ON THE FEDERAL LEVEL, SENATE MAJORITY FINANCE COMMITTEE CHAIRMAN ROBERT PACKWOOD INFORMS US THAT IN HIS OPINION THE FEDERAL TAX WILL REMAIN UNDIMINISHED, AND THERE ARE TWO PROPOSED BILLS FOR MUCH HIGHER FEDERAL CIGARETTE TAXES. THAT IS, WE ARE INFORMED THAT BILLS ARE IN THE WORKS FOR $1.60 A CARTON, $3.20 A CARTON AND $4 A CARTON.

THERE IS ANOTHER CIGARETTE BILL IN MONTANA--SENATE BILL 249.

What's the outlook? WORSE

IF ALL STATE-FEDERAL MAXIMUM TAX PROPOSALS ARE ENACTED, THE TAX FOR THE MAXIMUM CIGARETTE CARTON WOULD BE $6.47 A CARTON. THAT'S A POSSIBLE $2.40 MONTANA STATE TAX BASIC, PLUS 7 CENTS FROM SB249, AT 1-CENT-4 MILLS A CIGARETTE FOR EACH ONE OVER 20 IN A PACK, AND $4 FEDERAL TAX. TO FAIRLY EVALUATE THE RANGE FROM $6.47 TAX, IF THE FEDERAL TAX STAYS THE SAME, STATE TAX STAYS THE SAME, THE MONTANAN STILL WOULD PAY AT LEAST $3.20 TAX A CARTON, WHICH HE IS PAYING TODAY.

TODAY'S COST OF A CARTON IS $9.41 FOR 100S FOR THE MONTANA CONSUMER. THE STATE REVENUE AMOUNTS TO ABOUT 36 PER CENT OF THIS AT $3.20.

THIS BREAKS DOWN APPROXIMATELY AS FOLLOWS:	($ & ¢:)	PER CENT
1. GROWER, USDA A.M.S.; MARKETING PEOPLE; GOVERNMENT PAYROLL, INCOME, RELATED TAXES THE FARMER'S TAKE-HOME PAY IS ABOUT $1.00 OF THIS	$ 1.88	20%
2. MANUFACTURER HANDLES ABOUT 30 PER CENT, WITH PART GOING FOR PRODUCTION COSTS, PAYROLLS, TAXES, BEFORE STOCKHOLDERS' GAINS ON INVESTMENTS	2.82	~~30%~~ 29+%
3. TRANSPORTATION INDUSTRY	.18	2%
4. MONTANA WHOLESALER, FOR OPERATING COSTS, PAYROLLS, TAXES, REPLENISHING INVENTORIES	.46	5%
5. MONTANA RETAILER, FOR OPERATING EXPENSES, PAYROLLS, TAXES, STOCKS, ETC.	.86	9%
6. GOVERNMENT TAX ON SALES WITH $1.60 OR 17% TO FEDERAL; SAME TO STATE	3.20	~~34%~~ 35%
NOTE: THE FOREGOING ARE APPROXIMATE FIGURES FOR PURPOSES OF ILLUSTRATION. ACTUAL IN-DEPTH CURRENT RESEARCH OF LATEST AVAILABLE RESOURCES MAY DIFFER, BUT NOT SUBSTANTIALLY.		100%

(CONTINUING: GOVERNMENT SHARE; PAGE 2) (SEE PAGE 3)

IT IS CLEAR THAT THE STATE GOVERNMENT HAS A MAJOR INTEREST IN MAINTAINING A VIABLE, HEALTHY CIGARETTE BUSINESS TO PROTECT ONGOING REVENUES, AS THE STUTORY POLICY STATES in 16-10-102.

FOR THE SAME REASONS, THE STATE AS THE PRIMARY SELLER OF ALCOHOL WANTS CASH PAYMENT FROM THE MONTANA CONSUMER. EXTENSION OF CREDIT IS NOT A MATTER OF QUESTION. WE PAY CASH FOR OUR ALCOHOL. MANY PARALLELS. STATE LIQUOR BUSINESS HAS A CENTRAL WAREHOUSE. The state requires ALL cigarettes distributed by licensed wholesalers to go to a central warehouse.

WHEN MONTANA BEER LAWS WERE WRITTEN, THE STATE'S REVENUES WERE OF GREAT CONCERN AND TODAY THE STATE REGULATES THE BEER SALES RIGIDLY. SECTION 16-3-243 (Page 636 of that volume) PROTECTS THE STATE'S FLOW OF REVENUE BY REQUIRING THAT LICENSED BEER WHOLESALERS MUST COLLECT BEER TAX AND PRODUCT COST WITHIN SEVEN BUSINESS DAYS. A BEER WHOLESALER'S LICENSE IS SUBJECT TO LOSS IF HE DOESN'T TOE THE LINE. THIS LAW IS SELF ENFORCING, THERE'S NO COST TO THE STATE. A VIOLATOR PAYS THE EXPENSE IF ENFORCEMENT IS REQUIRED, PLUS A PENALTY. AT RETAIL, IT'S CASH ON THE COUNTER.

IN RECENT YEARS, THIS LEGISLATURE EXPANDED ITS WINE SALES SO THAT PRIVATE BUSINESS COULD SHARE SALES. THE LEGISLATURE FOLLOWED THE SEVEN-DAY BEER CREDIT LIMIT STATUTES. SEE SECTION 16-3-406, ENTITLED "FINANCIAL INTEREST IN RETAILERS PROHIBITED." SUBSECTION (2) AND SUB (c) PROHIBITS EXTENSION OF CREDIT TO THE RETAILER BEYOND SEVEN DAYS. CONSUMERS OF COURSE PAY CASH.

HOUSE BILL 568 SIMPLY FOLLOWS THIS SAME LINE OF CREDIT LIMITATION, FOR THE SAME REASONS — THE STATE HAS A MAJOR SHARE OF THE MONEY INVOLVED IN CIGARETTE SALES.

THERE'S MORE TO THE PROBLEM OF MAKING SURE THAT THE CIGARETTE WHOLESALER DELIVERS THE STATE TAX WHICH HE IS LICENSED TO COLLECT, AND IN FACT TO PREPAY.

WITH THE TREMENDOUS INCREASES IN STATE AND FEDERAL TAX THE PAST TWO YEARS, THE INDEPENDENT MONTANA WHOLESALE DISTRIBUTOR IS BEING SQUEEZED FROM THE MANUFACTURER, AND THE STATE. THE MANUFACTURER REQUIRES THAT THE MANUFACTURER PAY CASH WITHIN SEVEN DAYS (AND IN PRACTICE USUALLY IN LESS TIME) FOR CIGARETTES. THE WHOLESALER MUST PAY, AND THIS IS NOT THE CREDIT ARRANGEMENTS AVAILABLE TO MOST OF US—WE HAVE FAR MORE LIBERAL TERMS. THE DIFFERENCE IS: WE CAN ELECT NOT TO BUY SOME PRODUCT. THE WHOLESALER HAS NO CHOICE IF HE IS TO STAY IN BUSINESS, AND CONTINUE AS A HEALTHY DELIVERER OF CIGARETTE SALES TAX TO THE STATE.

(SEE PAGE 4)

ADD TO THIS PRESSURE TO PAY VIRTUALLY ON A CASH BASIS, THE STATE LAW REQUIREMENT THAT THE WHOLESALER PURCHASE STATE CIGARETTE TAX INDICIA AND AFFIX THE TAX TO CIGARETTE STOCKS WITHIN 72 HOURS. SEE THIS IN SECTION 16-11-113. WHAT OTHER BUSINESS HAS TO PREPAY TAX ON INVENTORIES, OR FUND EXPENSIVE SURETY BOND, BEFORE HE CAN DO BUSINESS; BEFORE HE CAN TURN A PROFIT.

BETWEEN THE MANUFACTURER, OVER WHOM HE HAS NO CONTROL, AND THE STATE, WHERE HE HAS NO CONTROL, THE WHOLESALER IS IN A SQUEEZE THAT WOULD DRIVE LESS HARDY PEOPLE RIGHT OUT OF BUSINESS.

THERE'S MORE. AT PRESENT, THE RETAILER HAS NO DISCIPLINE TO ENCOURAGE HIS PROMPT PAYMENT. A RETAILER WHO ABUSES CREDIT EXTENDED TO HIM, MAY SIMPLY TRANSFER HIS ORDERS FROM ANOTHER WHOLESALER UNTIL THAT WHOLESALER'S PATIENCE IS EXHAUSTED. THE WHOLESALER IS CAUGHT BETWEEN HIS SUPPLIER AND THE STATE, BUT CANNOT CONTROL HIS CASH FLOW FROM THE RETAILER. IN EFFECT, AS WITH THE BEER AND WINE LAWS' CONCERNS, HE IS IN NEED OF SUCH STATUTORY SUPPORT AS THOSE WHOLESALERS ARE ACCORDED. There's NO FISCAL IMPACT FOR STATE. AS WITH BEER AND WINE, THIS would be self-ENFORCING.

