MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

February 12, 1985

The twenty-fourth meeting of the House Taxation Committee was called to order in room 312-1 of the state capitol at 8:05 a.m. by Chairman Gerry Devlin.

ROLL CALL: All members were present except Representative Abrams and Representative Iverson. Also present were Dave Bohyer, Researcher for the Legislative Council, and Alice Omang, Secretary.

CONSIDERATION OF HOUSE BILL 690: Representative Bardanouve, District 16, Harlem, said that he was one of the signers of the original bill that created the resource indemnity trust tax and they thought it was one of the better pieces of legislation that was passed quite a few years back. He explained, because of an error in administrative rules, it does not do what they intended it to do and it has become quite controversial. He indicated that the legislative rules said it should be on the net and it was their intention that it should be taxed on the gross. He advised that this tax indemnifies Montana for nonrenewable resources that have been removed from the earth; it is put into a trust to reach $100 million; and the interest on that trust can be spent.

PROPONENTS: Larry Fasbender, from the Department of Natural Resources, stated that twelve years ago, a number of people rose and indicated that the state of Montana was going to suffer a great decline as far as mining was concerned because of this imposition of this tax on the mining industry and he did not think that that came to past. He said that he hoped the committee would support this bill so they can reinstate this to its original intent and purpose.

Dan Bucks, Deputy Director of the Department of Revenue, explained that the basic reason they repealed the old rules is because they felt that the 1974 rules were wrong, illegal and improperly converted the tax from being a tax on the gross market value of the merchantable mineral to a net tax and that was incorrect.

Don Reed, representing the Montana Environmental Information Center, stated that the policy of the resource indemnity trust tax is to provide security against loss or damage to the environment from the extraction of nonrenewable resources.

There were no further proponents.

OPPONENTS: Gary Langley, Executive Director of the Montana Mining Association, gave testimony in opposition to this bill. See Exhibit 1. He also distributed to the committee an article from Business Week entitled "The Death of Mining". See Exhibit 2.

George Bennett, representing Asarco, Inc., and W.R. Grace, gave a statement in opposition to this bill. See Exhibit 3. He handed out to the committee Exhibit 4, which are some statements made by Governor Schwinden.

James D. Mockler, Executive Director of the Montana Coal Council, offered testimony in opposition to this bill. See Exhibit 4-A.

Jack Bingham, manager of the Troy Silver Mine, advised the committee that last year, they paid the state of Montana 6.3 times more than what they made on the bottom line.

Jim Smolir, manager of the Sunlight Mine in Whitehall, stated that times aren't good for mines and the only thing they can do is to try and control costs and if this committee refuses this request for a tax increase, it is because it is not needed and it is not justified.

Tom Ebzery, representing the Nerco Mining Company, gave testimony in opposition to this bill. See Exhibit 4-B.

John Fitzpatrick, representing the Centennial Minerals, Limited and American Copper and Nickel Company, Inc., advised the committee that in the last fifteen years, the metal mining industry has lost 6200 jobs or 75% of their work force; and Centennial is proposing a large open-pit mine about 25 miles south of Helena near Jefferson City and they will employ 230 people when they first open and this will increase to 340 in the fourth year of production. He indicated that they face a very difficult situation and it is very unlikely that this will be put into production at today's market price of gold, which is $300.00.

Darwin VanDeGraff, representing the Montana Petroleum Association, informed the committee that they have a process whereby they reinject gas to bring oil to the surface and under this bill, they would be paying taxes on that gas that is reinjected, recaptured and then reinjected, etc. He also indicated that they would be paying taxes on any spill.

Janelle Fallon, representing the Montana Chamber of Commerce, noted that the Bureau of Business and Economic Research indicated that Montana has lost 7,000 basic jobs since 1979 and somebody is suffering.

Mike Micone, representing the Western Enviornmental Trade Association, advised the committee that their association has been, since its inception, working to promote economic development and jobs in the state while protecting the physical environment and they believe that this bill is a detriment to economic growth and jobs in this state.

There were no further opponents.

<u>QUESTIONS ON HOUSE BILL 690</u>: Representative Ellison asked Mr. Bucks about a study that was previously done on minerals in the state.

Mr. Bucks advised that the study he is aware of was actually two studies, the first of which was issued in May of 1983 and then it was updated in 1984, and that is the study that he is familiar with.

Representative Ellison said that he had the idea once of adding a little to the RITT tax and the Bureau of Mines told him that they were already taxed too much and this just does not seem to add up somehow.

Mr. Bucks responded that he would be glad to sit down with him and discuss this study with him.

Representative Sands noted that the practical matter of this legislation is a tax increase and he asked Representative Bardanouve if he thought this was the proper time to have an increase.

Representative Bardanouve responded that it is not a question of when is an appropriate time as it is a question of what the law says and the law says what this bill provides.

Representative Schye asked when a mine sells its ore or concentrate, what do they use for a value.

Mr. Smolir replied that it depends on what kind of a mine they are talking about - whether it is a cement plant, gold mine, a copper-silver mine, sand or gravel, oil or gas or even coal. He explained that they have to refine and smelt the ore, but if they had to sell the ore, they would probably sell it at the cost of mining plus some increment for profit.

In response to a question from Representative Asay, Mr. Bucks explained that both of those bills involve the coal severance tax that has multiple purposes and multiple uses, but this tax is used exclusively for placing money into the trust fund that has the purpose of indemnifying the state for any enviornmental damage and loss of value.

Representative Asay noted on page 3, lines 7 and 8, the striken language, and he asked if consistency is their point, why are they now changing the law.

Mr. Bucks replied that Judge Gary said, in his opinion, that those words, "at the time of extraction" are a source of confusion in the statutory language and that those words created the ambiguity in the law that led to two sets of interpretations being possible and he contended that it removes the confusion to remove that language.

Representative Asay asked which would be more beneficial to the state - an additional tax levy at a higher rate or additional tax revenues coming in because of more jobs and more production.

Mr. Bucks responded that he thinks everybody wants a growing and expanding economy and they also want, as well, a clean and healthful environment.

Representative Williams asked why the language on top of page 2, lines 1, 2, and 3 was put in.

Mr. Bucks explained that this reflects how they are administering it right now - these matters are not excluded under the RITT now, but they are excluded under the severance tax. He indicated that the cross-reference is made here so that they do make a very specific reference to something that is specifically defined under another statute.

Representative Williams noted that in the metal mines, such as gold and silver, he did not think they were comparable in that respect.

Mr. Bennett answered that this shows the problem that the Department of Revenue is creating when it departs from the value at the point of extraction because the taxes are not the same type of taxes and it is only going to result in a disparity between the various producers. He continued that he did not know with oil and gas, if the windfall profits tax may be a help and the department has prepared a fiscal note that shows no impact on the oil and gas industry and that is because the oil and gas industry is producing crude and being taxed on crude; and with the other producers, they are producing a mineralized rock from which something else can be produced. He contended, that to be consistent, the Department of Revenue should tax the oil and gas people on gasoline or diesel fuel or whatever can be made from crude oil.

Representative Williams asked how do you determine a ton of gold ore or silver ore at the mouth of the mine until it has been assayed or refined.

Mr. Bennett explained that that was done for eleven years because of court decisions and there are several approaches depending on the type of industry. He informed the committee that they can take the cost of mining and add the profit and take that as the value of the mineral produced and that would be most applicable to sand and gravel. He also advised that you can take the net smelter return and eliminate all the costs back to the point of extraction and the Department of Revenue did that with no problem for at least nine years with W. R. Grace.

Representative Williams asked if it would be more reasonable to approach this on the basis of defining the value as being proposed and reducing the percentage of the tax so there is definitely no misunderstanding as to how it is applied.

Mr. Bennett replied that he did not think so, but to be consistent with those who extract natural resources, you have to take the value of that natural resource in its unrefined, unprocessed state, or you are going to have gross discrimination and you are going to have litigation.

Representative Sands asked Mr. Bennett if the industry was comfortable with their legal position now without any further clarification.

Mr. Bennett responded, "Yes, if the department would administer the tax as they did for eleven years."

Representative Switzer asked if there were two separate courts that ruled against the ore.

Mr. Bucks answered that Judge Bennett ruled against their interpretation on substance and said they should go out and adopt new rules defining the method of accounting; and Judge Gary said that their new interpretation in 1982 of the 1973 law was correct, but because they left the old rules in effect so long, he was not going to overturn the old rules, but said that they should take the matter to the legislature and have the legislature decide.

Representative Switzer questioned if the removal of this language would then reverse the decision of both courts.

Mr. Bucks answered that it would reverse Judge Bennett's decision and it would strengthen Judge Gary's interpretation of the law.

There were no further quesions.

Representative Bardanouve stated that he heard some hostile questions, but the damage and loss in removal of minerals from the earth is no less severe whether a loss or a profit occurs.

The hearing on this bill was closed.

CONSIDERATION OF HOUSE BILL 679: Representative Dave Brown, District 72, stated that this bill essentially does the same as HB 122 - it allows the local governing jurisdiction to reduce the net proceeds tax on new oil production or expanded existing production as an incentive to spur development in that industry. He also explained some proposed amendments to the committee.

PROPONENTS: Darwin VanDeGraff, representing the Rocky Mountain Oil and Gas Association, stated that they do, in fact, endorse this bill and they think it is a very important bill because it recognizes a problem. He explained that they are dependent upon some sort of an incentive to attract new investment capital into Montana.

John Shontz, representing Richland County, indicated that in the last two years in Richland County, they have lost approximately 2,000 jobs in the labor market due to the decline in the energy business and their tax base had declined approximately $1 million.

There were no further proponents.

OPPONENTS: Don Hoffman, representing the Department of Revenue, advised the committee that they were opposed to this bill as it did not, as drafted, (1) exclude 51 mills for the state, (2) it needs an applicability date, and (3) it has some language concerning incremental production over existing production that they feel would create some problems as to how it could be handled.

Bill Campbell, representing the Montana Education Association, commented that although this is permissive with the county commissioners, if the taxes are reduced, 60% of those taxes also affect local schools; and if this is expanded and granted, the county commissioners can reduce the amount that will come into the schools without the schools having any say about it.

There were no further opponents.

QUESTIONS ON HOUSE BILL 679: Representative Ream noted that the life of a well is about four or five years, and he asked, if during that time, could there be any changes in the equipment or modernization of the process to extract the last few drops.

Mr. Shontz replied that there can be - in Montana the average well produces 17 barrels a day and in Richland County, they produce 100 barrels a day. He indicated that it costs about $1 million to drill an oil well in their area and in the last month and a half, oil has been bouncing around $25.00 to $26.50 a barrel and it is not economically productive to go in and stick with a well that is going to give you a return of 40 to 50 barrels a day as it is going to cost $1/4 million to do that and it is just not feasible.

Representative Gilbert indicated that he disagreed with the statement that a well had a useful life of about four or five years.

Mr. Shontz replied that he would not disagree with that.

Representative Ellison asked what period of time he thought would be reasonable.

Mr. Shontz responded that the people he represents felt they would be more comfortable with a three-year period rather than a ten.

Representative Harp commented that oil hit a high in 1982 of $33.00 per barrel and the projections for the next three years are around $25.00 to $26.00 and he felt that the reason for Richland County having trouble with people leaving the area has nothing to do with the mill levy, but it is strictly economic.

Representative Brown responded that he did not know if this type of legislation would have any impact, but if this does help promote the production of new oil, then it benefits the state; but if they pass this legislation and it doesn't help at all, he did not think it is going to hurt and it is worth a try.

Representative Ellison noted that they have certain provisions in this bill and certain provisions in HB 122 and he asked what would be the cumulative effect and would they be getting a better deal in oil.

Representative Brown responded that he did not know the answer to that, but this one deals with net proceeds and the other one deals with property taxes and he did not see how it would be any different since it is the same incentive in both cases and he did not know how you could compare them.

Representative Ream asked if the counties decide to do this, what is the fiscal impact going to be.

Mr. Bucks responded that they will try to answer the question what would happen if it were granted across the board and they want it understood that they are not saying that would happen and that it is up to the legislature to decide what would happen.

There were no further questions.

Representative Brown said that the fiscal note says what it should say - that there is no impact on existing revenue because there is no way to tell what the impact is going to be because you can't tell which counties are going to take advantage of it. He contended that if the counties take advantage of this, this will spur oil production and, in the end, the total income of the state will be a lot higher than it is now.

The hearing on this bill was closed.

CONSIDERATION OF HOUSE BILL 800: Representative Harp, District 7, stated that this bill was requested by the House Taxation Committee and comes from the last 2½ weeks of the revenue subcommittee on taxation and they felt that it would make the budget process much clearer if they could require that any accounts that are now on SBAS be changed to GAAP, which is the generally accepted accounting principles.

PROPONENTS: David Hunter, Director of the Budget and Program Planning, said that they were not really making a major policy change, but you are putting in statute the direction that the state has been headed for the last four years.

John Northey, from the Legislative Auditor's Office, stated that the problems they have been having will be solved if this bill is implemented.

There were no further proponents.

OPPONENTS: There were none.

QUESTIONS ON HOUSE BILL 800: Representative Sands asked if this was not to have an effective date of July 1.

Mr. Northey replied that originally when this was drafted, they had an effective date of June 30, 1985, but they changed that because probably the agencies would not be able to be in compliance with this until the end of this year, so by removing the effective date, the act becomes effective October 1, 1985.

Representative Ream asked what state agencies are now not following this procedure.

Mr. Northey responded that most state agencies are heading in this direction and he thought the intent of the bill was to give them a nudge.

There were no further questions; Representative Harp closed and the hearing on this bill was closed.

CONSIDERATION OF HOUSE RESOLUTION 2: Representative Harp, District 7, testified that this resolution will change the house rules and they felt it was important that a permanent subcommittee on revenue be established by the house rules. He explained that by the 40th legislative day, the revenue estimates would be given to the House Taxation Committee. He advised that they are in difficult times as far as revenue is concerned and they have got to be tracking those revenues and fully understanding the ramifications of any changes.

PROPONENTS: David Hunter, Director of Budget and Program Planning, testified that the committee worked hard and while they do not agree with all the conclusions, they have resolved a lot of differences, clarified some things and have put in a resolution form something that can be debated during the whole process.

There were no further proponents.

OPPONENTS: There were none.

QUESTIONS ON HOUSE RESOLUTION 2: There were none.

Representative Harp closed and the hearing on this bill was closed.

EXECUTIVE SESSION:

DISPOSITION OF HOUSE JOINT RESOLUTION 9: Representative Harp distributed copies of the grey bill to the committee. (See Exhibit 6.) He explained the changes to them and answered questions on the amendments. He then moved that this bill DO PASS AS AMENDED. The motion carried unanimously.

DISPOSITION OF HOUSE RESOLUTION 2: Representative Patterson moved that this bill DO PASS. The motion carried unanimously.

DISPOSITION OF HOUSE BILL 800: Representative Sands moved that this bill DO PASS. The motion carried unanimously.

DISPOSITION OF HOUSE JOINT RESOLUTION 21: Representative Ellison moved that they reconsider their action on this bill. The motion carried unanimously.

Representative Sands moved to take the amendments off the bill that were previously adopted. The motion carried unanimously.

Representative Ellison moved that this bill DO PASS. The motion carried unanimously.

DISPOSITION OF HOUSE BILL 553: Representative Williams moved that this bill DO NOT PASS. There was some discussion on the motion and Representative Sands made a substitute motion to TABLE this bill. He commented that he thought there were a lot of administrative problems and a do-not-pass motion would send a bad message. The motion carried unanimously.

ADJOURNMENT: There being no further business, the meeting was adjourned at 11:12 a.m.

Gerry Devlin

GERRY DEVLIN, Chairman

Alice Omang

Alice Omang, Secretary

DAILY ROLL CALL

HOUSE TAXATION COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date February 12, 1985

NAME	PRESENT	ABSENT	EXCUSED
DEVLIN, GERRY, Chrm.	X		
WILLIAMS, MEL, V. Chrm.	X		
ABRAMS, HUGH		X	
ASAY, TOM	X		
COHEN, BEN	X		
ELLISON, ORVAL	X		
GILBERT, BOB	X		
HANSON, MARIAN	X		
HARRINGTON, DAN	X		
HARP, JOHN	X		
IVERSON, DENNIS		X	
KEENAN, NANCY	X		
KOEHNKE, FRANCIS	X		
PATTERSON, JOHN	X		
RANEY, BOB	X		
REAM, BOB	X		
SANDS, JACK	X		
SCHYE, TED	X		
SWITZER, DEAN	X		
ZABROCKI, CARL	X		

CS-30

STANDING COMMITTEE REPORT

February 12, 19 85

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE JOINT RESOLUTION Bill No. 9

first reading copy (white)
color

A JOINT RESOLUTION ESTABLISHING AN ESTIMATE OF THE STATE'S ANTICIPATED REVENUE FOR EACH YEAR OF THE 1986-87 BIENNIUM FOR THE PURPOSE OF ACHIEVING A BALANCED BUDGET AS MANDATED BY ARTICLE VIII, SECTION 9, OF THE MONTANA CONSTITUTION.