HOUSE BILL 5 6 8 IS IN LINE WITH THE PUBLIC INTEREST. FOR THE SAME GOOD REASONS -- THE STATE'S FINANCIAL INTERESTS BEING AT STAKE-- AS WITH ALCOHOL, BEER AND WINE, WE RESPECTFULLY REQUEST THAT THIS COMMITTEE RECOMMEND THAT HOUSE BILL 568 BE ENACTED.

Foregoing submitted by Executive Director Tom Maddox,
Montana Association of Tobacco and Candy Distributors
P. O. Box 1 2 3,
Helena MT 59624

Telephone 442-1582

Box 247
Big Sandy, Mt.
Feb. 4, 1985

Rep. Stella Jean Hansen
Member of the Business and Labor Committee
Capital Building---room 312-2
Helena Mt. 59620

Dear Rep. Hansen:

Again this session there is a bill to abolish the state-run retail liquor system. I would hope the legislature would keep the present system.

The reasons to keep the present system are as follows:

1. Revenue to the state will go down. History of the wine business showed us that. Two and one half million dollars were lost the first year the state lost control of the wine business.

2. State control has meant decisions were made for the good of the people of Montana rather than for profit motives.
   - Example one: The state doesn't advertise(private ownership would).
   - Example two: The state has not tried to increase sales at the expense of the health and well-being of the people(private ownership would increase sales at all costs).
3. Loss of jobs in a time of high unemployment would result. This would result in revenue loss to both state and local governments because unemployed people do not pay taxes. The state should try to relieve unemployment problems, not create them. Putting people in the unemployment lines from an industry which has made the state ten and one half million dollars the last two years is not a prudent decision.
4. Increasing the availability of liquor will not increase the quality of life for Montana's citizens. More outlets and longer hours will create more law enforcement problems.
   - Example one: It will be more difficult to keep liquor out of the hands of minors.
   - Example two: It will be more difficult to keep drunks off the roads.
   - Example three: It will be more difficult to protect stores open late at night. Small convenience stores have been a prime robbery target. The history of liquor stores,open late at night, in other states is not a good one from a crime standpoint.

"If is isn't broke don't fix it". This famous saying applies here. In the past two years the state has made over ten million dollars in profit from its retail liquor business. Without the retail business, how will the state make this money?

What will be the financial results of the state getting out of the retail business? By selling off its holdings, losses can be held to three million dollars the first two years. After that, losses could be as high as five million dollars each year. Where is this money going to be made up? Are services going to be cut or are taxes going to be increased? Even if profits were to drop because of lower consumption, we are still going to be putting a large amount of money in the general fund each year. This is money going to all Montana citizens rather then the profits going to a few people, many of whom will not even be Montana citizens, if we give up the retail stores.

Less profits, loss of jobs, more law enforcement problems, and less control of a potentially dangerous drug are all reasons I ask you to please defeat H.B. 527 and keep Montana in the retail liquor business.

Sincerely yours,

Robert Mehlhoff

Robert Mehlhoff

P.S. Since I am a teacher, it will be very difficult to attend the hearing on Monday. Please use my letter in lieu of my presence.

Box 247
Big Sandy, Mt.
Feb. 4, 1985

Senator Richard Manning
Capital Station
Helena, Mt. 59620

Dear Senator Manning:

Again this session there is a bill to abolish the state-run retail liquor system. I would hope the legislature would keep the present system.

The reasons to keep the present system are as follows:

1. Revenue to the state will go down. History of the wine business showed us that. Two and one half million dollars were lost the first year the state lost control of the wine business.

2. State control has meant decisions were made for the good of the people of Montana rather than for profit motives.
   Example one: The state doesn't advertise(private ownership would).
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Sincerely yours,

Robert Mehlhoff

Robert Mehlhoff

Rec'd - Thurs - Feb 7, 1985

Personal Letter

Dear Paul:

Enclosed is a letter I sent to each member of the Business and Labor Committee. I hope it will do some good. I had planned to attend the committee meeting on Monday but weather and distance may prohibit that. If you feel it is very important that I represent them at the meeting please get ahold of Mom. The phone # is 4533526. I hope the letter will do as much good as our family being present at the meeting.

If there is any way I can be of help on this bill please get ahold of me at 3782502 (Big Sandy High School) or 3782187 (home phone). If this letter can be of any help please use it. I can either send you more copies or feel free to run copies off to hand out.

Good luck the rest of the session and best of luck on all your bills.

Sincerely yours,

Robert Mehlhoff

Robert Mehlhoff

Rick - Thur Feb. 7, 1985

Box 247
Big Sandy, Mt.
Feb. 4, 1985

Testimony Against
H.B. 527 by Bruce Simon

Rep. Paul Pistoria
Capital Building
Helena, Mt. 59620

Dear Paul:

Again this session there is a bill to abolish the state-run retail liquor system. I would hope the legislature would keep the present system.

The reasons to keep the present system are as follows:

1. Revenue to the state will go down. History of the wine business showed us that. Two and one half million dollars were lost the first year the state lost control of the wine business.

2. State control has meant decisions were made for the good of the people of Montana rather than for profit motives.
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   - Example one: It will be more difficult to keep liquor out of the hands of minors.
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"If is isn't broke don't fix it". This famous saying applies here. In the past two years the state has made over ten million dollars in profit from its retail liquor business. Without the retail business, how will the state make this money?

What will be the financial results of the state getting out of the retail business? By selling off its holdings, losses can be held to three million dollars the first two years. After that, losses could be as high as five million dollars each year. Where is this money going to be made up? Are services going to be cut or are taxes going to be increased? Even if profits were to drop because of lower consumption, we are still going to be putting a large amount of money in the general fund each year. This is money going to all Montana citizens rather then the profits going to a few people, many of whom will not even be Montana citizens, if we give up the retail stores.

Less profits, loss of jobs, more law enforcement problems, and less control of a potentially dangerous drug are all reasons I ask you to please defeat H.B. 527 and keep Montana in the retail liquor business.

Sincerely yours,

Robert Mehlhoff

Rōbert Mehlhoff

February 11, 1985

To the Committee on House Bill #527:

This letter is to voice my objection to the above named bill. This would eliminate my agency store and almost all of the others across the State of Montana. We could not buy the $5000 license and then be restricted from selling to the bars--the bars are over 50% of our sales. And then to buy our stock would take a great deal of capital and we would not be able to stock some of the slower moving items. But then there would be no way really to do business because we would not be able to make enough profit to make it worth our while with restricted and limited sales.

At present the system is working quite well. We agency stores provide the consumer and the bar owners with excellent service. The State of Montana derives a good profit from overseeing the liquor business and it works well under State control. Liquor prices are at a level that consumers can afford. Your bill would raise the prices to the consumer probably 20-50% and who can stand that?

Sincerely,

Bertie L. Turville

Bertie L. Turville
Agent, State Liquor
Store #130
Fairfield, MT 59436

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

** The annual salaries of about $3,000,000 that are spent in local communities throughout the state of Montana could be lost. This figure does not take into account the additional capital generated by circulation of the salaries through the local economy.

** The Liquor Division brings in excess of $5,782,000 into the state's general fund -- the most income-producing division in state government.

** The elimination of state stores and the retailing of liquor by "new licensees" would mean the loss of control now exercised by the state over the sale of alcoholic beverages to those of minority age.

** The increased cost of liquor to the consumer could be at least 20 percent.

** The average age of liquor store employees is slightly over 47 years. Where will these employees turn for employment?

** The average years of service is just over eight years. Therefore, these employees will not qualify for any state retirement benefits.

** The administrative cost of policing the new retail liquor outlets would be prohibitive.

** The possibility of the retail liquor market being dominated by large corporations at the expense of small Montana businesses is high.

The proponents of this bill argue that a one-time savings of $7,000,000 may be realized by taking the state out of the retail liquor business. This argument does not address the loss of at least $5,782,000 each and every year. While this may be a good faith attempt to temporarily help the state meet a budget crunch at present, it ignores the annual loss of millions of dollars.

For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Fraternally,

[illegible signature]

See attached

Members of the Business & Labor Committee

I am the sole support for myself & six children. I have worked in this liquor store for seventeen years - six years as manager.

With no other training or experience where do you suppose I'll be able to find work with comparable wages. My children qualify for reduced-rates on school lunches - do you still feel I am "over-paid" -

I am currently running my store #3 Billings with a total of three full-time employees & two part time employees. This store is not over-staffed.

Sincerely [illegible] Allen
#3 Billings

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

** The annual salaries of about $3,000,000 that are spent in local communities throughout the state of Montana could be lost. This figure does not take into account the additional capital generated by circulation of the salaries through the local economy.

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For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Fraternally,

Robert Ostermiller

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

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For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Fraternally,

Doug Kirby

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

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For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Fraternally,

Caroline Olsen

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

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For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Fraternally,

Wade Voeltz

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

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Fraternally,

Jan Voeltz

Members of the Business and Labor Committee:

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Fraternally,

Kolette M. Dalton

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Fraternally, Darvin D. Gambell

note: Why try to fix something that isn't "Broken".

Members of the Business and Labor Committee:

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** The average years of service is just over eight years. Therefore, these employees will not qualify for any state retirement benefits.

** The administrative cost of policing the new retail liquor outlets would be prohibitive.

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The proponents of this bill argue that a one-time savings of $7,000,000 may be realized by taking the state out of the retail liquor business. This argument does not address the loss of at least $5,782,000 each and every year. While this may be a good faith attempt to temporarily help the state meet a budget crunch at present, it ignores the annual loss of millions of dollars.

For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Fraternally,

Rosemary Connelly

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

** The annual salaries of about $3,000,000 that are spent in local communities throughout the state of Montana could be lost. This figure does not take into account the additional capital generated by circulation of the salaries through the local economy.

** The Liquor Division brings in excess of $5,782,000 into the state's general fund -- the most income-producing division in state government.

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Sincerely, Wayne Tumm[illegible]

Members of the Business and Labor Committee:

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Sincerely, [illegible]

Box [illegible]

[illegible] Montana 59483

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

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Sincerely,

MURPH'S CLUB TAVERN
Box 242
Dutton, MT. 59433

Members of the Business and Labor Committee:

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Sincerely,

Jerry Blain
Box 205 Dutton MT

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Sincerely, Donald D. Peterson

Box 22 Dutton MT

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Sincerely,

Arthur Elam 152 Brady

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Sincerely,

Dennis C [signature]

Box 192 BRADY MONT

Members of the Business and Labor Committee:

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Sincerely,

Lillian D Maas

[illegible]

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Sincerely, William T. Maad

225-17th ave. NW

[illegible]

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Sincerely,

John E. Monahan

P.O. Box 3206
MT 59403

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Sincerely, David M. Emerson

317 22nd Ave. N.W.

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Sincerely,

Sherrie A. Bicsak
3528 8 Ave. So- GF, Mt 59405

Members of the Business and Labor Committee:

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Sincerely, Charles Myles
600 17 Ave So
Great Falls

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For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Sincerely,

Alfred Grassesch[illegible]
1222 - 19th Av

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions cost the state general fund a <u>single penny</u>. These jobs are totally funded by the liquor system. What justification can there be to <u>eliminate</u> approximately <u>180 jobs</u> that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

** The annual salaries of about $3,000,000 that are spent in local communities throughout the state of Montana could be lost. This figure does not take into account the additional capital generated by circulation of the salaries through the local economy.

** The Liquor Division brings in excess of $5,782,000 into the state's general fund -- the most income-producing division in state government.

** The elimination of state stores and the retailing of liquor by "new licensees" would mean the loss of control over the sale of alcoholic beverages to those of minority age now exercised by the state.

** The increased cost of liquor to the consumer could be <u>at least 20 percent.</u>

** The average age of liquor store employees is slightly over 47 years. Where will these employees turn for employment?

** The average years of service is just over eight years. Therefore, these employees will not qualify for <u>any</u> state retirement benefits.

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For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Sincerely, Billie M Johnson
1026 35th SC SO
Great Falls, Mont.

Members of the Business and Labor Committee:

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Sincerely, Regina M. Royland
1612-6th Ave. N.W.
Great Falls MT

Members of the Business and Labor Committee:

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Sincerely,

Great Falls,

Carsten A. Roylund

Members of the Business and Labor Committee:

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Sincerely,

[illegible signature] Teton Tavern
Dutton, Montana Co Owner

Members of the Business and Labor Committee:

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Sincerely,

Rose M. Bidder DBA Teton Tavern
Co-owner

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Sincerely,

Danny R Christen Adj. Freedom Post #64 District

Members of the Business and Labor Committee:

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John A Czekala
1909 Central Ave.

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Sincerely,

Darla A. Trudel
[illegible] 25th Ave. N.E. Great Falls, Mt

Members of the Business and Labor Committee:

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Cleone M. Amestoy

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Sincerely,

Lucille Paine

2800 14th Ave S. #9

Members of the Business and Labor Committee:

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Sincerely,

Fred J. Rossburg

2716 ... North Great Falls, M[illegible]

Members of the Business and Labor Committee:

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House

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House

Fraternally,

Gary T. [illegible] 17 5th St. NW.

Members of the Business and Labor Committee:

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Sincerely, Kelly Y. Partin

3516 11th Ave. S.
Gt. Falls, MT, 59405

Members of the Business and Labor Committee:

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Sincerely,

Tom Crane
3018 9th Ave So.

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Dorothy Brian - 929-4th Ave N.W. Gt. Fall

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

** The annual salaries of about $3,000,000 that are spent in local communities throughout the state of Montana could be lost. This figure does not take into account the additional capital generated by circulation of the salaries through the local economy.

** The Liquor Division brings in excess of $5,782,000 into the state's general fund -- the most income-producing division in state government.

** The elimination of state stores and the retailing of liquor by "new licensees" would mean the loss of control over the sale of alcoholic beverages to those of minority age now exercised by the state.

** The increased cost of liquor to the consumer could be at least 20 percent.

** The average age of liquor store employees is slightly over 47 years. Where will these employees turn for employment?

** The average years of service is just over eight years. Therefore, these employees will not qualify for any state retirement benefits.

** The administrative cost of policing the new retail liquor outlets would be prohibitive.

** The possibility of the retail liquor market being dominated by large corporations at the expense of small Montana businesses is high.

The proponents of this bill argue that a one-time savings of $7,000,000 may be realized by taking the state out of the retail liquor business. This argument does not address the loss of at least $5,782,000 each and every year. While this may be a good faith attempt to temporarily help the state meet a budget crunch at present, it ignores the annual loss of millions of dollars.

For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Sincerely,

Glenda Evans, 3301 14th Ave S., Gt Falls, MT. 59405

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

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Sincerely, Jean E. Strong, Box 209,

Members of the Business and Labor Committee:

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Florence Lofton

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of ~~Senate~~ House Bill 527. Thank you.

Fraternally,

Fred H. [illegible]
104-21st Ave. N.W. [illegible]

Members of the Business and Labor Committee:

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Earl E. Brandt

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J. E. [illegible]
2034 Walnut St
Butte Mont.

Members of the Business and Labor Committee:

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Fraternally,

Delores J. Freyler
210 15th St. N.
Gt. Falls, Mt.

Members of the Business and Labor Committee:

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Fraternally,

Beverly J. Gahagan
613-22nd St.

Members of the Business and Labor Committee:

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Fraternally,

Gerald E. Vetterly

1702 Colorado Ave Black Eagle, Mt.

Members of the Business and Labor Committee:

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House

Fraternally,

Thomas R. Davis
727-3050
101 River View 3 East

Members of the Business and Labor Committee:

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HOUSE

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Fraternally,

Jim McLean
Box 1246

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Sincerely,

Cheryl M. Slater

R.R. 2273

Members of the Business and Labor Committee:

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Sincerely, Joy A. Coté

Members of the Business and Labor Committee:

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House. ~~Senate~~ Bill 527. Thank you.

Fraternally,

Frank R Sullivan
55 W Granite St

Members of the Business and Labor Committee:

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** The average years of service is just over eight years. Therefore, these employees will not qualify for any state retirement benefits.

** The administrative cost of policing the new retail liquor outlets would be prohibitive.

** The possibility of the retail liquor market being dominated by large corporations at the expense of small Montana businesses is high.

The proponents of this bill argue that a one-time savings of $7,000,000 may be realized by taking the state out of the retail liquor business. This argument does not address the loss of at least $5,782,000 each and every year. While this may be a good faith attempt to temporarily help the state meet a budget crunch at present, it ignores the annual loss of millions of dollars.

For these reasons I sincerely hope that you will oppose passage of S~~ena~~te Bill 527. Thank you.
House

Fraternally,

Debra Olson
100 Blake

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to ~~Senate~~ Bill 527.
House

** None of the retail clerk positions cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

** The annual salaries of about $3,000,000 that are spent in local communities throughout the state of Montana could be lost. This figure does not take into account the additional capital generated by circulation of the salaries through the local economy.

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Fraternally,

Dorinda Lee Stock
1308 Phoenix

Members of the Business and Labor Committee:

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Fraternally,

John T. Forkan, Jr.
P.O. Box 26
Anaconda Montana

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Fraternally,

Mike Dahlem
Box 311
Helena, MT 59624

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Fraternally,

Larry Persinger

1800 Phillips Ave

Members of the Business and Labor Committee:

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Fraternally,

[illegible signature]

708 27 Ave N.E.