Respectfully report as follows: That HOUSE JOINT RESOLUTION Bill No. 9
be amended as follows:

1. Title, line 9.
Following: "CONSTITUTION"
Insert: "; ACCEPTING A JUNE 30, 1984, GENERAL FUND BALANCE THAT WAS ESTABLISHED BASED ON GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; URGING AGENCIES TO MAKE TIMELY ACCOUNTING ENTRIES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; REQUESTING THE GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING TO USE THE REVENUE ESTIMATES CONTAINED IN THIS RESOLUTION AS OFFICIAL REVENUE ESTIMATES FOR FISCAL YEARS 1985-86 AND 1986-87; AND ESTABLISHING AN ESTIMATE OF THE NONGENERAL FUND REVENUES FOR THE SCHOOL FOUNDATION PROGRAM"

2. Page 2, line 16.
Following: "to total"
Strike: "$757,532,000"
Insert: "$748,148,295"

~~DO PASS~~

Chairman.

STATE PUB. CO.
Helena, Mont.

COMMITTEE SECRETARY

February 12, 1985

3. Page 2, line 21.
Following: "period"
Insert: "and an assumption of a continuation of Montana law as it existed on January 1, 1985"

4. Page 2, lines 24 and 25.
Following: "about" on line 24
Strike: "6% during the biennium"
Insert: "4% for 1985, 5.2% for 1986, and 5.4% for 1987,"

5. Pages 2 and 3.
Following: "drift" on line 25 of page 2
Strike: the remainder of line 25 through "1987" on line 1 of page 3
Insert: "downward during the biennium"

6. Page 3.
Strike: line 11 in its entirety
~~Following: line 11~~
Insert: "$115,000,000 $124,000,000 $133,000,000 $257,000,000"

7. Page 3, line 17.
Following: "also"
Insert: "include the effects of federal income tax indexing, assume a continuation of Montana law as it existed on January 1, 1985, and"
Following: "are"
Insert: "otherwise"

8. Page 3, lines 18 through 20.
Following: "credits." on line 18
Strike: the remainder of line 18 through line 20

9. Page 4.
Following: line 2
Strike: line 3 in its entirety
Insert: "$17,385,000 $19,152,000 $17,877,024 $37,029,024"

10. Page 4, line 20.
Following: "estimates."
Insert: "The revenue estimates are further based on the following assumptions of production and price:

Tons of Coal				
	30,500,000	32,000,000	33,000,000	65,000,000
Price per Ton				
	$10.00	$10.50	$10.80	NA"

Chairman.

STATE PUB. CO.
Helena, Mont.

HJR 9 February 12, 1985

11. Page 4.
Following: line 21
Strike: line 22 in its entirety
Insert: "$31,680,000 $24,500,000 $23,833,333 $48,333,333"

12. Page 5, line 2.
Following: "demand."
Strike: "Although"
Insert: "Because a worldwide surplus of oil and because"

13. Page 5, lines 5 through 10.
Following: "prices" on line 5
Strike: the remainder of line 5 through line 10
Insert: "and production will decrease slightly throughout the biennium. The revenue estimates for oil severance taxes are further based on the following assumptions of price and production:

Barrels of Oil

28,800,000	28,000,000	27,500,000	55,500,000

Price per Barrel

$27.50	$26.25	$26.00	NA"

14. Page 5.
Following: line 11
Strike: line 12 in its entirety
Insert: "$25,505,417 $22,635,417 $22,083,333 $44,718,750"

15. Page 5, line 16.
Following: "notes"
Insert: in the amount of $38,000,000"
Following: "year."
Insert: It is further anticipated that $50,000,000 in tax anticipation notes will be sold in fiscal year 1986 and in fiscal year 1987."

16. Page 5, line 18.
Following: "account."
Insert: "The projected rates of return are 10.25% for fiscal year 1985, 10.25% for fiscal year 1986, and 10.00% for fiscal year 1987. The estimated revenues from interest on investments are based on the anticipated daily average investable amounts of $214,000,000 in fiscal year 1985, $175,000,000 in fiscal year 1986, and $175,000,000 in fiscal year 1987."

Chairman.

STATE PUB. CO.
Helena, Mont.

February 12, 1985

17. Page 5.
Following: line 19
Strike: line 20 in its entirety
Insert: "$37,634,000 $38,311,000 $40,261,000 $78,572,000"

18. Pages 5 and 6.
Following: "tax." on line 24 of page 5
Strike: the remainder of line 24, line 25 in its entirety, and line 1 on page 6 in its entirety

19. Page 6, line 2.
Following: line 1
Strike: "Assumption"
Insert: "Assumptions"

20. Page 6, line 4.
Following: "1987."
Insert: "It is further assumed that cigarette sales for fiscal years 1985, 1986, and 1987 will be 90 million packs each year. Revenue from tobacco sales is expected to be $825,000 for each fiscal year."

21. Page 6.
Following: line 5
Strike: line 6 in its entirety
Insert: "$24,155,000 $28,807,000 $33,736,000 $62,543,000"

22. Page 6, line 22.
Following: "1986"
Insert: ", then fall slightly for 1987. The anticipated interest rates on new long-term investments for 1985, 1986, and 1987, are 12.00%, 12.00%, and 11.75%, respectively"

23. Page 6.
Following: line 23
Strike: line 24 in its entirety
Insert: "$15,700,000 $16,195,000 $16,737,000 $32,932,000"

24. Page 7, line 1.
Following: "about"
Strike: "8%"
Insert: "5.5%"

25. Page 7.
Following: line 4
Strike: line 5 in its entirety
Insert: "$13,893,000 $14,800,000 $15,300,000 $30,100,000"

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Helena, Mont.

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26. Page 7.
Following: line 16
Strike: line 17 in its entirety
Insert: "$4,850,000 $5,250,000 $5,200,000 $10,450,000"

27. Page 7.
Following: line 18
Strike: line 19 in its entirety
Insert: "$6,110,000 $6,322,500 $6,387,000 $12,709,500"

28. Page 7, line 25.
Following: "level."
Insert: "The revenue estimates for both liquor profits and excise taxes are further based on declines in unit sales of 3% for fiscal years 1986 and 1987, coupled with increases in prices of 6.5% in each of the fiscal years."

29. Page 8.
Following: line 1
Strike: line 2 in its entirety
Insert: "$6,624,000 $6,600,000 $6,800,000 $13,400,000"

30. Page 8, line 4.
Following: "on a"
Insert: "slight decrease from 1985 to 1986, then projected at a"
Strike: "6%"
Insert: "3%"
Following: "collections"
Insert: "for the remainder of the biennium"

31. Page 8.
Following: line 7
Strike: line 8 in its entirety
Insert: "$1,660,000 $1,000,000 $1,000,000 $2,000,000"

32. Page 8, lines 16 and 17.
Following: "will" on line 16
Strike: "increase modestly"
Insert: "remain constant"

33. Page 8, line 20.
Following: "1986."
Insert: "The revenue estimates further assume no reopening of the Black Pine mine near Philipsburg, Montana."

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Chairman.

STATE PUB. CO.
Helena, Mont.

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34. Page 8.
Following: line 21
Strike: line 22 in its entirety
Insert: "$2,212,000 $2,273,000 $2,405,000 $4,678,000"

35. Page 9.
Following: line 7
Strike: line 8 in its entirety
Insert: "$861,000 $880,000 $899,000 $1,779,000"

36. Page 9.
Following: line 13
Strike: line 14 in its entirety
Insert: "$3,010,000 $3,160,000 $3,319,000 $6,479,000"

37. Page 9.
Following: line 18
Strike: line 19 in its entirety
Insert: "$1,175,000 $1,146,000 $1,096,000 $2,242,000"

38. Page 9, line 21.
Following: line 20
Strike: "growth"
Insert: "decline"

39. Page 9, lines 21 and 22.
Following: "about" on line 21
Strike: the remainder of line 21 and line 22 through "1979"
Insert: "2.4% for fiscal years 1985 and 1986. The rate of decline changes to 4.4% for fiscal year 1987 due to the change in the minimum drinking age"

40. Page 9.
Following: line 23
Strike: line 24 in its entirety
Insert: "$3,080,625 $3,142,238 $3,108,450 $6,250,688"

41. Page 10, line 1.
Following: line 25 on page 9
Strike: "remain at current levels"
Insert: "decrease slightly"

42. Page 10, lines 2 and 3.
Following: line 1
Strike: "Prices are expected to increase only moderately despite deregulation of all new gas on January 1, 1985."

Chairman.

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Helena, Mont.

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43. Page 10, lines 3 and 4.
Following: "Prices" on line 3
Strike: "will increase only moderately"
Insert: "are anticipated to remain constant"

44. Page 10, line 6.
Following: "Canada."
Insert: "The revenue estimates for natural gas severance taxes are further based on the following assumptions of production and price for fiscal years 1985, 1986, and 1987:

Millions of MCF

46.5	46.5	45.0	91.5

Price per MCF

$2.50	$2.55	$2.55	NA"

45. Page 10, line 10.
Following: "about"
Strike: "6%"
Insert: "5.26%"

46. Page 10.
Following: line 19
Strike: line 20 in its entirety
Insert: "$14,474,000 $14,395,000 $15,387,000 $29,782,000"

47. Pages 10 and 11.
Following: "receipts." on line 24 of page 10
Strike: the remainder of line 24 on page 10 through line 3 on page 11
Insert: "The "other revenue sources" estimates are based on an average annual growth rate of 7%. Additionally, the fiscal year 1985 estimate includes a $1,000,000 addition for federal reimbursement for fighting forest fires."

48. Page 11.
Following: line 4
Strike: line 5 in its entirety
Insert: "$361,345,042 $364,919,155 $383,229,140 $748,148,295"

49. Page 11, line 8.
Following: line 7
Strike: "Ending"
Insert: "Beginning"

50. Page 11, line 9.
Strike: "$28,981,378"
Insert: "$35,097,000"

Chairman.

STATE PUB. CO.
Helena, Mont.

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51. Page 11.
Following: line 9
Insert: "NONGENERAL FUND SCHOOL FOUNDATION PROGRAM REVENUE

1986-87 Biennium

$526,310,000

BE IT FURTHER RESOLVED, that the Legislature accepts for budget purposes the unreserved general fund balance of $35,097,000 prepared according to generally accepted accounting principles (commonly referred to as G.A.A.P.) as published in the audited state financial statements as of June 30, 1984.

BE IT FURTHER RESOLVED, that the Department of Administration and other state agencies are strongly urged to make timely accounting entries so that by June 30, 1985, the state budgeting and accounting system (commonly referred to as SBAS) unreserved general fund balance reflects records entered and maintained in accordance with generally accepted accounting principles.

BE IT FURTHER RESOLVED, that the Governor's Office of Budget and Program Planning is strongly urged to enter the revenue estimates contained in this resolution on the statewide budgeting and accounting system as the official revenue estimates for the general fund for fiscal years 1985-86 and 1986-87."

AND AS AMENDED,
DO PASS

Chairman.

STANDING COMMITTEE REPORT

February 12, 19 85

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE RESOLUTION Bill No. 2

first reading copy (white)
color

A RESOLUTION TO PROVIDE FOR A REVENUE SUBCOMMITTEE OF THE HOUSE TAXATION COMMITTEE.

Respectfully report as follows: That HOUSE RESOLUTION Bill No. 2

DO PASS

STATE PUB. CO.
Helena, Mont.

Gerry Devlin, Chairman.

COMMITTEE SECRETARY

STANDING COMMITTEE REPORT

February 12 19 85

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 800

first reading copy (white)
color

AN ACT TO REQUIRE THAT THE STATE'S ACCOUNTING SYSTEM BE ESTABLISHED AND STATE AGENCY FINANCIAL RECORDS AND REPORTS BE PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTIN PRINCIPLES;

Respectfully report as follows: That HOUSE Bill No. 800

DO PASS

STATE PUB. CO.
Helena, Mont.

Gerry Devlin, Chairman.

COMMITTEE SECRETARY

STANDING COMMITTEE REPORT

February 12 19 85

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE JOINT RESOLUTION ~~Bill~~ No. 21

first reading copy (white)
color

A JOINT RESOLUTION SUPPORTING COMPREHENSIVE FEDERAL TAX REFORM AND SIMPLICATION.

Respectfully report as follows: That HOUSE JOINT RESOLUTION ~~Bill~~ No. 21

DO PASS

Gerry Devlin, Chairman.

STATE PUB. CO.
Helena, Mont.

COMMITTEE SECRETARY

Exhibit 1
HB 690
2/12/85
Gary Langley

TESTIMONY OF THE MONTANA MINING ASSOCIATION
IN OPPOSTION TO HOUSE BILL 690

BEFORE THE HOUSE TAXATION COMMITTEE
February 12, 1985

Mr. Chairman, members of the committee:

For the record, my name is Gary Langley. I am executive director of the Montana Mining Association.

The Montana Mining Association is a trade association that represents: 1) Every major producer of hardrock minerals in Montana; 2) Some coal companies; 3) Mining firms that hope to construct mines in Montana in the future, and 4) Companies that supply goods and services to the mining industry.

The Montana Mining Association is opposed to House Bill 690. House Bill 690 would amount to a direct tax increase on members of the Montana Mining Association of 155 percent. A survey of 13 of the Montana Mining Association's members shows that if House Bill 690 is passed by the Legislature, taxes will increase by nearly $1.4 million dollars. The increases would range from a low of $5,000 for a cement company to $297,876 for one of Montana's largest metal producers to $351,282 for a coal mining company.

This increase would come at a time when the mining industry can least afford it. Indeed, the Dec. 17, 1984 edition of Business Week Magazine described the mining industry as "permanently bedridden." The reason is low metal prices brought on by foreign competition and domestic economic uncertainty.

In Montana, general business and severance taxes also are a contributing factor to the state's lagging mining industry.

In September 1984 a study conducted by Robert L. Davidoff and Ronald J. Hurdlebrink of the U.S. Bureau of Mines probed hypothetical mining operations in eight western states and Wisconsin. It concluded: "In all cases, Montana had the highest level of tax payments and the lowest rate of return..."

A similar study was conducted in December 1984 by Whitney & Whitney, a Nevada-based mining management consulting firm. The firm studied taxes on open pit and underground mining operations in 15 states. It conclude that Montana had "consistently high taxes" on its mining operations. In fact, Montana's severance and general business taxes were second only to Minnesota in all cases and ranked third in four of six examples. (Arizona was second.).

Montana mining operations must compete with foreign countries, which operate their mines at a loss just to provide employment for their citizens and currency for foreign exchange. In addition, Montana must vie with other states, not only to attract new mining ventures, but to retain those that currently are in operation.

Montana's attitude toward taxation hardly fosters an attractive climate.

At issue is whether the Resource Indemnity Trust Tax is levied at the point of extraction or after value is added by the treatment.

From 1973--when the tax first was imposed--to 1982, the Department of Revenue levied the tax at the point of extraction. In 1982, however, the DOR changed its regulations so that the tax would be imposed on a higher value. This is inconsistent and indicates that the DOR simply changed the rules with obvious intent of increasing the revenue.

This is unnecessary because the fund historically has not been used toward its original constitutional intent, which is to indemnify the people of Montana for damage done by natural resource extraction.

The Department's new interpretation also was rebutted by two district court judges who studied the issue at length. In fact, District Judge Gordon Bennett said: "DOR's new interpretation is strained, convoluted and unworkable..."

The initiation of this tax increase, particularly in light of the District Court decisions, also appear to contradict statements made by Gov. Ted Schwinden during last year's campaign when he pledged no new tax increases.

In June 1984, the governor told the Billings Kiwanis Club: "Hardrock mining is becoming the new star of the mining industry in this state."

The hardrock mining industry will reach those expectations only if it is spared excessive taxation.

I hope you will take this into account and reject House Bill 690.