Members of the Business and Labor Committee:

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Fraternally,

Howard [illegible]

1817 W. Park
[illegible]

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Fraternally,

Charles Davis

58 W. Quartz
Butte, Mont.

Members of the Business and Labor Committee:

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House

Fraternally,

Michael J. Keating

2911 5th Ave NW

Members of the Business and Labor Committee:

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Fraternally,

Virgil L Buettner
26613 Frontage RD,
Bozeman MT. 59715

Members of the Business and Labor Committee:

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Fraternally,

302 N. Broadway P.O. 343

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Fraternally,

Gary Taylor 1216 Schley Butte Mont 59701

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Fraternally,

Robert G. Vukovich
PO Box P
E. Helena MT 59635

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Bonnie Wallis

Members of the Business and Labor Committee:

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Fraternally,

Mark D Bender

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For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Sincerely, James R. Tucker

4233 3rd Ave NO

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

** The annual salaries of about $3,000,000 that are spent in local communities throughout the state of Montana could be lost. This figure does not take into account the additional capital generated by circulation of the salaries through the local economy.

** The Liquor Division brings in excess of $5,782,000 into the state's general fund -- the most income-producing division in state government.

** The elimination of state stores and the retailing of liquor by "new licensees" would mean the loss of control over the sale of alcoholic beverages to those of minority age now exercised by the state.

** The increased cost of liquor to the consumer could be at least 20 percent.

** The average age of liquor store employees is slightly over 47 years. Where will these employees turn for employment?

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** The administrative cost of policing the new retail liquor outlets would be prohibitive.

** The possibility of the retail liquor market being dominated by large corporations at the expense of small Montana businesses is high.

The proponents of this bill argue that a one-time savings of $7,000,000 may be realized by taking the state out of the retail liquor business. This argument does not address the loss of at least $5,782,000 each and every year. While this may be a good faith attempt to temporarily help the state meet a budget crunch at present, it ignores the annual loss of millions of dollars.

For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Sincerely, L Don Rogers

3647 9th Av. So.
Great Falls, Mt. 59405

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Fraternally,

Roberto Garcia
RT 1 Box 145-9

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Julie Eley

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El Gollsworthy

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Deloria Brewer

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~. Thank you.
527

Fraternally,

286 Hope Rd
Helena MT.

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Sherry L. Bissett

[illegible] Dr. Helena 2/8/85

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Reta Hedberg
1726 Hudson
[illegible]

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Sincerely, Jim Cramer - St Rt 6395 Belt Mt 59412

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Edward A Becker

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Fraternally,

Mark [signature]

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Herman A. Weeks
1030 Prairie Rd.

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions in these stores cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

** The annual salaries of about $3,000,000 that are spent in local communities throughout the state of Montana could be lost. This figure does not take into account the additional capital generated by circulation of the salaries through the local economy.

** The Liquor Division brings in excess of $5,782,000 into the state's general fund -- the most income-producing division in state government.

** The elimination of state stores and the retailing of liquor by "new licensees" would mean the loss of control now exercised by the state over the sale of alcoholic beverages to those of minority age.

** The increased cost of liquor to the consumer could be at least 20 percent.

** The average age of liquor store employees is slightly over 47 years. Where will these employees turn for employment?

** The administrative cost of policing the new retail liquor outlets would be prohibitive.

** The possibility of the retail liquor market being dominated by large corporations at the expense of small Montana businesses is high.

The proponents of this bill argue that a one-time savings of $7,000,000 may be realized by taking the state out of the retail liquor business. This argument does not address the **loss of at least $5,782,000** each and every year. While this may be a good faith attempt to temporarily help the state meet a current budget crunch, it ignores the annual loss of millions of dollars. Such a loss could result in forcing the state to impose a sales tax, or to increase the income or property tax.

For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~ 527. Thank you.

Fraternally,

B. Giggles Daly for Bakers & Co-
Union IL 93 -

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~. Thank you.
527

Fraternally,

Stacy Stephen
1805 Joslyn #115

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions in these stores cost the state general fund a <u>single penny</u>. These jobs are totally funded by the liquor system. What justification can there be to <u>eliminate</u> approximately <u>180 jobs</u> that pay their own way?

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Fraternally,

Howard O. [illegible]
330½ Breckenridge

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~. Thank you.
527

Fraternally,

Carm McDonald
604 Cannon St.

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~. Thank you.
527

Fraternally,

Betty Jenkins
P.O. Box 832

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~ 527. Thank you.

Fraternally,

[illegible] Cetsch
Box 544
[illegible] Mont 59635

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~ 527. Thank you.

Fraternally,

Warren Buckler

804 Prairie Ave

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~. Thank you.
527

Fraternally,

Kent J. Day
6. S. Park Apt. B-14

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~. Thank you.
527

Fraternally,

Gene F. Martin
4350 N. Montana

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~. Thank you.
527

Fraternally,

Faye D. Tennis
6073 Goodwin Dr

Amy Bla
1528 Cann
#B
Helena

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~ 527. Thank you.

Fraternally,

[illegible]

6073 GOODWIN DR.

[illegible]

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~. Thank you.
527

Fraternally,
Jerry Vcnasek
1450 Boston Rd

Members of the Business and Labor Committee:

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Fraternally,

[signature]
1729 Hauser

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill ~~572~~. Thank you.
527

Fraternally,

x Mike Sharp
580 S. Rodney

Members of the Business and Labor Committee:

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Fraternally,

Robert C. Thomas

Members of the Business and Labor Committee:

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** The administrative cost of policing the new retail liquor outlets would be prohibitive.

** The possibility of the retail liquor market being dominated by large corporations at the expense of small Montana businesses is high.

The proponents of this bill argue that a one-time savings of $7,000,000 may be realized by taking the state out of the retail liquor business. This argument does not address the **loss of at least $5,782,000** each and every year. While this may be a good faith attempt to temporarily help the state meet a current budget crunch, it ignores the annual loss of millions of dollars. Such a loss could result in forcing the state to impose a sales tax, or to increase the income or property tax.

For these reasons I sincerely hope that you will oppose passage of House Bill 527 Thank you.

Fraternally,

Louise [signature]

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions in these stores cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

** The annual salaries of about $3,000,000 that are spent in local communities throughout the state of Montana could be lost. This figure does not take into account the additional capital generated by circulation of the salaries through the local economy.

** The Liquor Division brings in excess of $5,782,000 into the state's general fund -- the most income-producing division in state government.

** The elimination of state stores and the retailing of liquor by "new licensees" would mean the loss of control now exercised by the state over the sale of alcoholic beverages to those of minority age.

** The increased cost of liquor to the consumer could be at least 20 percent.

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For these reasons I sincerely hope that you will oppose passage of House Bill 527 Thank you.

Fraternally,

Mary J. Sullivan

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions in these stores cost the state general fund a <u>single penny</u>. These jobs are totally funded by the liquor system. What justification can there be to <u>eliminate</u> approximately <u>180 jobs</u> that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

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** The increased cost of liquor to the consumer could be <u>at least 20 percent</u>.

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For these reasons I sincerely hope that you will oppose passage of House Bill **527**. Thank you.

Fraternally,

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

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For these reasons I sincerely hope that you will oppose passage of House Bill 527. Thank you.

Fraternally,

Monica Campbell

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions in these stores cost the state general fund a <u>single penny</u>. These jobs are totally funded by the liquor system. What justification can there be to <u>eliminate</u> approximately <u>180 jobs</u> that pay their own way?

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For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

Dorothy J. Deschamps
1105 Haaglund Dr., #27
Missoula, MT 59802

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions in these stores cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

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** The possibility of the retail liquor market being dominated by large corporations at the expense of small Montana businesses [illegible].

The proponents of this bill argue that a one-time savings of $7,000,000 [illegible] be realized by taking the state out of the retail liquor business. This argument does not address the loss of at least $5,782,000 each and every year. While this may be a good faith attempt to temporarily help the state meet a current budget crunch, it ignores the annual loss of millions of dollars. Such a loss could result in forcing the state to impose a sales tax, or to increase the income or property tax.

For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

[illegible]
615 South 5th East
Missoula, MT. 59801

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

Jay M. Crain

2102 Clark Missoula, MT 59[illegible]

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

Judy Berg

715 E. Travois

Missoula MT 59802

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

R. Hadrean Jensen

Missoula

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

Lawrence Bing
715 E Travois
Missoula, MT. 59802

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

Roy Burdett

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

Leo Bilse

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

Shirley Keller 3100 Washburn #18 Msla, Mt

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

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For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

Bonnie R. Donahue
1010 Rodgers St.
Missoula, Mt 59802

Members of the Business and Labor Committee:

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For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you,

Fraternally, Margaret E Burglett

1000 Washburn St.

[illegible] Mt 598

Members of the Business and Labor Committee:

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Fraternally, Leo Thomas

Members of the Business and Labor Committee:

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** None of the retail clerk positions in these stores cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

** The annual salaries of about $3,000,000 that are spent in local communities throughout the state of Montana could be lost. This figure does not take into account the additional capital generated by circulation of the salaries through the local economy.

** The Liquor Division brings in excess of $5,782,000 into the state's general fund -- the most income-producing division in state government.

** The elimination of state stores and the retailing of liquor by "new licensees" would mean the loss of control now exercised by the state over the sale of alcoholic beverages to those of minority age.

** The increased cost of liquor to the consumer could be at least 20 percent.

** The average age of liquor store employees is slightly over 47 years. Where will these employees turn for employment?

** The administrative cost of policing the new retail liquor outlets would be prohibitive.

** The possibility of the retail liquor market being dominated by large corporations at the expense of small Montana businesses is high.

The proponents of this bill argue that a one-time savings of $7,000,000 may be realized by taking the state out of the retail liquor business. This argument does not address the **loss of at least $5,782,000** each and every year. While this may be a good faith attempt to temporarily help the state meet a current budget crunch, it ignores the annual loss of millions of dollars. Such a loss could result in forcing the state to impose a sales tax, or to increase the income or property tax.

For these reasons I sincerely hope that you will oppose passage of House Bill 572. Thank you.

Fraternally,

Brooke Gillespie

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

** None of the retail clerk positions in these stores cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

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Terri M. Burgess

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Fraternally,

Don Meyer

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For these reasons I sincerely hope that you will oppose passage of House Bill 527 Thank you.

Fraternally, John R Hewitt

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to House Bill 527.

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For these reasons I sincerely hope that you will oppose passage of House Bill 527 Thank you.

Fraternally,

[illegible] Hunt
[illegible] Argyle Butte Mt.

HB 597

DEAN AND KAREN HATVICK
2021 HICKORY DR.
BILLINGS, MT. 59101
FEB. 4, 1985.

TO WHOM IT MAY CONCERN:

WE HAVE HEARD THAT THERE ARE PLANS TO CLOSE THE STATE LIQUOR STORE, LOCATED ON S. 24th.W. ACROSS FROM RIMROCK MALL IN BILLINGS.
WE WOULD BE EXTREMELY UNHAPPY IF THIS WERE TO TAKE PLACE.. THE MANAGEMENT AND EMPLOYEES AT THIS STORE GO OUT OF THEIR WAY TO RUN AN EFFICIENT HELPFUL STORE.. MANY TIMES THEY HAVE SUGGESTED DIFFERENT TYPES OF LIQUOR FOR OUR BAR AT HOME THAT WE WOULD NOT HAVE TRIED IF THEY HAD NOT SUGGESTED IT.
WE HAVE LEARNED HOW TO MIX DRINKS FOR OUR BUSINESS ASSOCIATES FAMILY AND FREINDS. IT IS WELL WORTH THE DRIVE ACROSS TOWN TO UTILIZE THIS STORE AS THE MONEY THAT WE SAVE THERE AMOUNTS TO A LARGE SAVINGS ON OUR EXPENSE BILL FOR ENTERTAINING. WE HAVE USED OTHER STORES IN THE AREA, BUT FOR THE REASONS NOTED ABOVE WE DO ALL OUR BUSINESS WITH THE STORE ON S.24th W.

THANK YOU

Karen Hatvick

KAREN J. HATVICK
c.s.

Billings, Montana
February 6, 1985

Honorable Bob Pavlovich
House of Representatives
Helena, MT 59601

Dear Mr. Pavlovich:

It is my understanding you are the Chairman of the House Bill known as HB 527. I wish to take this means of protesting the change recommended in the proposed measure.

The present state monopoly has served Montanans very well and millions of dollars have benefited Montana and its people. I urge you and others of the committee to cast a do not pass on this uncertain piece of legislation.

Sincerely,

Clifford G. Cate

Clifford G. Cate
Registered Voter
Yellowstone County

CGC:cn

Snelling and Snelling®
World's Largest Employment Service
Fort Snelling

2118 GRAND AVENUE BILLINGS, MONTANA 59102 (406) 652-2120

February 7, 1985

Chairman of House Business and Labor Committee
Attn: Bob Pavlovich
Capital Station
Helena, Mt. 59620

RE: Opposing H.B. 527

I oppose this bill because I feel the consumer will pay more.

Those who drink pay the taxes and are willing to pay them. People who don't drink aren't paying a tax now.

A sales tax is going to affect everyone.

I oppose this bill. Leave the State Liquor situation as is.

Sincerely,

Wilma Moses

Wilma Moses
Owner/Manager

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World's Largest Employment Service

Fort Snelling®

2118 GRAND AVENUE BILLINGS, MONTANA 59102 (406) 652-2120

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Suzanne Trower

Suzanne Trower
Professional Employment Counsellor

Wilma Moses
Owner/Manager

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Sincerely,

Dorothy Stabler
Receptionist

Wilma Moses
Owner/Manager

Snelling and Snelling®

World's Largest Employment Service

Fort Snelling

2118 GRAND AVENUE BILLINGS, MONTANA 59102 (406) 652-2120

HB 527 NO

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Sincerely,

Thomas Puckett!

Tom Puckett
Professional Employment Counsellor

Wilma Moses
Owner/Manager

Members of the Business and Labor Committee:

As a resident of the state of Montana, I offer the following information regarding the state liquor store system, and ask your opposition to ~~Senate~~ House Bill 527.

** None of the retail clerk positions cost the state general fund a single penny. These jobs are totally funded by the liquor system. What justification can there be to eliminate approximately 180 jobs that pay their own way?

** If lost, these jobs will probably not be replaced by private industry, as was the experience when wine was placed in the grocery chains.

** The annual salaries of about $3,000,000 that are spent in local communities throughout the state of Montana could be lost. This figure does not take into account the additional capital generated by circulation of the salaries through the local economy.

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** The increased cost of liquor to the consumer could be at least 20 percent.

** The average age of liquor store employees is slightly over 47 years. Where will these employees turn for employment?

** The average years of service is just over eight years. Therefore, these employees will not qualify for any state retirement benefits.

** The administrative cost of policing the new retail liquor outlets would be prohibitive.

** The possibility of the retail liquor market being dominated by large corporations at the expense of small Montana businesses is high.

The proponents of this bill argue that a one-time savings of $7,000,000 may be realized by taking the state out of the retail liquor business. This argument does not address the loss of at least $5,782,000 each and every year. While this may be a good faith attempt to temporarily help the state meet a budget crunch at present, it ignores the annual loss of millions of dollars.

For these reasons I sincerely hope that you will oppose passage of ~~Senate~~ House Bill 527. Thank you.

Fraternally,

Kathy A. van Hook
517 Waukesha
Helena MT 59601

Dear Mr. Chairman:

I am sending my thoughts on H.B. 527 by mail as I don't think I will be able to attend the hearing do to weather conditions.

However, I do want to go on record as filing a protest against possible passage of H.B. 527.

In my opinion this bill will be of no benefit to the State of Montana from any side. there will be a loss of revenue to the state, doubly. There should be some type of a quota for package store licenses. I'm not against competition but stores will spring up and everyone will go broke from an overload on the market. Small bars will be put at a serious disadvantage and many will not survive.

If this Bill was introduced to "Build Montana" I can only see it as a serious threat to any forward progress.

I've been familiar with the liquor operation in Montana for many years. Always was good, but in the past ten (10) years it has grown into a very well functioning business. And it appears to be continuing on the improvement road.

Why tinker with a fairly good thing and replace it with something poor.

It isn't very often every citizen of a state gets to own their share of a business as each of us is doing with Montana Liquor.

As this bill is written, there is nothing I can see that is a benefit to anyone on any side of the issue.

I'm recommending that you stamp "Do Not Pass" on this bill.

Jeanne Sautter
P.O. Box 119
Townsend, Mt. 59644

Montana Beverage News
from issue during last session

EDITORIAL

They're still at it. We mean that very persistent and vociferous group that still insists on eliminating the quota system. 'Twould be better if they directed their attention to the welfare of the State of Montana instead of being so concerned about their own. They are starting early and the same old cry we have been hearing for years is being heard again. They are still bemoaning that a license in Billings would cost them too much but we are beginning to doubt that even doubling the number there would affect the price much. A considerable amount of space was devoted in the November 14 issue of the Billings Gazette to further their cause with quotes from a couple of Billings legislators and remarks from a few eating places that would like to get a license.