# # # # #

TONY O'REILLY OF HEINZ: HIS DAY HAS 57 VARIETIES PAGE 72

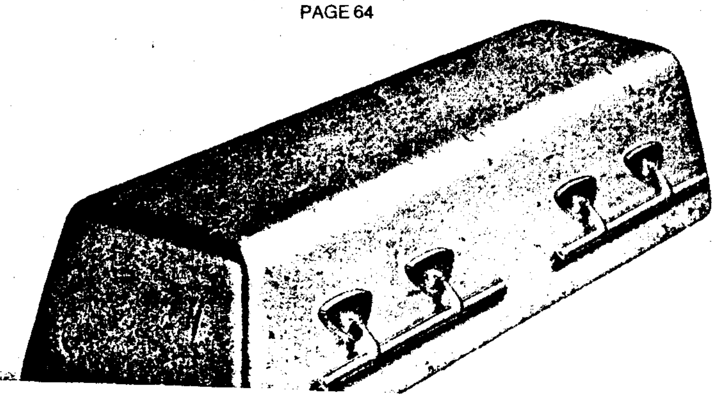
BusinessWeek

DECEMBER 17, 1984 A McGRAW-HILL PUBLICATION $2.00

Exhibit 2
HB 690
2/12/85
Gary Langley

THE DEATH OF MINING

PAGE 64



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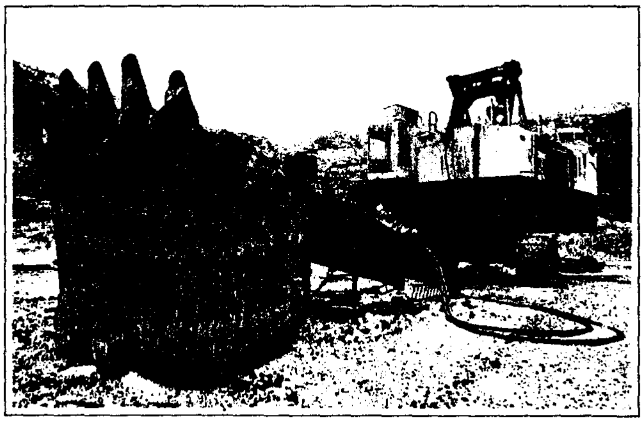


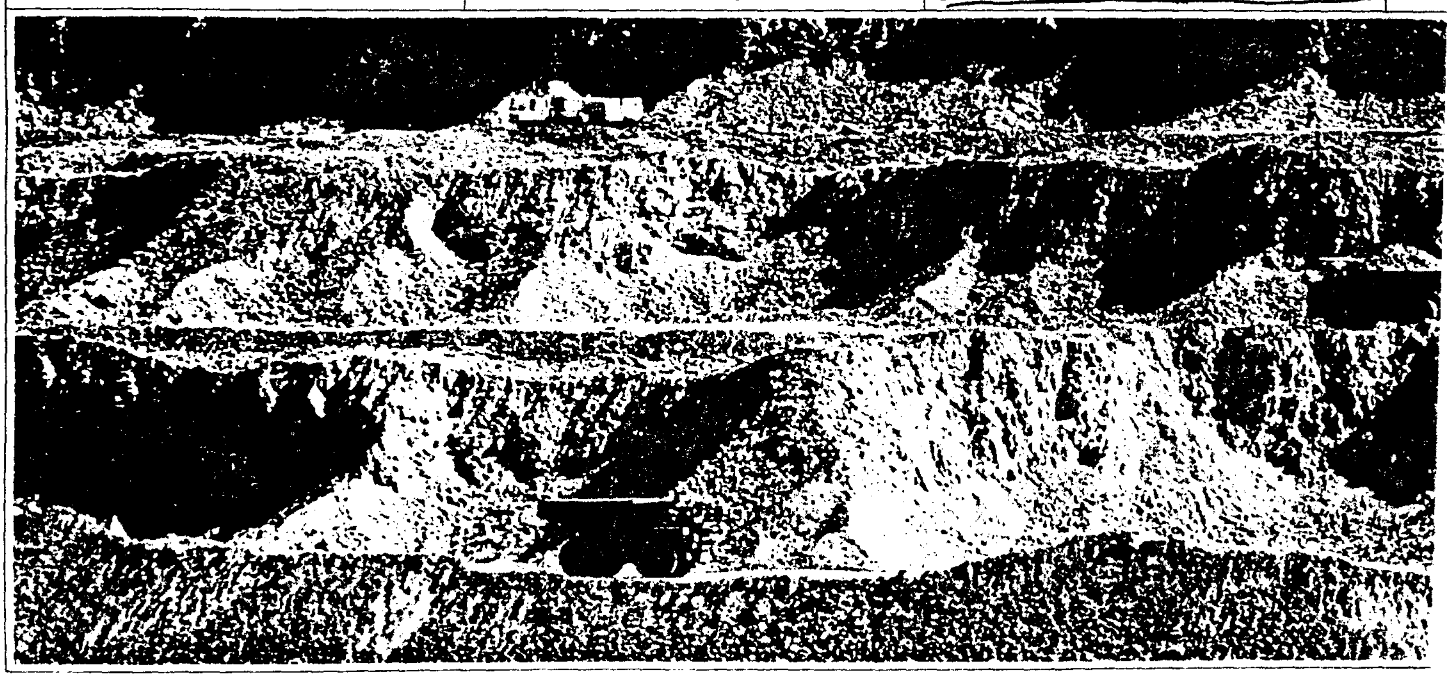
THE DEATH OF MINING

AMERICA IS LOSING ONE OF ITS MOST BASIC INDUSTRIES

Just south of Tucson, a two-lane highway rolls through the desert to Mexico. Along one 26-mi. stretch, it skirts five open-pit copper mines amid the saguaro cactus, mesquite, and ironwood. This is U. S. 89, known as *el camino de la muerte*—"road of death"—for the toll it has taken on drivers zooming north from a hard-drinking night in the border town of Nogales. But the macabre name might just as easily refer to the mines that line this lonely road. Once the workplaces of thousands, they are now either closed or up for sale—a stark reminder of the sad state not only of U. S. copper companies, but of most of the rest of the North American metals mining industry.

The recovery of 1983-84 largely bypassed producers of copper, iron ore, nickel, lead, zinc, and molybdenum. Now, after a prolonged period of painful losses, these companies are reeling from what are clearly chronic problems: shrinking markets, huge debt, and depressed prices. Three or four major metals producers may even be forced out of the business over the next few years. In a very real sense the industry is dying.

The pangs of mining ~~are the latest~~ example of what may ~~be an industrial~~ megatrend: the inexorable shift of the production and processing of all basic



materials from the industrial countries to the Third World. Like steelmaking, metals mining is vulnerable to some fundamental forces. It is an industrial activity in which, these days, the developing nations have an almost unbeatable pair of economic advantages: cheap labor plus very-low-cost reserves.

The industry's plight ripples far beyond the dozen or so companies that dominate metals mining in North America. Just four years ago, metals mining in the U.S. was an $8.9 billion enterprise. By 1983 it had shrunk to just $5.9 billion. Mining employment, already down to 44,800 at the start of this year from 109,000 in 1981, could fall a further 30% over the next two to three years. The contraction is already creating modern-day ghost towns (page 68) in mining regions of the country. And while lower metals prices do mean at least a short-term benefit for manufacturers and consumers, some observers are concerned that the industry's problems may one day put national security at risk. "We need a copper industry, for defense purposes if nothing else," asserts Representative Morris K. Udall (D-Ariz.), chairman of the House Interior Committee.

REAL DANGER. For all these reasons, metals mining could become the next *cause célèbre* in Washington's continuing debate over industrial policy. Many officials within the Commerce, Defense, and Interior Depts., as well as in Congress, now believe the U.S. may soon have to choose between forgoing major segments of its minerals-producing capability and subsidizing them. "We are in real danger of losing 75% of our copper industry and 40% to 50% of our iron-ore industry," warns Robert C. Horton, head of the Bureau of Mines. All across the mining spectrum the signs are plain:

□ The largest copper producers—Kennecott, Asarco, and Phelps Dodge—are deep in the red again this year. Phelps Dodge lost $50 million in the first nine months. Kennecott Corp.'s $41 million operating loss in metals during the third quarter brings its total loss in the business since 1981 to $483 million. Asarco Inc., which suffered a net loss of $70 million in the first nine months of 1984, had to cancel its fourth-quarter dividend.

□ The major oil companies—which once rushed into metals as the next best thing to oil—are already giving up. Last month, Pennzoil Co. took a hefty $100 million write-off to reflect the decreased value of Duval Corp., its copper and molybdenum mining subsidiary. Three months earlier, Atlantic Richfield Co. took a $785 million write-off on Anaconda Minerals Co., a copper and metals fabricator it purchased in 1977 for $680 million. Both companies have put their metals operations on the block.

□ In iron ore, U.S. Steel, Hanna Mining, and Pickands Mather announced in November yet another round of temporary mine closings that will shut down most of Minnesota's iron-ore Mesabi Range this winter. Days later, Canadian steelmaker Stelco Inc. announced that it was permanently closing its Griffith Iron Ore Mine. That added a further 1.5 million tons of ore-producing capacity to the 25 million that has been shut down for good in the U.S. and Canada since 1980.

□ In nickel, zinc, and lead, the scene is much the same. Toronto-based Inco Ltd., a giant nickel producer, has posted 13 consecutive quarters of operating deficits. Noranda Inc., a major zinc and lead producer, lost $38 million in the third quarter, wiping out its first-half profit.

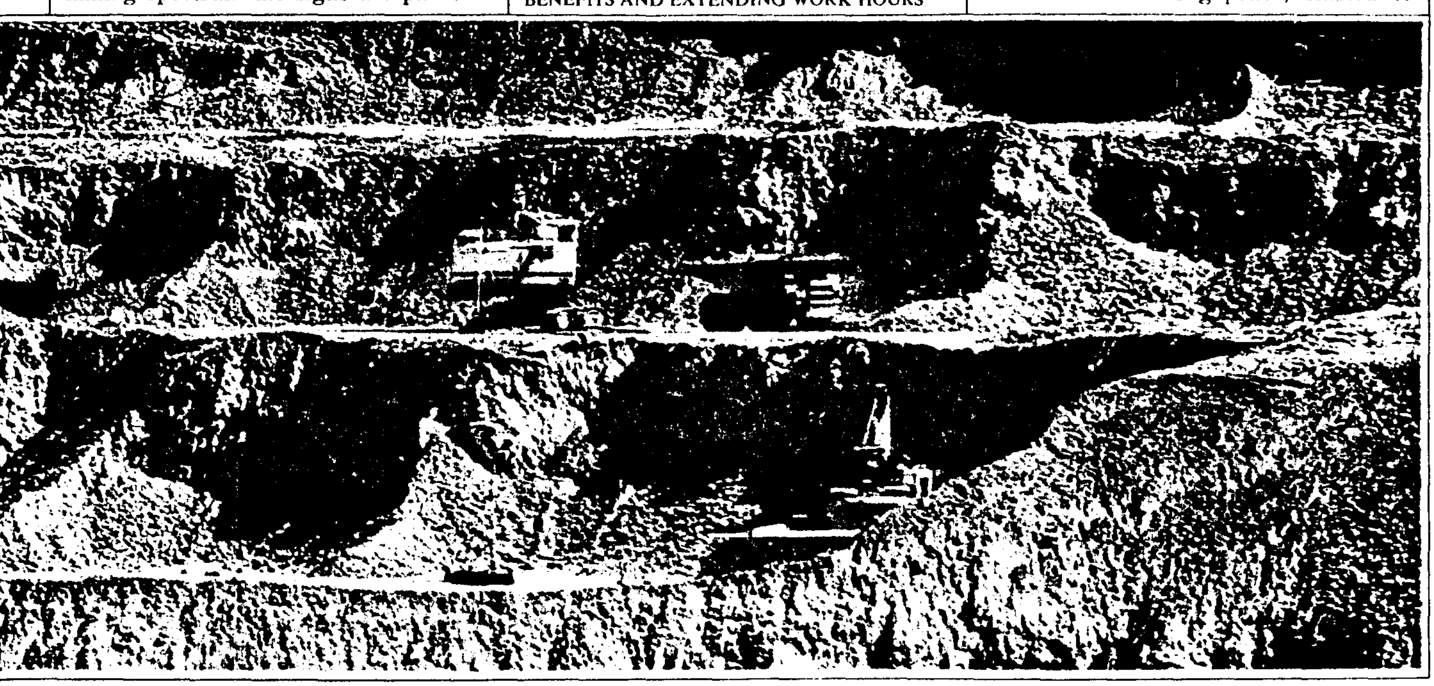
A series of factors accounts for mining's malaise. The industry is hobbled by a worldwide excess of capacity that shows no sign of abating. Despite disappointing demand for most metals, Third World countries, eager to exploit more of their natural resources, keep opening giant new mines that incorporate the latest recovery techniques. The strong dollar makes their low-cost products particularly appealing to U.S. buyers. Underlying all this is a weakening geological base: Many of the richest domestic base-metal reserves are coming close to depletion, while the low-grade ore that remains is becoming too costly to recover.

In their day, North American mining companies ranked among the world's industrial elite. Amax, Anaconda, Asarco, Kennecott, or their forerunners helped settle the West. Huge family fortunes derived from mining, including the Hearsts' and the Guggenheims'. Mining companies were among the first U.S. multinationals, dominating world markets during the boom that followed World War II. Amax Inc. once held 50% of the Free World market for molybdenum, a metal used in everything from light bulbs to jet engines. Inco once supplied 90% of the world's nickel.

WILD FLUCTUATIONS. Things began to change in the 1970s. Copper and iron-ore mines in South America and Africa were expropriated. The North American industry was hit with large environmental expenditures. New competitors from the Third World appeared, many of them state-owned and blessed with abundant reserves.

Price-setting, once the province of the North American oligopolies, shifted to

PENNZOIL'S SIERRITA COPPER MINE IN ARIZONA: THOUGH UP FOR SALE, IT HAS SO FAR SURVIVED BY CUTTING WAGES AND BENEFITS AND EXTENDING WORK HOURS



the floors of the world's commodities exchanges, chiefly the London Metal Exchange. Steady prices yielded to the wild fluctuations now the norm in the business. Demand for iron ore, nickel, and molybdenum started to wobble as the biggest customer for all three metals—the U. S. steel industry—faltered.

But the most devastating blows came with the recession of 1981-82. After hitting record, or near record, levels in 1979 and 1980, earnings of the North American producers collapsed. From 1982 through this year's third quarter, 10 of the largest independent North American mining companies reported net losses totaling $1.8 billion. At the start of 1981, their debt amounted to 36% of their capitalization; by the end of this year's third quarter, it was close to 41%—at least 10 percentage points above the average for U. S. industry. Return on shareholders' equity, which stood at 18% five years ago, is likely to end up this year at minus 1%. On average, the shares of the U. S. metals mining companies in the group sell for 36% below book value.

The situation has grown so grim that Interior Secretary William P. Clark, who last fall tried to win import relief for copper producers, is now publicly voicing his alarm. Worried about U. S. dependence on foreign minerals, Clark has appointed a 25-member task force to search for ways to preserve the nation's remaining mines. In mid-November, the panel, headed by retired Rear Admiral William C. Mott, issued its first substantive proposal. It called for the U. S. strategic metals stockpile to be placed in the hands of a Comsat-type, quasi-government corporation instead of several agencies. A single entity presumably could make decisions more smoothly than the present mix of overseers can.

ROCKS IN WATER. The industry's most visible problem is prices, which have lately had all the buoyancy of rocks in water. Even though strikes have curtailed 63% of U. S. lead mining capacity since summer, lead has nonetheless fallen an additional 5¢ a lb. since July. Although inventories of copper on the London and New York exchanges have dropped 50% since January and world demand for the metal may hit a record 8.3 million tons this year, copper is now 61¢ a lb.—9¢ below its price last April.

"These are not normal economics as we have known them," says Asarco President Richard de J. Osborne. "Based on the fundamentals and on historic precedent, we should now be several quarters into a price recovery." Yet, in real terms, the price of copper is lower now than at any time in this century except during the trough of the Depression.

Industry executives lay much of the blame on the mighty U. S. dollar, which has allowed foreign producers to offer metal to U. S. buyers at low prices and to maintain—or even fatten—profit margins in their own currencies. Grumbles Inco's Chairman Charles F. Baird: "The U. S. dollar is killing us." Some executives are hoping the dollar will soon weaken. But even if it does, it may be too little, too late. "The concept of currency devaluation is overblown," argues Brian E. Felske, a Toronto-based mining consultant. "A 10% decline will do some good, but it isn't going to bring copper producers back to profitability."