Before dwelling on the contents of the article let's review just what the quota system is all about and why it is so important that it be retained. First it must be remembered that the system was created by the legislature . . . not the tavern industry . . . and was devised to regulate the control of liquor. Also, practically every state in the nation has some sort of quota system to restrict the sale of alcohol and even those states which do not have a quota as such have restricted the issuance of licenses to conform to the others. Montana was even more liberal than most resulting in our being fourth highest in bars per capita. Liquor is a commodity that seems to need some control and limiting the number of bars appears to be the best solution. The best brains in the legislature and in the industry have been trying for years to devise a better system without success so we can only conclude there is nothing wrong with it as it is now constitutued.

We like the quota system and apparently the vast majority of the people concur as evidenced by the overwhelming defeat of a measure in the last general election which would have killed the quota system and allowed every hamburger and hot dog joint in the state to serve liquor. The people decided then that we have enough bars. Yet, despite this directive we have a few legislators from Yellowstone County who either haven't read the papers or don't understand what they read.

Sure a license is expensive in Billings. So is everything else and things will probably remain that way. Billings is a good town and the people who paid the price are not the ones who are complaining. The only squawk is from those that want to get in the business cheap. If anybody just has to have a license to stay in business all they have to do is buy one like the present owners did. The price should concern only the buyer and seller and if they are both satisfied why should a few legislators spend the citizens' tax money objecting to a transaction which doesn't concern nor affect anybody else.

As to the remarks in the Billings Gazette: One fellow said when commenting on the effects of killing the quota, "There may be a bar on every corner for 30 days. And then there'll be a bar on every other corner and then one every five blocks and so on." We are quote certain that is what would happen alright so we wonder why anyone would want to take an industry that is healthy and adds so much to our economy and subject it to bankruptcy. Another, a food dispenser that presently has a beer and wine license but wants an all beverage license said, "When they (state voters) decided to let every little Kwik Way and store sell wine and beer, we realized we needed something else." We would caution this person that if the quota was abolished and everybody got in the act "something else" would again be needed and then where would they be?

Most of the article was devoted to running down the manner in which "floater" licenses are issued and the complaints from the applicants on the long delay in determining the winners. Our opinion is that the fault lies . . . not with the Liquor Division . . . and certainly not with the quota system . . . but with the people who authored the bills that were passed into law. In their haste to pass a "bandaid" approach to an imagined problem they failed to specify exactly how the applicant should be selected. We are reasonably certain that all the applicants met the basic requirements and all fulfilled the "need and necessity" required so just how does one go about choosing one over the other. Apparently there is no way and the judgment of the hearing officer ends up in court where it is likely to stay for some time. We are inclined to go along with the suggestion that in cases where there are multiple applicants for a license that all names be placed in a hat and the applicants agree that the one withdrawn be declared winner. At least it would be quick and fair.

Our conclusion is that too many people concern themselves on subjects in which they have no expertise. We don't expect everybody to know everything about everything but it is only reasonable to expect them to listen to somebody who probably does know the subject at hand.

Montana Beverage News
from issue during last session

Editorial

Should the state get out of the retail liquor business? This subject was quite thoroughly discussed at a recent meeting of the Montana Tavern Association officers and directors with two representatives of the Governor's Conference on Management. The meeting was held at Chico Hot Springs. We presume the two Conference members hoped to enlist the support of MTA in passage of such legislation in the next session of the legislature but no conclusions were arrived at during this meeting.

To begin with we will state that the two conference members, Bruce Simon of Coles in Billings and John Green of the B.A. & P. railroad from Fairmont Springs were not acting in an official capacity and both stated their interest was merely as concerned citizens in the welfare of the state.

The reasoning behind taking the state out of the retail liquor business is that the state would make more money if the business were run by private industry. Such a statement is very easy to make and has a very desirable ring to it but "it ain't necessarily so". There is a prevailing myth that people in private industry are more knowledgeable than people in government. This myth persists because we all think we have too much government in our lives and most of us think we could do a better job than it does. However, it remains a fact that government does some things better for us than we can do ourselves. That's why we have a government.

As of the moment we will neither endorse nor condemn taking the state out of the retail liquor business but we would like to comment on the idea and weigh some of the probabilities.

In 1982 Montana liquor sales were $54,395,822. The expense of operating the state liquor stores was $5,022,252. The problem of taking the state out of the retail business then is how much of this five million could be saved and whether such savings, if any, could be justified.

Before any changes should be made, first consideration should be given to the buying public. The people are the only customers we have and any disadvantage to them from such a change should be unthinkable. If the stores were to close and sales reverted to the liquor licensee, the matter of a proper discount would have to be settled. It has been determined that if prices were to remain the same to the public as they are now the licensee would have to have a minimum of 20 percent off. This would be 15 percent more than now offered. If the licensee marked up his liquor 20 percent the price to the public would remain the same as now. However, the additional discount would more than wipe out the five million. If the discount is less the licensee would have to increase his price and the public would pay more. This would not be palatable.

If the stores closed what would happen to all the employees that would be out of work. We are sure some would be absorbed by private industry but the others would be a drain on unemployment insurance and some even on welfare. We would also have to consider how to hande the paid in retirement benefits of these employees.

There would also be the problem of inventories in the existing stores. All that liquor would have to be disposed of some way and there seems to be no simple solution.

There would be the problem of shipping liquor to the licensee if it were determined that licensees would operate the stores. Would they have to order from a central warehouse in Helena or would there be various distribution points? Would freight be collect or FOB destination. As of now the price of a bottle is the same to any licensee no matter where he operates so the question of freight becomes important.

As of now, the general public pays the same price in Miles City as in Helena for a bottle of liquor. The Bureau of Revenue controls the price but there will be no control of prices if there are no state stores.

We are certain there would be many nice aspects for the tavern owner if the state should go out of the retail business but there are many problems to be solved before taking such a big step. This brings us to wonder why someone from the industry wasn't considered for the Conference on Management. We are certain the clothing merchant is an expert in his business and the railroad man an expert in his but we are equally certain a tavern owner would be more expert in his. We are also willing to explode the myth and concede that the government administrator is also probably an expert in his.

While we are thinking about this it comes to mind that people who usually want to change the liquor setup are people who usually want to change the quota system. Remember the old adage about a bird in the hand.

1982

Message from the President

There is nothing wrong with the liquor quota system that can't be cured except by leaving it alone. The present mess about the issuance of licenses was caused . . . not by the quota system . . . but by those who choose to tamper with it. The system works well throughout the rest of the United States and it will work here if some people would just forget about trying to get a license for nothing. There is no shortage of bars anywhere in Montana, and this also applies to Billings, but we have a few legislators in Yellowstone County who were thwarted in their attempt to eliminate the quota system and as a substitute dreamed up the floater idea.

We in the liquor business accept the theory that the sale of alcoholic beverages needs some sort of control. We realize that liquor is a commodity that should not be readily available to every Tom, Dick and Harry that might abuse the availability. Therefore, we accept the quota system and have even come to depend on it as a means to protect the investment we have made to comply with such a system. It should not be difficult then for anyone to understand why we oppose the efforts of those who think there should be more bars and that liquor should be made more availabe. We are constantly reminded there are to many DWI's and too much teenage drinking so let's point the finger in the right direction.

The trouble with the "floater" idea is that the sponsors of such legislation failed to specify how such floaters should be issued. In their zeal to create more availability of liquor they forgot that someone would have to make a determination and in the absence of specific instructions the matter would end up in the courts. That's where it is now and will probably remain there until the legislature can rectify the error.

Johnny Uselton

Ed: I know you don't have much to read, but I thought these comments might be of interest to you

MONTANA BEVERAGE NEWS
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Editorial

Despite the harassment taverns are receiving because of the increase in DUIs, despite the fact that people are being induced to cut down on drinking, despite the fact that the drinking age may be raised and eliminate thousands of customers and despite the fact that earning of taverns have decreased considerably, we still have some legislators wanting to increase the number of liquor licenses. We can't, for the life of us, figure what they are thinking of. They either are not aware of or knowledgeable of current conditions or they have some ulterior motive.

It doesn't take a genius to realise Billings is the target for some of these bills and even though this city has received nineteens new all beverage licenses in the past year a few legislators feel there should be more. For instance, one of the bills wanted to include some 20,000 residents outside the five mile limit when figuring the city's quota. The sponsors sort of created the impression these 20,000 people were without watering holes. As a matter of fact they are served just as adequately as if they were in the city with county licenses and if more are needed there are over twenty available just for the ing. We could have 100,000 people just outside the five mile .it and one more city license would do nothing for them nor would a dozen. The quota system was evolved to accommodate a given number of people . . . not something for legislators to play with.