Moreover, a declining dollar does not necessarily mean that the price of copper, lead, and molybdenum will rise, notes Firoze E. Katrak, a vice-president of the Boston commodities research firm Charles River Associates Inc. The reason: Even in times of glut, world producers set their prices on the direct operating costs of the most expensive mines—which happen to be in the U. S. A lower dollar would thus affect neither production costs nor market prices in the U. S.—and would also have no bearing on worldwide supplies or demand. Although Katrak believes prices just might rise moderately over the next few years,

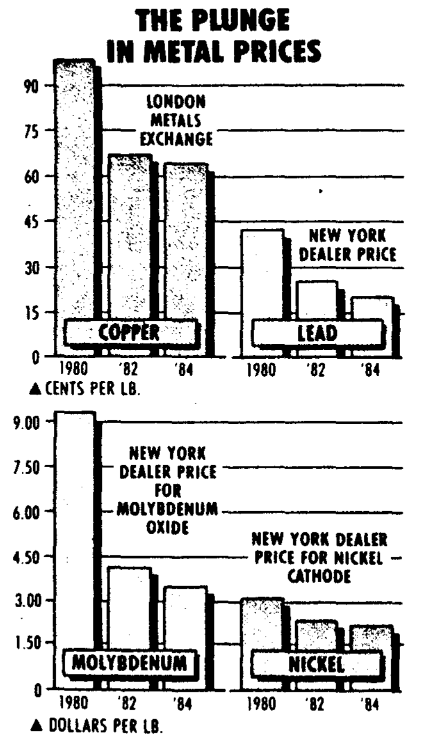
WHY CHILE IS THE KING OF COPPER

CHEAPER LABOR: CODELCO MINERS' WAGES ARE HIGH BY CHILEAN STANDARDS—BUT ONLY A TENTH OF WHAT U. S. MINERS EARN he thinks they will more likely languish near present levels. He predicts that copper will sell for less than 90¢ a lb., in constant dollars, through the rest of the century and that nickel and lead prices will stagnate into the 1990s. The price of molybdenum, he predicts, will remain weak through 1987.

A significant increase in volume also seems far off. Metals experts almost all agree that demand will hold steady, or at best grow modestly, over the next decade. Cleveland-based Hanna Mining Co. is forecasting that North American consumption of iron-ore pellets will average no more than 74 million tons a year through 1990—a far cry from the 109 million tons consumed in the peak year of 1979. Demand for copper, nickel, lead, and zinc is seen increasing by only 1% to 2% for the next 10 years.

A host of factors is curbing growth. New materials, such as plastics and optic fibers, are replacing metals in many product lines. Katrak estimates that, by 2000, technological advances will enable manufacturers to use only two-thirds as much copper per unit of output as they do today. Lead is being banished from gasoline, its second-biggest market, while longer-lasting, lighter batteries are slowing consumption in its primary market. More and more metals recycling is occurring almost everywhere.

In the few markets where demand continues to grow respectably, supplies keep growing as fast or faster. According to Katrak, world molybdenum consumption may increase 3.5% a year through 1990. But so many new molybdenum mines have opened up during the past five years that annual capacity is now 69% greater than the 166 million lb. expected to be consumed next year.



DATA: CHARLES RIVER ASSOCIATES INC.

For many struggling producers of North America, the telling factor is the decline in the grade of their ore. "The high-grade, easily accessible deposits have been mined out" in the U. S., says John W. Goth, Amax's senior executive vice-president. Most of the richest deposits now are in developing countries. That is a major reason why the giant Corporacion Nacional del Cobre de Chile (CODELCO) is now the world's foremost producer of copper (below).

Similarly, Cia. Vale do Rio Doce, the Brazilian state-owned mining company, will be the world's premier iron-ore producer when its giant Carajás mine comes on stream next year. Not only does Carajás contain 20 billion tons of the world's richest iron ore, but Brazilian labor costs are 78% lower than those at U. S. mines. By 1988, output could hit 35 million tons a year—nearly as much as the entire U. S. produced last year.

'UNCONSCIONABLE' LOAN. It is unlikely that Carajás ore will flood the U. S., since domestic steelmakers have a huge investment in North American iron-ore mines and processing facilities. But Japanese and European steelmakers have signed long-term contracts that should allow them to buy Carajás ore for even

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If Chile is the Saudi Arabia of copper, Corporacion Nacional del Cobre de Chile (CODELCO) is the Petromin of Chile. Formed as the successor to five mining companies nationalized in 1971, this state-owned giant is blessed with more than 25% of the world's known copper reserves. Its gargantuan Chuquicamata mining and processing complex yields ores with 1.65% copper—2½ times what a typical U. S. deposit contains. At 44¢ per lb., CODELCO's production costs are the world's lowest. Not surprisingly, it accounted for 16% of all copper mined by non-Communist countries last year.

While sheer size gives CODELCO operational advantages, its rock-bottom labor costs are what make competitors weep. Although its 26,000 workers earn only a tenth of what U. S. copper companies pay, their wages are much higher than average for Chile, where 25% of the work force is idle.

In 1983, while the North American mining industry was deep in the red, CODELCO netted a respectable $220.6 million on sales of $1.8 billion. This year, in spite of severely depressed copper prices, it is expected to earn $140 million. Profits would be even higher were it not for a government decree that diverts 10% of copper revenues to the Chilean armed forces.

As U. S. copper producers see it, CODELCO's success comes mainly at their expense. Last year the company shipped a record 330,000 tons to the U. S.—46% of copper imports and 15% of all the copper used by U. S. manufacturers. Clearly, the strong dollar was a factor. But U. S. companies say CODELCO's refusal to scale back despite bulging world inventories is the prime reason world copper prices are so low. While U. S. mines are typically operating at 40% of capacity, CODELCO continues to run flat out. Douglas J. Bourne, chairman of Duval Corp., Pennzoil Co.'s mining subsidiary, charges that this is a deliberate attempt to drive U. S. companies out of the business.

RADICAL BREAK? CODELCO officials respond that their operation is the chief prop under a teetering economy. Chile depends on CODELCO for 46% of its foreign exchange. The government's 1983 interest payments on $20 billion in debts consumed all of the $678.5 million the company handed over to the state in taxes that year. Chile's military strongman, Augusto Pinochet, is likely to impose additional unpopular austerity measures to maintain debt payments, so the pressure will remain on CODELCO to keep production and exports high. The company is authorized to spend $1.4 billion by 1986 to expand its mines. Outsiders estimate that by 1990 it could be mining 40% more copper than the 1.1 million tons it now produces a year.

Simon D. Strauss, a former Asarco Inc. vice-chairman who is now a consultant, concedes that the Chilean government has monumental problems. But he believes that both CODELCO and Chile would be better off in the long run if they cut copper production to raise prices. That would ultimately bring in more foreign revenue, he says, while slowing the depletion of Chile's most important resource.

Chilean officials point out that for such a strategy to work, CODELCO would have to move in concert with other Third World producers, who are also spewing out copper at an accelerating rate. Given the developing world's plight, such cooperation is questionable. And that sort of planning would mark a radical break with Santiago's 11-year reliance on the free market. Some CODELCO executives even argue that copper's reign as a key metal is limited, so Chile should sell all it can before the market shrinks.

By John O'Brien in Santiago and Patrick Houston in Toronto

CHART BY BRIAN McDONALD

less than this year's Brazilian price of $17 per dry metric ton, and that will pressure U.S. producers to make even more drastic cost cuts. Says Robert McInnes, president of Cleveland's Pickands Mather & Co.: "Importation of subsidized or low-cost foreign ore is, without question, one of the gravest threats our industry faces." Equally ominous, the cheap Carajás ore will cut the production costs of some foreign-made steel, which already claims more than 20% of the U.S. market.

The Carajás mine project particularly galls U.S. executives because its $5.1 billion price tag was underwritten with a $500 million loan from the World Bank. "The world did not need Carajás," snaps Hanna Chairman Robert F. Anderson. Adds S.K. Scovil, chairman of Cleveland-Cliffs Iron Co.: "It was unconscionable [that] they made that loan."

Given so many adverse forces, it seems only a matter of time before the North American metals mining industry suffers a major casualty. Analysts contend that Phelps Dodge Corp., the second-largest U.S. copper producer, is especially vulnerable because it relies on copper for almost all its revenues. The

THERE'S NOT MUCH JOY IN LEADVILLE

For more than a century, Leadville, Colo., has mirrored the ups and downs of the mining industry. The town, then called Oro City, was devastated in 1865 when its gold mines played out. Twenty-eight years later, it was racked by the great silver crash, which turned local kings into paupers overnight. Now molybdenum has dealt Leadville a cruel blow.

Four years ago, Amax Inc.'s Climax mine employed 3,000 and had a payroll of more than $80 million. Then demand for molybdenum plummeted. Amax closed the mine, and Leadville's unemployment rate leaped to 40%. Although Climax has since reopened with some 800 employees, the company has made it plain that the mine will never again employ thousands.

So residents of historic Leadville are now courting tourists and small businesses. This, the town hopes, will open up 2,500 jobs in 5 to 10 years. If it does, Leadville could provide a prototype for other withering mining towns.

THE TOWN—BETRAYED BY GOLD, SILVER, AND MOLYBDENUM—IS TURNING TO TOURISM

BAWDY HOUSES. Leadville has a wealth of Old West lore. Molly Brown got rich on its gold; Oscar Wilde outdrank the miners at a local silver mine. Once known as "the wickedest town in the West" because of the bawdy houses that lined Stillborn Alley, it still boasts unspoiled gingerbread cottages and Victorian commercial buildings.

After Amax shut down Climax, Leadville hired a full-timer to head its Chamber of Commerce, launched a series of summer events that included gold panning and a 100-mi. ultramarathon along the Continental Divide, and invested $40,000 in a multimedia presentation ballyhooing its assets. By yearend the town will have spent $100,000 marketing itself, and its merchants have approved a $900,000 bond to upgrade the sidewalks and lighting.

As a result, says Elaine Kochevar, executive director of the Chamber of Commerce, tourism jumped 75% last summer, and revenues from the local sales tax rose nearly 25%. She expects more of the same this winter. With an $850,000 grant from the state, Leadville's ski area, Ski Cooper, has expanded. This year it will offer lift tickets at $12 a day—half the price at nearby Vail. Visitors are invariably reminded that a three-bedroom house in Leadville—just two hours from Denver—typically costs $45,000, a fraction of the price at other Colorado ski resorts.

Big investors have taken notice. Dallas' Trace Investment Inc. plans to purchase six buildings, including the 1885 Vendome Hotel, where President Benjamin Harrison once trod a lobby floor inlaid with silver dollars. The company will pay about $1.5 million for all six buildings and intends to spend $10 million restoring and converting them to modern hotels or condominiums.

Revving up tourism may prove easier, however, than attracting new businesses. One reason: Two-mile-high Leadville, situated just below the timberline, seems desolate to many outsiders. Winters are so long that the locals quip that Leadville has only two seasons—this winter and last.

The days are gone in Leadville when the Guggenheims could build a fortune starting with one small smelter, or a David May could launch a nationwide department-store chain. "We're not going to land a Sperry Rand," admits Kochevar. Still, she adds, small manufacturers and distributors could be drawn to Leadville, with its ready labor and easy access to a railroad, airport, and interstate highway.

MELTDOWN. Eight new enterprises have started up in the past two years. To draw still more, the town has formed the Leadville Improvement Group with $50,000 in state assistance. This office is now applying for a $250,000 grant from the U.S. Housing & Urban Development Dept. To be matched by local banks, the money would finance low-cost loans to new businesses.

Compared with some previous schemes for reviving Leadville, the current plan looks eminently workable. Following the depression of 1893, for example, the town built a three-acre ice palace, complete with ballroom. It did a booming business—until a warm spell began melting its ice blocks.

By Sandra Atchison in Denver

company has lost $187 million since 1982, and "unless the world copper price improves very sharply throughout the rest of the decade, it is difficult to see how the company can survive," says William G. Siedenburg, an analyst with Smith Barney, Harris Upham & Co.

GETTING TOUGH. The day of reckoning also may be nearing for Kennecott, the copper mining giant acquired by Standard Oil Co. (Ohio) three years ago for $1.8 billion. Sohio has been mulling over a proposed $1 billion modernization for Kennecott's huge Bingham Canyon mine in Utah but has not approved the expenditure. That mine "is not something you'd lightly turn your back on," says Sohio Chairman Alton W. Whitehouse Jr. "But we just aren't going to take [Kennecott's] losses indefinitely."

As Big Oil backs out of metals mining, the independents are struggling to survive. While some are closing down high-cost operations, others can't even find the money to meet the steep severance and shutdown costs without eating into the cash they need to pay their debts. Corporate staffs are being cut. Falconbridge Ltd., a Canadian nickel producer, has slashed white-collar employment so much that top management now occupies one floor instead of three in its Toronto headquarters. Chairman William James even shares a secretary.

Mining companies are also getting tough with their unions. The most dramatic example is Phelps Dodge, which in July, 1983, accepted a strike at its Arizona mines and smelters rather than settle for the terms other copper producers agreed to. The company has replaced the strikers with nonunion workers and now awaits court rulings on decertification votes. In October, Pennzoil's Duval subsidiary unilaterally imposed a new labor contract on workers at its Sierrita (Ariz.) mine, cutting wages 15%, dropping cost-of-living adjustments, and increasing work time for all employees by two shifts a month.

These cost-cutting measures have resulted in impressive productivity gains. The cost of producing copper in the U.S. has dropped 25% in the past three years. Inco has lowered its breakeven point for nickel 12% this year alone, to $2.30 a lb., and Chairman Baird's goal is to get down to $2 next year.

NO FAT. More gains are needed. "We've reduced costs, but not at the same precipitous rates as metals prices have declined," says Kennecott President G. Frank Joklik. But making further headway will be tough. "The mining companies don't have any more fat to shave off," says Canadian consultant Felske.

Because they see diversification as a way out of their troubles, some base-metals mining companies are rushing into gold—so many, in fact, that North American gold production is expected to jump 50% by 1989. "The only thing worth developing now is a good-grade precious metals deposit," says Alfred Powis, chairman of Noranda. His company is spending $230 million to develop its Hemlo stake in Northern Ontario, a gold vein that eventually could add $38 million to the company's annual profits.

Other companies are looking further afield. Newmont Mining Corp. intends to add a "fourth leg" to its copper, gold, and energy businesses, says Chairman Plato Malozemoff. Hanna is on the diversification trail too, but it will be cautious: It has been burned by bad moves in the past. Some 85% of its $28.8 million loss last year resulted from energy businesses it acquired in the late 1970s.

Amax, which had eight separate metals divisions, is restructuring all its mining operations to make them more market-responsive. The company also wants to expand into more specialized products such as molybdenum chemicals, ceramics, and plastic composites. "That's the only way," says Chester O. Ensign Jr., who heads the company's strategic planning and development group, "to make sure Amax doesn't perish."

Consultants agree such changes are necessary. "Metals companies have got to become more market-driven," says Frank Schwab Jr., president of Fenvessy & Schwab Inc., a management consulting firm in New York. He also urges companies to get more involved in commodities trading to help offset the volatility of their business. Finally, Schwab advises his North American clients to enter joint ventures, especially with foreign partners. "Somehow," he says, "our companies have to develop a workable program to finance the development of ore reserves outside the U. S."

Here and there, mining companies are beginning to embrace such strategies. But even insiders acknowledge that the industry as a whole is changing too slowly, because of what some see as an anomaly in the thinking of many metals mining executives: While they are rather averse to the risks of developing new ore deposits, that same spirit usually does not extend into the marketing and financial aspects of their business. "The industry is dominated by guys who bring things to the surface," says consultant Felske. "They have to become more sophisticated in the commercial side of the business."

REDEMPTION? Some believe that redemption may be found in high technology. The Colorado School of Mines has launched what could become a $25 million research effort to adapt automated factory techniques to mining. In October, Inco created a separate equipment company to develop machinery for continuously mining and transporting ore now done in batches. But the potential of such innovations is limited. Concludes Noranda Chairman Powis: "There's not going to be one technology that will change the economics of this industry."

The chance of getting much government help is dim. Mining companies lack political clout because their constituency is relatively small and they have been unable to put together a unified lobby. Moreover, a growing chorus of voices argues that a shortfall in U. S. metals production is not necessarily a problem. After all, notes John A. Cordes, head of the Mineral Economics Dept. at the Colorado School of Mines, "countries like Japan and West Germany have very, very strong economies with very low levels of metals self-sufficiency."

The U. S. is rapidly heading in their direction. Indeed, if another broad-based recession were to hit the U. S. in 1985 or 1986, it would probably sound the death knell for an industry that is already permanently bedridden.

By Patrick Houston in Toronto, Zachary Schiller in Cleveland, Sandra D. Atchison in Denver, Mark Crawford in Washington, James R. Norman in Houston, and Jeffrey Ryser in São Paulo

THE SAD STATE OF METALS MINING

Composite figures for 10 leading independent metals mining companies: Amax, Asarco, Cleveland-Cliffs, Cominco, Falconbridge, Hanna, Inco, Newmont, Noranda, and Phelps Dodge

	1979	1980	1981	1982	1983
			Millions of dollars		
NET EARNINGS	$1,770	$1,872	$539	$ -963	$ -778
TOTAL DEBT	5,086	5,814	6,773	7,876	7,744
			Percent		
DEBT AS A PERCENT OF CAPITALIZATION	34%	34%	36%	42%	43%
RETURN ON EQUITY	18	16	5	-9	-8

DATA: COMPANY FINANCIAL REPORTS

Exhibit 3
HB 690
2/12/85
Geo. Bennett

TESTIMONY OF GEORGE T. BENNETT OF HELENA, MONTANA

ON BEHALF OF ASARCO, INC. AND W. R. GRACE

IN OPPOSITION TO HOUSE BILL 690

Mr. Chairman, Members of the Committee:

I am George Bennett, an attorney from Helena, representing ASARCO and W. R. Grace. ASARCO is the owner and operator of a silver/ copper mine located near Troy, and W. R. Grace is the owner and operator of a vermiculite mine located near Libby. We appear in strong opposition to House Bill 690.