Another bill would allow the transfer of a liquor license from anywhere in the state to anywhere in the state without regard to quota. In other words, if an owner wasn't doing so well in Bainville he could open his bar, if he so chose, in Glasgow and if he didn't like it there he could open in Billings. If he still wasn't satisfied he could move back to Bainville. There are fourteen hundred bars in Montana that could be moved and even though the sponsor says only one percent could be moved in a year all fourteen hundred, theoretically, in time could end up in Billings.

Another bill would increase the floater percentage from 142% to 150%. It's like the old adage of given them an inch and the'll take a mile. The tavern industry went along with each request for an increase in previous sessions in order to alleviate a situation caused by population increases and population shifts but now asks that the increases previously granted be given a chance to work before considering more. The quota system has been eroded but it is not necessary to disintegrate it.

We are always given the argument that a hotel or restaurant can only survive or succeed if it has a bar. We will grant that perhaps that is so but just because somebody goes ahead and builds one is no reason for the State of Montana to guarantee its success by giving them a license. Before entering an area a ntelligent entrepeneur should decide in advance whether h. can meet all the criteria for success. If one of these is that he have a liquor license he should not go ahead until he is assured of getting one. If he knows in advance the quota is filled he should not build or else be prepared to buy an existing license. He should not expect that the Montana Legislature will bail him out by creating a new one. We guarantee he can

has been paying. It's as simple as that and the price is nobod business but the buyers and sellers. It doesn't need legisla interference.

The bill for cash payouts for bingo is moving along but ha been amended to only allow such payouts to non profit organizations. MTA will oppose it unless such amendments are stripped. There is nothing new on the poker machine bills an the one to take the state out of the retail business is just abou ready for introduction. There are many other bills of course and we just advise to watch the daily papers.

If, as some people say, there are no such restrictions as quota on getting into other lines of business, they should encourag investors to consider these other lines instead of liquor. There are numerous sites available in downtown Billings that would accommodate a dry goods store or something similar and plent of acreage available for a supermart or mall. We are sure th Chamber of Commerce and all law enforcement agencies would welcome them rather than see a few more bars. Let's diver sify the economy a little and give the legislature a little res from manipulating the liquor business.

As we go to press we have learned that the first two bills mentioned here have been temporarily tabled in committee an the third one has been amended to delete any reference to in creasing the floater percentage. Evidently clear heads have prevailed and we hope such consideration will continue.

CHARTERED BY

UNITED FOOD & COMMERCIAL WORKERS INTERNATIONAL UNION

AFL-CIO & CLC

February 7, 1985

Dear Business and Labor Committee Member:

On behalf of the four United Food and Commercial Workers International Union locals that currently represent employees in the Montana state liquor stores, I am enclosing a packet of data relevant to Senate Bill 527. Because of the complexity and importance of the issue, I sincerely hope you will take the time to carefully examine the enclosed information.

Specific points of concern regarding the impact of this legislation include the following:

1) the prohibitive administrative cost of policing new retail liquor outlets, the number of which could be immense;

2) the problems related to policing the sales to minors would multiply as control over liquor over-the-counter distribution is diminished;

3) the massive loss of jobs which would occur;

4) the economic disadvantage of having Montana funds transferred to other states; and

5) the probability of the accumulation of liquor distribution by large corporations, thus squeezing the small business person out of the market.

These are only a few of the factors involved with what we see as the negative impact passage of Senate Bill 527 would have on the state of Montana. Others will be outlined in testimony before the Senate Committee hearing scheduled for February 11.

If you have any questions or require additional information, I am a Helena resident and can be reached at 449-2849. Please do not hesitate to get in touch.

Sincerely,

Ronald B. Kazel

Ronald B. Kazel
Assistant to the Director
UFCW Region #17

STATE STORES' SELL-OFF

One of the major selling points advanced by proponents of House Bill 527 is the alleged one-time savings which would be realized by selling off stores' inventories, fixtures, and equipment. The figure given is $7,000,000.

However, the theory underlying the one time windfall to the state is flawed. A hypothetical sell-off of the Grand Avenue state liquor store in Billings may be used as an example. The store contains an inventory with a retail value of $307,538. This is the minimum value which a potential bidder may offer since the language of the bill states, "The department shall establish a minimum sale price for each state-operated store that may not be less than the value of the average daily inventory at the store...", (lines 2-4, page 47).

However, another far cheaper option is available for a person who wishes to have a package liquor store. They simply pay the fee of $5,000 or $10,000, depending upon the population of their community, and acquire the necessary inventory from the state warehouse in Helena at a ten percent discount. An inventory of one-half the amount, or even far less, than that contained in the Grand Avenue store would undoubtedly suffice to start someone in the business. Indeed, they would be better off not to have too much inventory, since on January 1, 1985 there would be additional competition from such package stores. It is difficult to imagine someone expending money and/or securing financing to obtain the full amount of inventory, in addition to all fixtures and equipment in state liquor stores, when such an inexpensive alternative to acquiring the business is available.

The above situation would inevitably prevail throughout the state once potential applicants realized what other option was possible. Thus, not only would the state realize little, if any, money from the "sell-off" of its facilities, but it would be confronted with the expense of shipping much of its inventory back to Helena from locations from which there was no bidding.

The concept of a "sell-off" windfall to the state is unfounded, false, and misleading.

MISCELLANEOUS LOGISTICAL PROBLEMS AND COSTS

House Bill 527 requires that the Department commence to sell off state stores and agencies with a closing date of January 1, 1987 through a sealed bid process. The language of the bill further stipulates that the "successful bidder must be granted an agency agreement to operate the store as a state liquor store between the time title is assumed and January 1, 1987." State liquor stores function under long term leases with the Department. Initiating agency agreements following a successful bid implies breaking such leases. Although recently negotiated leases do contain language permitting the Department to break them if the mode of the state liquor operation changes, a delicate legal question remains as to whether the state may, in fact, "sell" or assign such leases. Such leases cannot be so assigned without the permission of the lessor, in most cases. Thus, if a lessor is reluctant to have his lease assigned to whomever the successful bidder may happen to be, he may insist that the state pay off his long term obligation. Whether or not the state must legally do so may have to be resolved in litigation. It is thus distinctly possible that extensive litigation could be incurred under the terms of the bill.

In addition, the question remains as to who will oversee those outlets not bid upon by January 1, 1987. For reasons explained under "State Stores' Sell-off" there is a strong possibility that there will be a number of such outlets. How and when will such merchandise be returned to the Helena warehouse? What will the cost be? In the meantime, what may insurance rates be on inventories essentially unsupervised or unmonitored for a period of time?

With numerous stores to receive bids for, the process of the sell-off would have to commence well before January 1, 1987. Once a bid has been finalized, how is the inventory "frozen" over a period of several weeks or months to insure the same property bid upon is essentially the same as on the effective date of assumption of the property after a comparatively long interval of sales?

An additional problem exists for stores for which the lease expires prior to January 1, 1987. Whether an agency agreement or short-term lease is entered into, a potential agent or landlord is in a position to bargain for a high commission or rental amount knowing that the state must relinquish the property in a short amount of time.

Fixtures in most state liquor stores are the property of the landlord. Thus, they are exempt from bidding unless landlords acquiesce to their inclusion, further complicating the entire bid process.

In summation, shut-down costs and complications in disposing of the state retail liquor apparatus may well entail expenses, litigation, and numerous problems which House Bill 527 does not address, and which the legislature should be fully aware of. In particular, the costs involved are likely to significantly erode whatever savings proponents of the bill have argued may accrue under the new system.

WAREHOUSE INVENTORY CONTROL

House Bill 527 contains ambiguous provisions relating to inventories. Beginning with line 25, page 10, language is stricken with regard to the Department's rulemaking authority to determine the "classes, varieties, and brands of liquor and table wine to be kept at any state store." Even though the language refers to inventory in stores, the effect of eliminating this language is to remove the Department's power to control what is included in inventory. Thus, the Department would apparently no longer retain the authority to list products based upon selling capacity, price, promotional support, etc., but would seemingly be required to obtain whatever product a licensee might demand, regardless of its potential for selling to other customers in our market. This could lead to significant problems in warehouse inventory control.

PACKAGE LICENSE OWNERSHIP RESTRICTIONS

There is no reference in House Bill 527 to restricting the ownership of package store licenses to one per owner. Elsewhere in the Montana Alcoholic Beverage Code, i.e., 16-4-205, MCA, such a prohibition is applied to all-beverages licenses. Thus, it is possible for such off-premises consumption licenses to be acquired by out of state corporations to establish chain liquor stores in Montana, e.g., Harry Hoffman, Twenty-first Amendment, etc. Such chains could presumably have much more favorable access to money or financing than many Montana citizens, and could also exercise a competitive advantage against individually owned stores in pricing, etc. Thus, the bill is not particularly advantageous to Montana individuals or businesses.

LICENSEE ORDERING

The language of House Bill 527 states that all sales to licensees shall be upon a cash basis and that the Department ship to licensees, at their discretion, and pay all shipping costs.