House Bill 690 sponsored by the Department of Revenue (DOR) would substantially increase the effective rate of the Resource Indemnity Trust Tax (RITT) in a very discriminatory manner.

DOR in 1982 attempted to substantially increase effective rate of the RITT by changing its entire nature from a tax upon resources at the time of extraction to a tax upon products produced from such natural resources, but was thwarted in that attempt by two court decisions. It now attempts to have the Legislature totally pervert RITT into a tax upon products made or produced from natural resources.

HISTORY OF RITT:

RITT (The Montana Resource Indemnity Trust Act, §15-38-101, MCA, et seq.) was enacted by the 1973 Legislature. In its statement of legislative purpose this Legislature said:

> "It is the policy of this state to provide security against loss or damage to our environment from the extraction of nonrenewable natural resources." (Emphasis supplied)

The tax was imposed by §15-38-104:

> ". . .at the rate of 1/2 of 1% of the amount of gross value of product at the time of extraction from the ground, if in excess of $5,000." (Emphasis supplied)

Shortly after the adoption of RITT, DOR held public hearings and developed rules for the implementation of the tax. At a hearing on April 9, 1974 Governor Ted Schwinden, then the Director of the Department of State Lands, testified in pertinent part as follows:

> "Through the statutory mechanism of the Resource Indemnity Trust Act a present geologic resource is transformed into a future monetary resource...to benefit the 'total environment' of this state." (Emphasis supplied)
>
> (Governor Schwinden's entire statement is attached)

Thus Governor Schwinden in 1974 made it clear that this was a tax on the extraction of a "present geologic resource."

In 1974 the Department of Revenue adopted its rules for the administration of RITT, and since the act very clearly and concisely imposed a tax upon "minerals" at the time of their extraction from the surface or subsurface of Montana DOR stated in their rules, in effect, that the tax was imposed against the gross value of such minerals at the time of extraction. The Department of Revenue sent instruction to all those who produced minerals stating:

> "The gross yield against which the tax applies is 'mine mouth' or 'well head' value. If the gross yield at point of sale includes an addition to value by transportation, processing or refinement, such addition to value may be deducted as a line 2 adjustment."

The RITT tax was clearly intended by the legislature to be a tax upon minerals as they are extracted and upon the gross value thereof at that time. The tax was never intended to be a tax upon those products which can be fabricated or manufactured from minerals extracted. The tax was administered by DOR for 9 years on the clear understanding that it was the value of extracted minerals which was subject to the tax.

DOR'S PERVERTED NEW INTERPRETATION OF RITT:

In 1982 DOR took the position that the RITT tax was not a tax upon the value of extracted minerals but rather was a tax upon the value of those products which could be made or produced from extracted minerals. Depending upon the extracted product, DOR took the position:

(a) With metal mines that the tax was not a tax upon the value of extracted minerals but rather upon the value of the fabricated product produced by smelters.

(b) With the coal industry that it was not the value of the coal as extracted from the ground but rather was the value of the coal as delivered to the customers of the coal miner including value added by washing, oiling, blending and transportation.

(c) As to the petroleum industry DOR continued to tax only the value of the crude oil as it was produced from the ground. If it had been consistent it would have taxed the value of gasoline, diesel fuel or other products produced from the mineral extracted.

(d) With other mineral extractors DOR's position varied inconsistently since in their attempt to impose a sales tax upon products produced from minerals extracted they were dealing with a variety of different products.

COURT CASES:

As a result of the DOR's new interpretation of RITT as being a sales tax upon products produced from minerals extracted, litigation resulted. Two cases were brought, one by the coal industry and the other by the Montana Mining Association. DOR lost in both cases. In the case involving the Montana Mining Association, Judge Joseph Gary found ambiguity in the RITT tax act but ruled against DOR. In the coal case Judge Gordon R. Bennett found no ambiguity in the RITT tax act and ruled against DOR. In so holding Judge Bennett stated:

> "DOR's new interpretation is strained, convoluted, and unworkable."

HOUSE BILL 690 IS TOTALLY UNFAIR AND "UNWORKABLE":

When Judge Gordon Bennett stated that DOR's "new interpretation" was "unworkable" what he meant was that since DOR was attempting to pervert the RITT into a sales tax upon the value of fabricated or partially fabricated products, the tax fell in a discriminatory manner upon the various extractive industries. With petroleum the tax would fall essentially upon the value of crude oil as extracted, not upon those products which can be made from crude oil. With coal the tax would include the value added by oiling, blending, cleaning and transportation. With metal mines since pure metals are rarely found in a natural state the tax would essentially fall upon metals which are produced from mineral bearing rock. Thus the tax would fall upon the metals as they come out of the smelter not as they come out of the ground.

Thus the increase in tax would fall unfairly and in a discriminatory manner depending on the nature of the mine product.

For example, copper is rarely found in a native state. Copper is produced from minerals in which copper occurs as a sulfide. Thus cooper bearing ores require milling, concentrating, smelting and refining. DOR attempts to tax copper not at the point of extraction but after it has been milled, concentrated and smelted, but not refined. With other metals DOR attempts to tax upon the value after it has been totally processed, including refining.

Miners do not "extract" gold, silver, gasoline, diesel fuel, vermiculite, etc.; they extract mineral bearing material which after processing can be converted into various products.

DOR's "new interpretation" and H.B. 690 which convert RITT from an extraction tax to a sales tax upon various products produced from minerals. The theory of RITT is that the extraction of nonrenewable resources results in damage to the environment and that a trust fund should be created to renew the environment after extraction has occurred. However, now DOR wants to impose a sales tax on values added after extraction and which result from the variety of ways in which extracted minerals may be processed.

Governor Schwinden was correct the RITT was and should be a tax upon the market value of the "geologic resource" which is extracted, but not upon value added later.

Exhibit 4
HB690
2/12/85
Bennett, George

please, and who you represent.

MR. SCHWINDEN: Thank you, Mr. Chairman. My name is Ted Schwinden, and I am Commissioner of the Department of State Lands, State of Móntana. Shall I proceede with the testimony?

MR. LEWIS: Yes.

MR. SCHWINDEN: I have submitted written copies to your recording secretary. My statement is as follows:

Since 1971, the Department of State Lands has had the responsibility for the administration of Móntana's mining reclamation.

Chapter 497, S.L.M. 1973, "The Montana Resources Indemnity Trust Act" was a statutory concept developed to assure that future generations of Montana citizens be assured a portion of the present extracted value of nonrenewable natural resources. Section 84-7003 succinctly sets forth the legislative policy affirming that concept.

Through the statutory mechanism of the Resource Indemnity Trust Act a present geologic resource is transformed into a future monetary resource...to benefit the "total environment" of this state.

I understand that questions have been raised as to the interpretation of "nonrenewable natural resources". To my knowledge, the indemnity trust concept is unique (although a recent North Dakota study has recommended such legislation) so legislative comparison is not possible. However, in the drafting of the legislation in our Department we clearly intended the act to cover all nonrenewable natural resources extracted from the surface or subsurface of the State of Montana. I have confirmed this intent with Mr. John Henson, our staff attorney at that time.

The forest resource, e.g., was considered renewable because it is capable of replenishing itself within a relatively short geologic time frame. Sand and gravel were considered nonrenewable resources because that was not the case. Mr. Chairman, that concludes my brief testimony.

MR. LEWIS: Thank you very much Mr. Schwinden.

MR. COSGROVE: Mr. Chairman, may I ask a question of Mr. Schwinden for the benefit of the Department?

MR. LEWIS: Yes.

MR. COSGROVE: Mr. Schwinden, Is it true that you are with the Executive branch of the government, and could you tell me though in your drafting of the term "mineral" as defined in Section 82-7003 R.C.M. 1947 as precious stones or gems, gold,silver, copper, coal, lead,petroleum, natural gas, oil, uranium, or other non-renewable merchantable products extracted from the surface or sub-surface of the State of Montana, whether or not, you had in mind, sand and gravel as being included within that statutory definition?

MR. SCHWINDEN: At the Departmental drafting level this was certainly the case.

MR. COSGROVE: Do you know if from the time the Deparment drafted that proposal whether or not it was amended or if the definition was amended in anyway in the Legislative process?

Exhibit 4-A
HB 690
2/12/85

HB 690

Mr. Chairman, members of the Committee, I am James D. Mockler, Executive Director of the Montana Coal Council, 2301 Colonial Drive, Helena, MT.

I appear here today in opposition to HB 690. HB 690 has the effect of doubling the Resource Indemnity Trust Tax presently levied on coal. Following is a simplified breakdown of the tax as levied at the present time.

Present

Contract Sales Price	$10.00
Less Hauling, Crushing, Loading, etc.	2.00
RITT Taxable Value	8.00
Tax Per Ton	.04

HB 690

Contract Sales Price	10.00
Severance Tax	3.00
Gross Proceeds	.45
RITT	.08
Fed. Reclamation Fee	.35
Black Lung	.50
Royalty @ 12 1/2%	1.80
RITT Taxable Value	16.18
Tax Per Ton	.081

Increase = 100%

As you can plainly see, the intent is to double the tax.

The proponents of the bill allege that it was always intended to include all of the value added and tax of tax provisions. For nearly a decade the tax was levied at the value at the point of severance. In 1982 the Dept. of Revenue changed their rules, doubled the tax and lost in Court with District Court Judge Gordon Bennett stating in his decision:

"DOR's new interpretation is strained, convoluted, and unworkable. While we recognize the deference due an agency's interpretation of statutes it administers, such deference does not require this Court to adopt a stilted interpretation contrary to the plain meaning of the statute. . ." "DOR has confused the statutory construction problem by taking one or two words out of context and defining them in other usages."

In 1983 this Legislature overwhelmingly passed HB 706 and SB 284 concerning coal taxes.

HB 706 exempted all but 15 cents per ton of royalties from severance tax and SB 284 exempted processing of coal from taxation. The overwhelming support in both cases stemmed from the fact that production taxes should not reflect value added taxes or be taxes levied on taxes. HB 690 advocates doing exactly that, taxing value added and taxing taxes. On page 1, lines 5-8, the title states that HB 690 is an act to make the determination of the value of minerals <u>consistent</u> with the same determination for certain other natural resource taxes. Insofar as coal is concerned, nothing could be further from the truth. Neither the coal severance tax or the gross proceeds tax pyramid to require taxes on taxes or taxes on value added. I would suggest that should you pass the bill, you amend the title to state it is inconsistent with other tax policy.

At the time of passage of RITT, Montana's coal production was slightly over 8 million tons vs. 33 million tons last year. The contract sales price was less than $4 per ton vs. over $10 per ton at present. The coal tax was variable from 4 cents per ton to 10 cents per ton vs. three taxes totalling 35% at present. Royalties were 15 cents per ton vs. $1.80. There was no gross proceeds tax, no black lung fee, and no reclamation fee. How in the world could they then have anticipated that all would be included especially since a large part are federal fees?

It appears to be generally recognized that all is not rosey with the coal industry. It seems ironic that with that in mind we are faced with legislation such as this which, if passed, would not only cost our customers another $1.3 million per year but would send another message to them that Montana really doesn't care for their business by raising their taxes again. Just how much is enough?

We hope you will join with us in opposition to HB 690.

Exhibit 4-B
HB 690
2/12/85

TESTIMONY OF NERCO MINING COMPANY
IN OPPOSITION TO HB 690

Mr. Chairman and members of the Committee, my name is Tom Ebzery, and I am an attorney from Billings representing the NERCO MINING COMPANY and rise in opposition to HB 690.

NERCO in 1984 produced approximately 3 million tons of coal from its Spring Creek Mine in southeastern Montana, and with its partner, Peter Kiewit and Sons, produced in excess of 10 million tons of coal from the Decker Mines. The coal, most of which was produced under long-term contracts, represents more than 40% of all coal produced in Montana during 1984.

The intent of HB 690 is to substantially increase the Resource Indemnity Trust Tax and add further to the well-known tax burden borne by the coal industry. The adoption of HB 690 will add to the burden of Montana's "existing customers." It should be noted that the Governor has proposed a tax break for "new coal purchasers," but in the same breath, the Department of Revenue is seeking a tax increase for existing customers. It is difficult to understand how increasing taxes on existing producers helps to promote Montana as a good place to do business.

HB 690 in the title of the bill states that the bill is "to make the determination of the value of minerals pursuant to the Reosurce Indemnity Trust Tax consistent with the same determination for certain other natural resource taxes." I suggest to you that this is fallacious. Under this bill, the tax would not be consistent with other resource taxes.

For example, the 30% coal severance tax allows deductions for royalties and other taxes. The legislation, if enacted, will overreach any statute relating to the taxation of minerals.

It is obvious to us that the introduction of HB 690 is the fialure of DOR to change the nine-year old interpretation of this tax (or sometimes referred to as the nine-year gap).

In 1982, the DOR sought to increase state revenues by adopting new rules, which in effect would have doubled the tax. NERCO joined other coal producers in successfully challenging the interpretation of the statute by DOR. Realizing that an appeal would be unsuccessful, the Department is seeking to raise taxes by statute.

The bill, on page 3, lines 8 and 9, excludes the words "at the time of extraction from the ground" which was the original language passed in 1973. If it was clear to those who were present in 1973 that this meant contract sales price, why is the language deleted? I suggest Judge Bennett has that answer.

HB 690 in its present form will result in a 300% tax increase to NERCO and its customers, which, in our opinion, is unwarranted and in view of past events ... unquestionable. We urge you to report HB 690 "do not pass."

Exhibit 5
HB 680
2/12/85
Bennett, George

STATE OF MONTANA

DEPARTMENT OF REVENUE
MITCHELL BUILDING
HELENA, MONTANA 59601

January 15, 1981

TO: MINERAL PRODUCERS

Gentlemen:

RE: Resource Indemnity Trust Tax

Enclosed is a supply of the reporting form, "Statement of Gross Yield," for your use in reporting under the Resource Indemnity Trust Tax requirements. The statement of gross yield must be filed and a remittance for any tax due submitted on or before March 31, 1981 covering all of 1980 production. The gross yield against which the tax applies is "mine mouth" or "well head" value. If the gross yield at point of sale includes an addition to value by transportation, processing or refinement, such addition to value may be deducted as a line 2 adjustment. Royalty payments may not be deducted as a line 2 adjustment.

THE MINIMUM ANNUAL TAX OF $25.00 IS NOT REQUIRED UNLESS THERE WAS MINERAL PRODUCTION DURING THE YEAR. If there was no production of minerals during 1980 complete the name and address block, write in after line 1 "No Production During 1980," and file the form without remittance.

Section 15-38-107 Montana Code Annotated provides a ten percent (10%) penalty and interest at the rate of one percent (1%) per month for failure to file the required report or pay any tax due on or before March 31.

An Additional supply of Form RITT-600 is available upon request to this office.

Very truly yours,

DEPARTMENT OF REVENUE

James Madison

James Madison, Administrator
Miscellaneous Tax Division

JM:pm
Enclosure

5

DEPOSITION EXHIBIT
10

STATE OF MONTANA

DEPARTMENT OF REVENUE
MITCHELL BUILDING
HELENA, MONTANA 59601

January 15, 1980

TO: MINERAL PRODUCERS

Gentlemen:

RE: Resource Indemnity Trust Tax

Enclosed is a supply of the reporting form, "Statement of Gross Yield," for your use in reporting under the Resource Indemnity Trust Tax requirements. The statement of gross yield must be filed and a remittance for any tax due submitted on or before March 31, 1980 covering all of 1979 production. The gross yield against which the tax applies is "mine mouth" or "well head" value. If the gross yield at point of sale includes an addition to value by transportation, processing or refinement, such addition to value may be deducted as a line 2 adjustment. Royalty payments may not be deducted as a line 2 adjustment.

THE MINIMUM ANNUAL TAX OF $25.00 IS NOT REQUIRED UNLESS THERE WAS MINERAL PRODUCTION DURING THE YEAR. If there was no production of minerals during 1979 complete the name and address block, write in after line 1 "No Production During 1979," and file the form without remittance.

Section 15-38-107 Montana Code Annotated provides a ten percent (10%) penalty and interest at the rate of one percent (1%) per month for failure to file the required report or pay any tax due on or before March 31.

An additional supply of Form RITT-600 is available upon request to this office.

Very truly yours,

DEPARTMENT OF REVENUE

James Madison

James Madison, Administrator
Miscellaneous Tax Division

JM:pm
Enclosure

STATE OF MONTANA

DEPARTMENT OF REVENUE
MITCHELL BUILDING
HELENA, MONTANA 59601

January 15, 1979

TO: MINERAL PRODUCERS

Gentlemen:

RE: Resource Indemnity Trust Tax

Enclosed is a supply of the reporting form, "Statement of Gross Yield," for your use in reporting under the Resource Indemnity Trust Tax requirements. The statement of gross yield must be filed and a remittance for any tax due submitted on or before March 31, 1979 covering all of 1978 production. The gross yield against which the tax applies is "mine mouth" or "well head" value. If the gross yield at point of sale includes an addition to value by transportation, processing or refinement, such addition to value may be deducted as a line 2 adjustment. Royalty payments may not be deducted as a line 2 adjustment.

Section 84-7012, Revised Codes of Montana, 1947 provides a ten percent (10%) penalty and interest at the rate of one percent (1%) per month for failure to file the required report or pay any tax due on or before March 31.

An additional supply of Form RITT-600 is available upon request to this office.

Very truly yours,

DEPARTMENT OF REVENUE

James Madison

James Madison, Administrator
Miscellaneous Tax Division

JM:pm
Enclosure

STATE OF MONTANA

DEPARTMENT OF REVENUE
MITCHELL BUILDING
HELENA, MONTANA 59601

January 20, 1978

TO: MINERAL PRODUCERS

Gentlemen:

Re: Resource Indemnity Trust Tax

Enclosed is a supply of the reporting form, "Statement of Gross Yield," for your use in reporting under the Resource Indemnity Trust Tax requirements. The statement of gross yield must be filed and a remittance for any tax due submitted on or before March 31, 1978 covering all of 1977 production. The gross yield against which the tax applies is "mine mouth" or "well head" value. If the gross yeild at point of sale includes an addition to value by transportation, processing or refinement, such addition to value may be deducted as a line 2 adjustment. Royalty payments may <u>not</u> be deducted as a line 2 adjustment.

Section 84-7012, Revised Codes of Montana, 1947 provides a ten percent (10%) penalty and interest at the rate of one percent (1%) per month for failure to file the required report or pay any tax due on or before March 31.

An additional supply of Form RITT-600 is available upon request to this office.

Very truly yours,

DEPARTMENT OF REVENUE

James Madison, Administrator
Miscellaneous Tax Division

JM:pm
encls.

STATE OF MONTANA

DEPARTMENT OF REVENUE
MITCHELL BUILDING
HELENA, MONTANA 59601

March 1, 1977

TO: MINERAL PRODUCERS

Gentlemen:

Enclosed is a supply of the reporting form, "Statement of Gross Yield," for your use in reporting under the Resource Indemnity Trust Tax requirements. The statement of gross yield must be filed and a remittance for any tax due submitted on or before March 31, 1977 covering all of 1976 production. The gross yield against which the tax applies is "mine mouth" or "well head" value. If the gross yield at point of sale includes an addition to value by transportation, processing or refinement, such addition to value may be deducted as a line 2 adjustment. Royalty payments may not be deducted as a line 2 adjustment.

Senate Bill No. 186 passed by the 1975 Legislative Assembly and approved by Governor Judge on April 8, 1975 provides a ten percent (10%) penalty and interest at the rate of one percent (1%) per month for failure to file the required report or pay any tax due on or before March 31.

An additional supply of Form RITT-600 is available upon request to this office.

Very truly yours,

DEPARTMENT OF REVENUE

James Madison

James Madison, Administrator
Miscellaneous Tax Division

JM:pm
encls.

STATE OF MONTANA

DEPARTMENT OF REVENUE

MITCHELL BUILDING

HELENA, MONTANA 59601

March 1, 1976

TO: MINERAL PRODUCERS

Gentlemen:

Enclosed is a supply of the reporting form, "Statement of Gross Yield," for your use in reporting under the Resource Indemnity Trust Tax requirements. The statement of gross yield must be filed and a remittance for any tax due submitted on or before March 31, 1976 covering all of 1975 production. The gross yield against which the tax applies is "mine mouth" or "well head" value. If the gross yield at point of sale includes an addition to value by transportation, processing or refinement, such addition to value may be deducted as a line 2 adjustment. Royalty payments may not be deducted as a line 2 adjustment.

Senate Bill No. 186 passed by the 1975 Legislative Assembly and approved by Governor Judge on April 8, 1975 provides a ten percent (10%) penalty and interest at the rate of one percent (1%) per month for failure to file the required report or pay any tax due on or before March 31.

An additional supply of Form RITT-600 is available upon request to this office.

Very truly yours,

DEPARTMENT OF REVENUE

James Madison

James Madison, Administrator
Miscellaneous Tax Division

JM:pm
encls.

STATE OF MONTANA

DEPARTMENT OF REVENUE
MITCHELL BUILDING
HELENA, MONTANA 59601

March 3, 1975

TO: MINERAL PRODUCERS

Gentlemen:

Enclosed is a supply of the reporting form, "Statement of Gross Yield," for your use in reporting under the Resource Indemnity Trust Tax requirements. The statement of gross yield must be filed and a remittance for any tax due submitted on or before March 31, 1975 covering all of 1974 production. The gross yield against which the tax applies is "mine mouth" or "well head" value. If the gross yield at point of sale includes an addition to value by transportation, processing or refinement, such addition to value may be deducted as a line 2 adjustment. Royalty payments may not be deducted as a line 2 adjustment.

An additional supply of Form RITT-600 is available upon request to this office.

Very truly yours,

DEPARTMENT OF REVENUE

James Madison

James Madison, Administrator
Miscellaneous Tax Division

JM:pm
encls.

Exhibit 6
HJR-9
2/12/85
Rep. Harp

HOUSE JOINT RESOLUTION NO. 9

INTRODUCED BY WALDRON

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA ESTABLISHING AN ESTIMATE OF THE STATE'S ANTICIPATED REVENUE FOR EACH YEAR OF THE 1986-87 BIENNIUM FOR THE PURPOSE OF ACHIEVING A BALANCED BUDGET AS MANDATED BY ARTICLE VIII, SECTION 9, OF THE MONTANA CONSTITUTION; ACCEPTING A JUNE 30, 1984, GENERAL FUND BALANCE THAT WAS ESTABLISHED BASED ON GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; URGING AGENCIES TO MAKE TIMELY ACCOUNTING ENTRIES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; REQUESTING THE GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING TO USE THE REVENUE ESTIMATES CONTAINED IN THIS RESOLUTION AS OFFICIAL REVENUE ESTIMATES FOR FISCAL YEARS 1985-86 AND 1986-87; AND ESTABLISHING AN ESTIMATE OF THE NONGENERAL FUND REVENUES FOR THE SCHOOL FOUNDATION PROGRAM.

WHEREAS, Article VI, section 9, of the Montana Constitution requires the Governor to submit to the Legislature a budget for the ensuing fiscal period containing in detail the estimated revenue of the state; and

WHEREAS, Article VIII, section 9, of the Montana Constitution requires that the Legislature may not appropriate funds in excess of the anticipated revenue of the state; and

WHEREAS, section 5-12-302(2), MCA, requires the Office of the Legislative Fiscal Analyst to estimate revenue from existing and proposed taxes, and section 17-7-123(1), MCA, requires the Governor to submit a budget showing a balance between proposed disbursements and total anticipated receipts; and

WHEREAS, due to the complexity of economic variables involved in revenue forecasting and the diversity of sources from which state revenues are obtained, it has become increasingly difficult to project revenues in order to prepare a balanced budget for the ensuing biennium; and

WHEREAS, past legislatures have not agreed on revenue projections until the last days of the session when there is little time for comprehensive analysis or reasoned criticism; and

WHEREAS, it is in the best interests of the state that revenue forecasts be discussed and arrived at in public hearings wherein all the people may attend and participate.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That the state general fund revenue for fiscal years 1986 and 1987 is estimated to total ~~$767,532,000~~

$748,148,295. This total is based on the assumptions and projections set forth below:

GENERAL FUND REVENUE

The projections for total general fund revenue during the 1986-87 biennium are based on an assumption of moderate economic growth during the period AND AN ASSUMPTION OF A CONTINUATION OF MONTANA LAW AS IT EXISTED ON JANUARY 1, 1985. While current economic growth is slowing, the present economic recovery is expected to continue, but at a more moderate level. It is further assumed that the inflation rate will be about ~~6%-during-the-biennium~~ 4% FOR 1985, 5.2% FOR 1986, AND 5.4% FOR 1987, and that interest rates will drift ~~upward-until-late-1986-and-then--decline--slightly--in 1987~~ DOWNWARD DURING THE BIENNIUM, based on the assumption of a less restrictive monetary policy by the Federal Reserve and a continuation of competing credit demands between private borrowers and the federal government.

General Fund Revenue

Source of Revenue

	Fiscal 1985	Fiscal 1986	Fiscal 1987	Biennium
(1) Individual Income Tax				
	~~$116,653,000~~	~~$123,466,000~~	~~$130,626,000~~	~~$254,092,000~~
	$115,000,000	$124,000,000	$133,000,000	$257,000,000

This revenue consists of 64% of the total projected individual income tax collections, which percentage is currently deposited in the general fund.

Assumption: Income tax forecasts for the 1986-87 biennium assume moderate growth in personal income and employment. These projections also INCLUDE THE EFFECTS OF FEDERAL INCOME TAX INDEXING, ASSUME A CONTINUATION OF MONTANA LAW AS IT EXISTED ON JANUARY 1, 1985, AND are OTHERWISE based upon the continuation of all statutory credits. ~~The--additional-revenue-that-would-be-generated-by federal-income-tax-indexing-has-not--been--included--in--the forecasts.~~

(2) Corporation License Tax

$35,017,000	$29,957,000	$32,304,000	$62,261,000

The corporation license tax is distributed to several accounts. The revenue reported above consists of 64% of the corporation license tax, which percentage is currently deposited in the general fund.

(3) Coal Severance Tax

~~$17,444,000~~	~~$19,735,000~~	~~$18,732,000~~	~~$38,467,000~~
$17,385,000	$19,152,000	$17,877,024	$37,029,024

The coal severance tax is imposed on all coal production in excess of 20,000 tons per company per calendar year, assessed at the rate of 30% of the value of the coal with a heating quality of at least 7,000 Btu's per pound and 20% of the value of coal with a lower Btu rate.

Assumption: With lower demand and competitively priced alternative fuels, coal prices have remained soft. It is assumed that these conditions, in conjunction with royalty deductions, will result in a modest rate of growth in the price of coal during the biennium. A dispute involving the state's authority to tax coal mined on Crow Indian land has prompted a major coal developer to protest taxes paid on this production. Until a settlement is reached, these taxes are being deposited in an escrow account. Tax forecasts for the 1986-87 biennium assume a settlement will not be reached until after fiscal year 1987; therefore, these coal tax revenues are not included in the above revenue estimates. THE REVENUE ESTIMATES ARE FURTHER BASED ON THE FOLLOWING ASSUMPTIONS OF PRODUCTION AND PRICE:

TONS OF COAL

30,500,000	32,000,000	33,000,000	65,000,000

PRICE PER TON

$10.00	$10.50	$10.80	NA

(4) Oil Severance Tax

~~$32,837,000~~	~~$27,792,000~~	~~$29,269,000~~	~~$57,061,000~~
$31,680,000	$24,500,000	$23,833,333	$48,333,333

Assumptions: Oil severance tax revenues are dependent on the price per barrel and the number of barrels of oil produced in the state. Since oil is a commodity that is used for diverse purposes, the prices depend on federal regulations and world demand. ~~Although~~ BECAUSE A WORLDWIDE SURPLUS OF OIL AND BECAUSE recent oil price cuts by Norway, Great Britain, and Nigeria have injected an uncertainty in the international oil market, it is assumed that prices ~~will stabilize-and-increase-slightly-by-the-calendar--year--1987. This--assumption--is-based-on-OPEC's-recent-agreement-to-cut daily-production-and--Chase--Econometrics'--prediction--that further-price-declines-will-not-occur-because-of-an-observed increase--in--recent--worldwide--demand.~~ AND PRODUCTION WILL DECREASE SLIGHTLY THROUGHOUT THE BIENNIUM. THE REVENUE ESTIMATES FOR OIL SEVERANCE TAXES ARE FURTHER BASED ON THE FOLLOWING ASSUMPTIONS OF PRICE AND PRODUCTION:

BARRELS OF OIL

28,800,000	28,000,000	27,500,000	55,500,000

PRICE PER BARREL

$27.50	$26.25	$26.00	NA

(5) Interest on Investments

~~$27,732,000~~	~~$25,099,000~~	~~$25,820,000~~	~~$50,919,000~~
$25,505,417	$22,635,417	$22,083,333	$44,718,750

Assumptions: Interest on investments is projected to increase in fiscal 1985, but then decline in fiscal years 1986 and 1987. The increase in 1985 is expected because tax anticipation notes IN THE AMOUNT OF $38,000,000 were sold this year. IT IS FURTHER ANTICIPATED THAT $50,000,000 IN TAX ANTICIPATION NOTES WILL BE SOLD IN FISCAL YEAR 1986 AND IN

FISCAL YEAR 1987. The decline in 1986 and 1987 is expected because interest earned on the highway gas account will begin to accrue to the highway account. THE PROJECTED RATES OF RETURN ARE 10.25% FOR FISCAL YEAR 1985, 10.25% FOR FISCAL YEAR 1986, AND 10.00% FOR FISCAL YEAR 1987. THE ESTIMATED REVENUES FROM INTEREST ON INVESTMENTS ARE BASED ON THE ANTICIPATED DAILY AVERAGE INVESTABLE AMOUNTS OF $214,000,000 IN FISCAL YEAR 1985, $175,000,000 IN FISCAL YEAR 1986, AND $175,000,000 IN FISCAL YEAR 1987.

(6) Long-Range Bond Excess

~~$38,449,000~~	~~$38,880,000~~	~~$40,652,000~~	~~$79,532,000~~
$37,634,000	$38,311,000	$40,261,000	$78,572,000

The long-range debt service account receives 11% of all individual income and corporation license taxes, 79.75% of all cigarette excise taxes, and 100% of the tobacco products tax. ~~When the sum of money in the debt service account exceeds the annual principal and interest payments, the excess is transferred to the general fund.~~

~~Assumption~~ ASSUMPTIONS: It is assumed that there will be no additional long-range building bonds sold through fiscal year 1987. IT IS FURTHER ASSUMED THAT CIGARETTE SALES FOR FISCAL YEARS 1985, 1986, AND 1987 WILL BE 90 MILLION PACKS EACH YEAR. REVENUE FROM TOBACCO SALES IS EXPECTED TO BE $825,000 FOR EACH FISCAL YEAR.

(7) Coal Trust Fund Interest

~~$24,529,000~~ ~~$28,792,000~~ ~~$33,560,000~~ ~~$62,352,000~~

$24,155,000 $28,807,000 $33,736,000 $62,543,000

This revenue is derived from interest earned on the deposit of 50% of the coal severance tax receipts dedicated to the permanent trust fund.

Assumption: Coal severance tax bonds are sold to finance specific water resources development projects. Debt service on these bonds is paid primarily with pledged project and coal severance tax revenues. The use of coal severance tax revenues for this purpose will reduce permanent trust fund receipts by about $300,000 in fiscal years 1986 and 1987. However, it is projected and assumed that the total permanent trust interest income will increase over the biennium. Balances available for investment are expected to increase because of anticipated higher coal severance tax receipts. In addition, long-term interest rates are expected to gradually increase by calendar year 1986, THEN FALL SLIGHTLY FOR 1987. THE ANTICIPATED INTEREST RATES ON NEW LONG-TERM INVESTMENTS FOR 1985, 1986, AND 1987 ARE 12.00%, 12.00%, AND 11.75%, RESPECTIVELY.

(8) Insurance Premiums Tax

~~$16,109,000~~ ~~$16,139,000~~ ~~$17,558,000~~ ~~$33,697,000~~

$15,700,000 $16,195,000 $16,737,000 $32,932,000

Assumptions: The level of insurance tax receipts is assumed to increase by about ~~8%~~ 5.5% for fiscal years 1985 through 1987, based on a moderate growth in total personal income and employment.