At the present time state liquor outlets inventory, in effect, for existing licensees. A licensee is permitted to place an order for merchandise at a state outlet at any time and in any amount. Currently the state provides product for approximately 1,570 licensed premises throughout the state. Assuming, at a minimum, 150 private package stores commence operation on the effective date permitted by the bill, (there will almost inevitably be many more). The state warehouse will have to provide product directly to 1,720 licensees without the intermediary of retail outlets. (Licensees closest to Helena may purchase directly from the warehouse, but the overwhelming majority will be in a position to require shipments from Helena). Assuming that licensees place orders on an average of once per week, this would mean approximately 6,880 orders per month. With an average month of twenty working days, this would entail the warehouse filling about 344 orders per day. Given the magnitude of the number of orders to fill, it is very doubtful that the warehouse, even with additional personnel and equipment to contend with the greatly increased workload, would be in a position to repack merchandise. Thus, licensees would have to order in case lot amounts.

The necessity to order by the case, in addition to having to order more infrequently as opposed to obtaining product at any time from an adjacent state liquor outlet, will require licensees to significantly increase their investment in inventory. Many will find this a difficult burden on top of current financial problems occasioned by declining sales.

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GROCERY STORE PROHIBITION

House Bill 527 stipulates that "A license may not be granted to an applicant that operates, manages, or directly or indirectly owns a controlling interest in a grocery store or supermarket of any size that is adjacent to the premises where the license will be exercised." (Page 2, lines 3-7). Presumably, a party with a minority interest in a grocery store or supermarket, (e.g., a family member with someone else in the family owning a "controlling" interest), can secure a package liquor store license and operate it adjacent to a grocery store. Furthermore, there is no specific language in the bill that precludes a package liquor store <u>in</u> a grocery store, although the bill requires at least 60 percent of the gross sales of such a business to be derived from the sale of alcoholic beverages. The percentage requirement is vague, and would create an enforcement problem on the part of Department investigators.

The above situation would also further complicate the bidding process reviewed in the section on "State Stores' Sell-off" in that several state stores and agencies, including outlets in Great Falls, Boulder, Lolo, and Superior are located adjacent to grocery stores. This would supposedly preclude bidding on them, and would necessitate removal and return of the merchandise by the state unless the bidder were someone owning a minority interest in the grocery store.

ANNUAL PROFIT

House Bill 527 attempts to establish a wholesaling system which would produce net profits roughly comparable to that realized under the current state retail system. This is sought to be accomplished, for the most part, by trading off the cost of the retail stores and stores' administration, (amounting to 9.98 percent of gross sales in FY 1984), with a ten percent discount. However, other expenses in connection with an expanded wholesale operation must be considered as either (a) reducing anticipated net profit under the proposed system, or (b) significantly increasing the prices of alcoholic beverages sold by the state if such higher costs are expected to be recovered in the price.

The best example of the above is higher freight expenses. (See discussion on "Freight Comparison"). Depending upon the number of additional licensees to be served, and based upon Wyoming's experience, (a control state which wholesales only from one warehouse location), Montana's freight costs are assured of increasing anywhere from \$1.3 million to \$3 million over existing expenses. If this is simply assumed as added cost, it will obviously have the impact of cutting significantly into profit and the state will receive far less net profit than it did previously. What is far more likely, even though the language of the bill is not clear on the issue, is that the cost will be recovered in the price as is presently the case. This, in turn, will have the effect of raising the price of liquor in the state to the point where Montana will have some of the highest retail prices in the nation. Even though the bill precludes the new package store licensees from charging a retail markup of more than 110 percent of the state posted price, the inclusion of such higher costs in the state base price will simply escalate prices in spite of retail markup limits. As stated in the section on "Freight Comparison," such prices can only result in further reducing sales and augmenting the importation of illicit product in our market. The latter will generate expensive enforcement problems.

The net effect of higher prices is to increase the probability that Montana will simply derive less revenue from its operation than before.

It should also be noted that significant improvements have been made in the existing system over the past two years. From FY 1983 to FY 1984 operational expenses were reduced by 6.16 percent. Net profit increased by 7.96 percent through the same period in spite of declining sales. To the extent that opponents contend that the existing system will realize less net profit in the future if sales declines continue, the same trend will occur under a wholesale system.

The stated advantages of a wholesale-only system are extremely speculative, at best.

VISITORS' REGISTER

______________________ COMMITTEE

BILL NO. HB 234 DATE ______________

SPONSOR ______________

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Gene Vuckovich	1205 W 2nd Anaconda	X	
Glen Drake	Helena		X
Bill Molmen	San Francisco		X
STAN SPARKS	PORTLAND		X
Mike Camilleri	N.Y.		X
Bill Palmer	Wis. Workers Comp		X
~~[illegible]~~	~~[illegible]~~		~~X~~
Eleore Amestoy	Gt. Falls		X
ROBERT OSTERMILLER	GT FALLS		X
Ron Kovich			X
George Allen	Helena		X
ROGER McGLENN	INDEPENDENT INSURANCE AGENTS OF MT		X
Riley Johnson	Mont. Homebuilders		X
Don Judge	MT STATE AFL-CIO	X	
Bonnie Tippy	Alliance of American Insur.		X

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PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

________________ COMMITTEE

BILL NO. HB 573 DATE ________________

SPONSOR Peterson

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Larry Majerus	Motor Vehicle Div	✓	
BUD SCHOEN	MOTOR VEH. DIV.	✓	
Dean Mansfield	Montana Auto Dealers Assn	✓	

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BILL NO. HB 568 DATE 2-11-85

SPONSOR JACK MOORE, MENAHAN (THAYER)

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
THOMAS W. MADDOX	PO BOX 123 HELENA MT 59624	✓	
MICHAEL G. GARRITY	Dept. of Revenue Helena, MT		✓
Rick Day	Dept. of Revenue		✓

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VISITORS' REGISTER

_______________ COMMITTEE

BILL NO. HB 574 DATE _______________

SPONSOR _______________

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
TAFFY Miller	PSC	✓	
OPAL WINEBRENNER	PSC	✓	
Pamela Merrell	Montana Power	✓	
David Dietrich	PP+L	✓	
Teri England	MontPIRG	✓	
John Alke	MDU	✓	

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_______________ COMMITTEE

BILL NO. HB 527 DATE _______________

SPONSOR _______________

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Roland L. Pratt	MT Restaurant Assoc.		X
Suzi Steffanich	BLGS		X
Roger Steffanich	BLGS		X
Joe Brand	Helena		X
JOHN LAFAVER	DOR HELENA		X
William Hunt	Butte		X
MONTY SEALEY	ROUNDUP		X
Cleo Everhard	Helena		X
DENNIS BURR	CLANCY		X
Ted Stetler	Missoula		X
MIKE GRUAOW	LOLO MT. AGENCY		X
RON KAZEC	Helena		X
JOHN R HEWITT	MISSOULA		X
ROBERT OSTERMILLER	GT FALLS		X
Dan E. STRONG	Gt FALLS		X
Lucille PIANE	Great Falls		X
Verlie Turville	Dutton		X
Wayne Turville	Dutton		X
[illegible]	Great Falls		X
Fred Rassier	Great Falls		X
Tom [illegible]	Great Falls		X
Pearl Ann Greenshields	East Glacier Park		X
WADE REA	Helena		X
Marie E. Dunker	Helena		X
[illegible]	Helena Commerce		
Don Judge	MT STATE AFL-CIO		X
Bertie Turville	Fairfield		X
Representative Paul G. Pistoria	Gt. Falls		X
Ralph Rusch	Realty Agency		X
Joseph R Callant	Elkhorn Falls, Inv.		X
[illegible]	Helena, MT		

Shirley Thomas
Ellerton Mont.

Cliff Wilcox
Columbia Falls

[illegible]
Helena

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CS-33

Bob Lemm	Helena	opposed
Patricia K-Meyer	Helena	opposed
[illegible] M. [illegible]	Helena	OPPOSED
Brock A. Gillespie	Helena	opposed
Mary J. Schuler	Livingston	opposed
Paul Martello	Helena	opposed
Leo Thomas	Helena	opposed
Robin Thompson	Helena	opposed
Judy Bang	Missoula	opposed
[illegible]	Gt Falls	opposed
Rosemary Connelly	Billings	opposed
DOUGLAS L. MARTIN	WESTERN BAR	OPPOSED
ROSS [illegible]	WESTERN BAR & GRILL	OPP
Wade Rea	Helena	opposed
[illegible] Dell	[illegible] Store mgr.	MTH member consumer Oppose
Bob Thomas	Ellaston	Opposed
Allan [illegible]	Billings	
[illegible]		Opposed
Eilene Zitur	Billings	Opposed
Ray [illegible]	G FALLS	opposed