(9) Public Institutions Reimbursements

~~$12,213,000~~	~~$14,758,000~~	~~$15,310,000~~	~~$30,068,000~~
$12,893,000	$14,800,000	$15,300,000	$30,100,000

Assumptions: In fiscal 1984, approximately 88% of all reimbursements collected were federal medicaid receipts. Hence, forecasts for revenue assume federal medicaid reimbursement equal to the executive budget request for the Department of Social and Rehabilitation Services. This request assumes that the number of patient care days will remain constant at the 1985 level. In addition, the revenue estimates for fiscal years 1986 and 1987 assume about $2,000,000 annually for medicaid reimbursements from the Montana Youth Treatment Center at Billings.

(10) Liquor Profits

~~$4,466,000~~	~~$5,924,000~~	~~$6,544,000~~	~~$12,468,000~~
$4,850,000	$5,250,000	$5,200,000	$10,450,000

(11) Liquor Excise Tax

~~$6,418,000~~	~~$7,074,000~~	~~$7,470,000~~	~~$14,544,000~~
$6,110,000	$6,322,500	$6,387,000	$12,709,500

Assumptions: Liquor sales for fiscal years 1986 and 1987 are expected to show little growth. Although personal income is growing, there appears to be a trend toward moderation in liquor consumption. Furthermore, the liquor division's operating expenses for the 1986-87 biennium are expected to remain constant at the 1984 level. THE REVENUE ESTIMATES FOR BOTH LIQUOR PROFITS AND EXCISE TAXES ARE FURTHER BASED ON DECLINES IN UNIT SALES OF 3% FOR FISCAL YEARS 1986 AND 1987, COUPLED WITH INCREASES IN PRICES OF 6.5% IN EACH OF THE FISCAL YEARS.

(12) Inheritance Tax

~~$6,289,000~~	~~$6,656,000~~	~~$7,072,000~~	~~$13,728,000~~
$6,624,000	$6,600,000	$6,800,000	$13,400,000

Assumptions: Projected inheritance tax revenues are based on a ~~6%~~ SLIGHT DECREASE FROM 1985 TO 1986, THEN PROJECTED AT A 3% annual growth rate in tax collections FOR THE REMAINDER OF THE BIENNIUM. Returns processed are expected to remain stable and of average size taxable at between 0% and 32%.

(13) Metal Mines Tax

~~$1,711,000~~	~~$1,185,000~~	~~$1,190,000~~	~~$2,375,000~~
$1,660,000	$1,000,000	$1,000,000	$2,000,000

Historically, the metal mines tax has been deposited in the general fund. Beginning in fiscal year 1986, one-third of the receipts will be deposited in a hard-rock mining trust account.

Assumptions: Metal prices, metal production, and the effective tax rate are the major factors that determine the level of metal mines tax receipts. It is assumed that production for gold, silver, and copper will ~~increase modestly~~ REMAIN CONSTANT throughout the biennium. Also, prices are assumed to remain constant at calendar year 1984 levels. No new companies are expected to begin operating in the state by the end of calendar year 1986. THE REVENUE ESTIMATES FURTHER ASSUME NO REOPENING OF THE BLACK PINE MINE NEAR PHILIPSBURG, MONTANA.

(14) Electrical Energy Tax

~~$1,986,000~~	~~$2,042,000~~	~~$2,169,000~~	~~$4,211,000~~
$2,212,000	$2,273,000	$2,405,000	$4,678,000

Assumptions: Total U.S. electricity production has grown by 2.2% since calendar year 1974. It is assumed that Montana's production will follow this trend and that demand for electrical power will increase at this rate through the 1986-87 biennium. In addition, an adjustment to these estimates has been made based on a July 1986 completion date for Colstrip Unit 4. Production capacity for both Colstrip Unit 3 and Unit 4 is assumed to be 60% the first year and 70% thereafter.

(15) Drivers' License Fees

~~$817,000~~	~~$835,000~~	~~$854,000~~	~~$1,689,000~~
$861,000	$880,000	$899,000	$1,779,000

Assumptions: Census data from 1970 and 1980 indicate that growth in the eligible driver age cohort was 2.2% annually. Collection of drivers' license fees is assumed to continue this trend during the biennium.

(16) Telephone License Tax

~~$2,814,000~~	~~$3,053,000~~	~~$3,311,000~~	~~$6,364,000~~
$3,010,000	$3,160,000	$3,319,000	$6,479,000

Assumptions: Revenue forecasts for the telephone tax are based on an average growth rate in revenues of 8.5% observed since calendar year 1969.

(17) Beer License Tax

~~$1,213,000~~	~~$1,221,000~~	~~$1,230,000~~	~~$2,451,000~~
$1,175,000	$1,146,000	$1,096,000	$2,242,000

Assumptions: Revenues are projected based on an annual ~~growth~~ DECLINE rate in beer consumption of about ~~0.7%--that has--been--observed--since-fiscal-year-1979.~~ 2.4% FOR FISCAL YEARS 1985 AND 1986. THE RATE OF DECLINE CHANGES TO 4.4% FOR FISCAL YEAR 1987 DUE TO THE CHANGE IN THE MINIMUM DRINKING AGE.

(18) Natural Gas Severance Tax

~~$3,481,000~~	~~$3,650,000~~	~~$3,862,000~~	~~$7,512,000~~
$3,080,625	$3,142,238	$3,108,450	$6,250,688

Assumptions: Natural gas production is projected to ~~remain-at-current-levels~~ DECREASE SLIGHTLY throughout the 1986-87 biennium. ~~Prices--are--expected--to--increase-only moderately-despite-deregulation-of-all-new-gas-on-January-1, 1985.~~ Prices ~~will-increase-only-moderately~~ ARE ANTICIPATED TO REMAIN CONSTANT even with deregulation because of more competition, contract renegotiations, and lower market prices, primarily from Canada. THE REVENUE ESTIMATES FOR NATURAL GAS SEVERANCE TAXES ARE FURTHER BASED ON THE FOLLOWING ASSUMPTIONS OF PRODUCTION AND PRICE FOR FISCAL YEARS 1985, 1986, AND 1987:

MILLIONS OF MCF

	46.5	46.5	45.0	91.5

PRICE PER MCF

	$2.50	$2.55	$2.55	NA

(19) Freight Line Tax

	$1,402,000	$1,465,000	$1,556,000	$3,021,000

Assumptions: Freight line tax revenues are projected to increase by about ~~6%~~ 5.26% over the period 1985-1987.

(20) Wine Tax

	$917,000	$928,000	$940,000	$1,868,000

Assumptions: Wine tax receipts are projected to increase by 1.3% annually based on the same percentage rate of growth in the consumption of distilled spirits experienced since calendar year 1969. Wine taxes are not based on the value of the commodity. Revenues are a function of consumption.

(21) Other Revenue Sources

	~~$13,474,000~~	~~$13,930,000~~	~~$14,922,000~~	~~$28,852,000~~
	$14,474,000	$14,395,000	$15,387,000	$29,782,000

Assumptions: Since fiscal year 1981, revenues from a number of other statutory taxes and fines have grown an average of 7.2% per year after adjusting for one-time receipts. ~~It-is-assumed-this-trend-will-continue-during-the biennium;-however;-a-negative--adjustment--of--$465;000--was made--to--fiscal-year-1986-and-1987-estimates-to-account-for bank-examination-fees-being-deposited-to-a-new-state-special revenue-account.~~ THE "OTHER REVENUE SOURCES" ESTIMATES ARE BASED ON AN AVERAGE ANNUAL GROWTH RATE OF 7%. ADDITIONALLY, THE FISCAL YEAR 1985 ESTIMATE INCLUDES A $1,000,000 ADDITION FOR FEDERAL REIMBURSEMENT FOR FIGHTING FOREST FIRES.

General Fund Total

~~$365;971;000~~	~~$372;581;000~~	~~$394;951;000~~	~~$767;532;000~~
$361,345,042	$364,919,155	$383,229,140	$748,148,295

General Fund

Fiscal 1985

~~Ending~~ BEGINNING Balance

~~$28;981;378~~

$35,097,000

NONGENERAL FUND SCHOOL FOUNDATION PROGRAM REVENUE

1986-87 BIENNIUM

$526,310,000

THIS ESTIMATE IS BASED ON AN ASSUMPTION OF A CONTINUATION OF MONTANA LAW AS IT EXISTED ON JANUARY 1, 1985.

BE IT FURTHER RESOLVED, THAT THE LEGISLATURE ACCEPTS

<u>FOR BUDGET PURPOSES THE UNRESERVED GENERAL FUND BALANCE OF $35,097,000 PREPARED ACCORDING TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (COMMONLY REFERRED TO AS G.A.A.P.) AS PUBLISHED IN THE AUDITED STATE FINANCIAL STATEMENTS AS OF JUNE 30, 1984.</u>

<u>BE IT FURTHER RESOLVED, THAT THE DEPARTMENT OF ADMINISTRATION AND OTHER STATE AGENCIES ARE STRONGLY URGED TO MAKE TIMELY ACCOUNTING ENTRIES SO THAT BY JUNE 30, 1985, THE STATE BUDGETING AND ACCOUNTING SYSTEM (COMMONLY REFERRED TO AS SBAS) UNRESERVED GENERAL FUND BALANCE REFLECTS RECORDS ENTERED AND MAINTAINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.</u>

<u>BE IT FURTHER RESOLVED, THAT THE GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING IS STRONGLY URGED TO ENTER THE REVENUE ESTIMATES CONTAINED IN THIS RESOLUTION ON THE STATEWIDE BUDGETING AND ACCOUNTING SYSTEM AS THE OFFICIAL REVENUE ESTIMATES FOR THE GENERAL FUND FOR FISCAL YEARS 1985-86 AND 1986-87.</u>

-End-

Exhibit 6-A
HJR-9
2/12/85
Rep. Harp

PROPOSED AMENDMENTS

House Joint Resolution No. 9
Introduced Copy

1. Title, line 9.
Following: "CONSTITUTION"
Insert: "; ACCEPTING A JUNE 30, 1984, GENERAL FUND BALANCE THAT WAS ESTABLISHED BASED ON GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; URGING AGENCIES TO MAKE TIMELY ACCOUNTING ENTRIES IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; REQUESTING THE GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING TO USE THE REVENUE ESTIMATES CONTAINED IN THIS RESOLUTION AS OFFICIAL REVENUE ESTIMATES FOR FISCAL YEARS 1985-86 AND 1986-87; AND ESTABLISHING AN ESTIMATE OF THE NONGENERAL FUND REVENUES FOR THE SCHOOL FOUNDATION PROGRAM"

2. Page 2, line 16.
Following: "to total"
Strike: "$767,532,000"
Insert: "$748,148,295"

3. Page 2, line 21.
Following: "period"
Insert: "and an assumption of a continuation of Montana law as it existed on January 1, 1985"

4. Page 2, lines 24 and 25.
Following: "about" on line 24
Strike: "6% during the biennium"
Insert: "4% for 1985, 5.2% for 1986, and 5.4% for 1987,"

5. Pages 2 and 3.
Following: "drift" on line 25 of page 2
Strike: the remainder of line 25 through "1987" on line 1 of page 3
Insert: "downward during the biennium"

6. Page 3.
Strike: line 11 in its entirety
Following: line 11
Insert: "$115,000,000 $124,000,000 $133,000,000 $257,000,000"

7. Page 3, line 17.
Following: "also"
Insert: "include the effects of federal income tax indexing, assume a continuation of Montana law as it existed on January 1, 1985, and"
Following: "are"
Insert: "otherwise"

8. Page 3, lines 18 through 20.
Following: "credits." on line 18
Strike: the remainder of line 18 through line 20

7

9. Page 4.
Following: line 2
Strike: line 3 in its entirety
Insert: "$17,385,000 $19,152,000 $17,877,024 $37,029,024"

10. Page 4, line 20.
Following: "estimates."
Insert: "The revenue estimates are further based on the following assumptions of production and price:

Tons of Coal

30,500,000	32,000,000	33,000,000	65,000,000

Price per Ton

$10.00	$10.50	$10.80	NA"

11. Page 4.
Following: line 21
Strike: line 22 in its entirety
Insert: "$31,680,000 $24,500,000 $23,833,333 $48,333,333"

12. Page 5, line 2.
Following: "demand."
Strike: "Although"
Insert: "Because a worldwide surplus of oil and because"

13. Page 5, lines 5 through 10.
Following: "prices" on line 5
Strike: the remainder of line 5 through line 10
Insert: "and production will decrease slightly throughout the biennium. The revenue estimates for oil severance taxes are further based on the following assumptions of price and production:

Barrels of Oil

28,800,000	28,000,000	27,500,000	55,500,000

Price per Barrel

$27.50	$26.25	$26.00	NA"

14. Page 5.
Following: line 11
Strike: line 12 in its entirety
Insert: "$25,505,417 $22,635,417 $22,083,333 $44,718,750"

15. Page 5, line 16.
Following: "notes"
Insert: in the amount of $38,000,000"
Following: "year."
Insert: It is further anticipated that $50,000,000 in tax anticipation notes will be sold in fiscal year 1986 and in fiscal year 1987."

16. Page 5, line 18.
Following: "account."
Insert: "The projected rates of return are 10.25% for fiscal year 1985, 10.25% for fiscal year 1986, and 10.00% for fiscal year 1987. The estimated revenues from interest on investments are based on the anticipated daily average investable amounts of $214,000,000 in fiscal year 1985, $175,000,000 in fiscal year 1986, and $175,000,000 in fiscal year 1987."

17. Page 5.
Following: line 19
Strike: line 20 in its entirety
Insert: "$37,634,000 $38,311,000 $40,261,000 $78,572,000"

18. Pages 5 and 6.
Following: "tax." on line 24 of page 5
Strike: the remainder of line 24, line 25 in its entirety, and line 1 on page 6 in its entirety

19. Page 6, line 2.
Following: line 1
Strike: "Assumption"
Insert: "Assumptions"

20. Page 6, line 4.
Following: "1987."
Insert: "It is further assumed that cigarette sales for fiscal years 1985, 1986, and 1987 will be 90 million packs each year. Revenue from tobacco sales is expected to be $825,000 for each fiscal year."

21. Page 6.
Following: line 5
Strike: line 6 in its entirety
Insert: "$24,155,000 $28,807,000 $33,736,000 $62,543,000"

22. Page 6, line 22.
Following: "1986"
Insert: ", then fall slightly for 1987. The anticipated interest rates on new long-term investments for 1985, 1986, and 1987, are 12.00%, 12.00%, and 11.75%, respectively"

23. Page 6.
Following: line 23
Strike: line 24 in its entirety
Insert: "$15,700,000 $16,195,000 $16,737,000 $32,932,000"

24. Page 7, line 1.
Following: "about"
Strike: "8%"
Insert: "5.5%"

25. Page 7.
Following: line 4
Strike: line 5 in its entirety
Insert: "$12,893,000 $14,800,000 $15,300,000 $30,100,000"

26. Page 7.
Following: line 16
Strike: line 17 in its entirety
Insert: "$4,850,000 $5,250,000 $5,200,000 $10,450,000"

27. Page 7.
Following: line 18
Strike: line 19 in its entirety
Insert: "$6,110,000 $6,322,500 $6,387,000 $12,709,500"

28. Page 7, line 25.
Following: "level."
Insert: "The revenue estimates for both liquor profits and excise taxes are further based on declines in unit sales of 3% for fiscal years 1986 and 1987, coupled with increases in prices of 6.5% in each of the fiscal years.

29. Page 8.
Following: line 1
Strike: line 2 in its entirety
Insert: "$6,624,000 $6,600,000 $6,800,000 $13,400,000"

30. Page 8, line 4.
Following: "on a"
Insert: "slight decrease from 1985 to 1986, then projected at a
Strike: "6%"
Insert: "3%"
Following: "collections"
Insert: "for the remainder of the biennium"

31. Page 8.
Following: line 7
Strike: line 8 in its entirety
Insert: "$1,660,000 $1,000,000 $1,000,000 $2,000,000"

32. Page 8, lines 16 and 17.
Following: "will" on line 16
Strike: "increase modestly"
Insert: "remain constant"

33. Page 8, line 20.
Following: "1986."
Insert: "The revenue estimates further assume no reopening of the Black Pine mine near Philipsburg, Montana."

34. Page 8.
Following: line 21
Strike: line 22 in its entirety
Insert: "$2,212,000 $2,273,000 $2,405,000 $4,678,000"

35. Page 9.
Following: line 7
Strike: line 8 in its entirety
Insert: "$861,000 $880,000 $899,000 $1,779,000"

36. Page 9.
Following: line 13
Strike: line 14 in its entirety
Insert: "$3,010,000 $3,160,000 $3,319,000 $6,479,000"

37. Page 9.
Following: line 18
Strike: line 19 in its entirety
Insert: "$1,175,000 $1,146,000 $1,096,000 $2,242,000"

38. Page 9, line 21.
Following: line 20
Strike: "growth"
Insert: "decline"

39. Page 9, lines 21 and 22.
Following: "about" on line 21
Strike: the remainder of line 21 and line 22
Insert: "2.4% for fiscal years 1985 and 1986. The rate of decline changes to 4.4% for fiscal year 1987 due to the change in the minimum drinking age.

40. Page 9.
Following: line 23
Strike: line 24 in its entirety
Insert: "$3,080,625 $3,142,238 $3,108,450 $6,250,688"

41. Page 10, line 1.
Following: line 25 on page 9
Strike: "remain at current levels"
Insert: "decrease slightly"

42. Page 10, lines 2 and 3.
Following: line 1
Strike: "Prices are expected to increase only moderately despite deregulation of all new gas on January 1, 1985."

43. Page 10, lines 3 and 4.
Following: "Prices" on line 3
Strike: "will increase only moderately"
Insert: "are anticipated to remain constant"

44. Page 10, line 6.
Following: "Canada."
Insert: "The revenue estimates for natural gas severance taxes are further based on the following assumptions of production and price for fiscal years 1985, 1986, and 1987:

Millions of MCF				
	46.5	46.5	45.0	91.5
Price per MCF				
	$2.50	$2.55	$2.55	NA"

45. Page 10, line 10.
Following: "about"
Strike: "6%"
Insert: "5.26%"

46. Page 10.
Following: line 19
Strike: line 20 in its entirety
Insert: "$14,474,000 $14,395,000 $15,387,000 $29,782,000"

47. Pages 10 and 11.
Following: "receipts." on line 24 of page 10
Strike: the remainder of line 24 on page 10 through line 3 on page 11
Insert: "The "other revenue sources" estimates are based on an average annual growth rate of 7%. Additionally, the fiscal year 1985 estimate includes a $1,000,000 addition for federal reimbursement for fighting forest fires."

48. Page 11.
Following: line 4
Strike: line 5 in its entirety
Insert: "$361,345,042 $364,919,155 $383,229,140 $748,148,295"

49. Page 11, line 8.
Following: line 7
Strike: "Ending"
Insert: "Beginning"

50. Page 11, line 9.
Strike: "$28,981,378"
Insert: "$35,097,000"

51. Page 11.
Following: line 9
Insert: "NONGENERAL FUND SCHOOL FOUNDATION PROGRAM REVENUE

1986-87 Biennium

$526,310,000

BE IT FURTHER RESOLVED, that the Legislature accepts for budget purposes the unreserved general fund balance of $35,097,000 prepared according to generally accepted accounting principles (commonly referred to as G.A.A.P.) as published in the audited state financial statements as of June 30, 1984.

BE IT FURTHER RESOLVED, that the Department of Administration and other state agencies are strongly urged to make timely accounting entries so that by June 30, 1985, the state budgeting and accounting system (commonly referred to as SBAS) unreserved general fund balance reflects records entered and maintained in accordance with generally accepted accounting principles.

BE IT FURTHER RESOLVED, that the Governor's Office of Budget and Program Planning is strongly urged to enter the revenue estimates contained in this resolution on the statewide budgeting and accounting system as the official revenue estimates for the general fund for fiscal years 1985-86 and 1986-87."

BACKGROUND PAPER: HB 652 (Switzer, Darko)

NET PROCEEDS PROPERTY TAX

The net proceeds property tax is primarily levied on oil & gas(not covered by this bill directly) and on mines producing vermiculite, bentonite, precious gems or stones, or other valuable minerals (except coal and metals).

The net proceeds tax is calculated by subtracting certain costs from gross proceeds. The allowable deductions as stated in 15-23-503 are

- royalties
- all moneys expended for necessary labor, machinery, and supplies needed and used in the mining operations and developments
- all moneys expended for improvements, repairs, and betterments necessary in and about the working of the mine - except as hereinafter provided
- all moneys expended for dosts of repairs and replacments of the mill and reduction works used in connection with the mine
- depreciation in the sum of 6% of the assessed valuation of such milling and reduction works...
- all moneys actually expended for transporting the ores and mineral products from mines to the mill or reduction works or to the place of sale...
- all moneys expended for insurance and welfare and retirement costs reported
- all moneys expended expended for necessary labor, equipment, and supplies for testing minerals extracted to satisfy federal or state health and safety laws...

Obviously, only those expenses directly and specifically related to necessary production can be deducted from gross proceeds in order to compute net proceeds. Once the net proceeds are calculated the county, school district and state mandatory mills are levied against the figure in order to obtain property tax revenue.

HB 652

HB 652 proposes to allow 2 more deductions when computing net proceeds. The effect of this will be to decrease the taxable value and tax revenue of local governments, school districts, etc. who rely on the property tax.

The two proposed deductions are:

1) "all moneys expended for mine reclamation (p.3 line 24)
2) "costs of office, clerical, and administrative services necessary to the operation of the mine or to the reduction or beneficiation process and performed in the vicinity of such operation or process (pg 3 line 25) these administrative costs will apply to .."superintending the management of such operations or of the office, clerical, and administrative services necessary thereto." (pg. 6, line 15)

The industry argues that both 1 and 2 are necessary expenditures in the operation of a mine and/or mill operation. However, there are problems.

ALLOWING A DEDUCTION FOR ADMINISTRATIVE COSTS IN THE VICINITY OF THE MINE

Who defines what constitutes necessary administrative costs? Historically, the state of MT has had many problems with Anaconda Copper over just this question. Anaconda Copper repeatedly attempted (when they were subject to net proceeds taxes before 1976) to include many administrative overhead costs incurred in N.Y. where the corporate headquarters were. The Company argued that these costs were necessary for the functioning of their MT operations. The state argued that deductions for net proceeds could only be taken for mine site related expenses. The latest instance of this dispute erupted within the last few weeks when a DoR audit found Anaconda owing around $14,000,000 in un-paid property taxes. A portion of these disputed un-paid taxes were connected to Anaconda's deduction of overhead costs incurred in N.Y.

HB 652 seems to re-invent these problems by allowing the mining corporations covered in 15-23-503 to deduct these administrative expenses. There are no criteria given to adequately define allowable administrative costs or to determine just what "in the vicinity of such operation or processes" means. There is no determination as to the exact meaning or extent of definition of " superintending the management of such operations or of the office clerical, and administrative services necesaary thereto." Examples of such problems: currently the costs for mine superintendants working at the mine site are allowed; but with HB 652 the costs associated with a general mine manager that works not only in MT but in ID, WY, ND, SD, etc, would be allowed. What portion of the costs associated with this general mine manager should be attributed to the MT mine? How could the MT DoR really check out the figures and determine the MT portion? Another example was provided by past Anaconda attempts to deduct overhead incurred in NY. Further, just what covers "in the vicinity"? Does it include a company employee just passing through?

ALLOWING A DEDUCTION FOR MINE RECLAMATION COSTS

The cost of mine reclamation is required by state and federal governments of the mining companies. The arguments for this deduction have yet to be worked out.

FISCAL EFFECTS & WHO BENEFITS

The 1983 taxable valuation associated with net proceeds of mines was approximately $7,400,000 extending over 12 to 14 MT counties. However, $4,200,000 of this was associated with one operation - the W.R.Grace vermiculite operation in Lincoln County. Thus the major share of the deductions proposed in HB 652 - about $1,050,000* taxable valuation - will be garnered by W.R. Grace. Indeed, the deduction of administrative costs incurred in the vicinity of the mine directly related to the cost of W.R. Grace's office in Libby. Moreover, the cost of W.R. Grace's offices outside of MT - particularly the Construction Products Division in Cambridge, MA - may also come into the picture if past Anaconda practices are any indication.

This tax benefit given to the mining companies by HB 652 may not lead to any increase in production or investment. With all the tax incentives given to corporations in 1981 the W.R.Grace rate of taxation fell to -1.8% of its profits. This means that W.R.Grace obtained a tax credit of 1.8% from the federal government. Yet, this did not lead to any increase in investments. Indeed, over this three year period W.R.Grace decreased its investment by 46.9%. Conversely, W.R.Grace increased its dividends to shareholders by 16.3%. While these are national company wide figures and may not be directly applicable to one mine operation it does provide an example of governmental experience with W.R.Grace and tax incentives.

Obviously, the costs associated with a 25% decrease in taxable value will be borne by other property taxpayers, local governmental services, school children, etc. For example, in Lincoln a 25% reduction in taxable value associated with W.R.Grace amounts to approximately $1,050,000** at 220 mills = about $ 231,000 in lost tax revenue!! Who will make up the difference? The mill levy will have to increase to make up for this loss and/or governmental and school services will have to be cut. In otherwords, HB 652 requires residential and commercial-industrial taxpayers to subsidize W.R.Grace operations.

---

* The DoR estimates that HB 652 will cost about 1/4 of the taxable value

** This estimate uses the proportion of WR Grace's taxable value in relation to that of all mines and applies this rate (56%) to the lost valuation due to HB 652; however, WR Grace's reduction could be more since its reduction could

HB 652: QUESTIONS

ASK INDUSTRY:

Define "administrative services necessary to the operation of the mine or to the reduction or beneficiation process..."

Define what constitutes "...superintending the management of such operations or of the office, clerical, and administrative services necessary thereto."

Does your definition of deductible include any costs associated with WR Grace's Construction Products Division in Cambridge, MA?

Define "...in the vicinity of..."

What guidelines does the industry propose to the DoR to define these terms and insure that there will be no future lawsuits over the definitions?

Will the proposed reduction in taxable value (and thus a tax decrease for WR Grace) mean an increase in the local mill levy in order to re-place the lost tax revenue?

Which taxpayers will have to pay the increased mill levy?

ASK DEPT. OF REVENUE:

Given your experience with property taxation and natural resource taxation can this bill be adequately administered to prevent future court cases by industry over the definition of allowable administrative costs and local vicinity?

How do you relate this bill to the Department's experience with Anaconda Copper and the definition of administrative costs?

MONTANA
ASSOCIATION OF
COUNTIES

1802 11th Avenue
Helena, Montana 59601
(406) 442-5209

TO: Representative Gerry Devlin
Chairman House Taxation

FROM: Gordon Morris
Executive Director

RE: House Bill 553

DATE: February 11, 1985

The Montana Association of Counties wishes to suggest an amendment to HB 553 by adding the following to line 24:

distributed in fiscal year 1981." Any tax jurisdictions created subsequent to fiscal year 1981 shall receive the fees in lieu of tax in the relative proportions of the levies for state, county, school district and municipal purposes. This shall constitute the new base year for distributions for all taxing purposes in each subsequent year.

Newly incorporated areas, towns and cities, will receive an allocation based on mills levied, but shall not exceed 65 mills. This shall constitute the new base year for distribution for all taxing purposes in each subsequent year.

GM/mrp

WITNESS STATEMENT

Name Mike Stephen

Address Helena

Representing MT Oil, Gas & Coal Co.

Bill No. HB 679

Committee On HB 679

Date

Support

Oppose X

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. Oppose using "net proceeds" with new industry.

2. net proceeds is a paramount share of the taxable value of many counties

3. Resource wealth is an important portion of a counties taxable base.

4. Use of this bill would shift taxes to other areas & other citizens.

Oppose HB 679.

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

FORM CS-34
1-83

WITNESS STATEMENT

Name T. M. Rollins

Address Troy Mt

Representing ASARCO

Bill No. 690

Committee On Taxation

Date 2-12-85

Support

Oppose X

Amend X

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. Double or Triple Taxes

2.

3.

4.

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

FORM CS-34
1-83

WITNESS STATEMENT

Name TAD DALE

Committee On TAXATION

Address Dillon

Date 2-12-85

Representing PFIZER INC

Support

Bill No. 690

Oppose X

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. RAISES RIT TAX by 32%

2.

3.

4.

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

FORM CS-34
1-83

WITNESS STATEMENT

Name Ken Williams

Committee On

Address 16 E. Granite Butte, MT

Date 2/12/85

Representing Western Energy Co

Support

Bill No. HB-690

Oppose X

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. Raises RIT tax for coal about 100%

2.

3.

4.

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

FORM CS-34
1-83

February 12, 1985

To: Members of House Committee on Taxation

From: James D. Mockler, Executive Director, Montana Coal Council
Gary A. Langley, Executive Director, Montana Mining Assoc.

Re: HB 690

During testimony on HB 690 the Department of Revenue asked that the RITT be clarified one way or the other. In view of those remarks we ask that you consider the attached amendments and statement of intent which clarify the statute as per DOR's request.

James D. Mockler

Gary A. Langley

Montana Coal Council
Montana Mining Assoc.

Amendments to HB 690

Page 1, lines 21-25: Delete

Page 2, lines 1-15: Delete

Page 3, line 8: Following "product"
Insert "at the point of"

Page 3, line 9: Beginning of line, reinsert
"extraction from the ground,"

Montana Coal Council
Montana Mining Assoc.

Letter of Intent

It is the intent of the Legislature that the Resource Indemnity Trust Tax be levied upon the value of the mineral at the point it is severed from the ground and prior to processing of any kind and also excluding taxes, fees and any other costs.

DEPARTMENT OF REVENUE

TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

HELENA, MONTANA 59620

February 14, 1985

COPY

Representative Gerry Devlin, Chairman
House Taxation Committee
State Capitol Building
Helena, Montana 59620

Dear Representative Devlin:

RE: Mining Industry Amendments to HB 690 -- RITT

The proposal from Mr. Mockler and Mr. Langley would grant major tax reductions, create loopholes, and would harm the Resource Indemnity Trust Fund and the Legacy Program. The proposal would go beyond even the erroneous 1974 rules in granting deductions and would exempt more producers from any Resource Indemnity Tax beyond the $25 minimum tax.

The proposed letter of intent would instruct us to grant deductions that have never been allowed under the tax. These are the problems:

A. "Taxes"

The letter of intent proposes a deduction for all local, state, and federal taxes: production, property, corporation, withholding, and other taxes. The proposal far exceeds any deductions previously allowed and greatly reduces revenue because:

1. No taxes of any kind have ever been deducted for oil and gas under this tax.

2. The mining industry was incorrectly allowed deductions for a part of production and property taxes. The letter of intent would allow deductions for these taxes plus: all remaining property and production taxes, corporation taxes, withholding taxes, federal taxes, and any other levies (new vehicle sales tax, fuel taxes, etc.). These latter items have never been deductible.

B. "Fees"

No governmental "fees" have ever been deductible, to our knowledge, under the RITT. The letter of intent would grant deductions for the first time for motor vehicle fees, permitting fees, and other fees. The term is so general we cannot even be sure what it includes. It appears to create an entirely new loophole.

C. "Other Costs"

This letter of intent does not limit deductible costs to "post-extraction" costs. It allows the deduction of all extraction costs: mining, drilling, or pumping costs. These items have never been deductible.

The amendment to the bill itself is a back door way of converting the Resource Indemnity Trust Tax from a gross tax to a net tax. This is contrary to the purpose of this tax because it exempts some producers from helping indemnify the state for losses from resource extraction.

The amendment is so broad, as evidenced by the letter of intent, that it threatens the existence of any meaningful Resource Indemnity Trust Tax.

Sincerely,

ORIGINAL SIGNED

John D. LaFaver
Director

JDL/ddc

cc. Alice Omang, Committee Secretary

VISITORS' REGISTER

TAXATION COMMITTEE

BILL NO. HOUSE BILL 690 DATE February 12, 1985

SPONSOR REPRESENTATIVE BARDANOUVE

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Tom Ebzery	Billings		X
Janelle Fallan	Helena		X
Dot Wilson	Billings		X
Jim Mockler	Helena		X
Tom Hudak	Mt. Assn. of Counties	—	—
Ken Williams	Butte, MT		X
Ward Shanahan	Helena		X
Larry Fasbender	DNRC	X	
John Fitzpatrick	Helena		X
JEROME ANDERSON	BILLINGS		X
[illegible]	Helena		X
Mary A Lang[illegible]	MT. MINING ASSN		X
WILLIAM J. ROBINSON	BUTTE, MT		X
Mike Micone	WETA		X
Don Reed	MEIC	✓	
Jeanne-Marie Souvigney	NPRC	X	
Don Hoff	Dept. of Rev.	X	
Jim Smolik	Whitehall, Mt.		X

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

TAXATION COMMITTEE

BILL NO. HOUSE BILL 679 DATE February 12, 1985

SPONSOR REPRESENTATIVE D. BROWN

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Janelle Fallan	Helena	X	
D. Van De Graaff	Helena	X	
Mike Stephen	Helena		X

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

CS-33

VISITORS' REGISTER

TAXATION COMMITTEE

BILL NO. HOUSE BILL 800 DATE February 12, 1985

SPONSOR REPRESENTATIVE
COMMITTEE BILL

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
JOHN W. NORTHEY	OLA - HELENA	✓	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

TAXATION COMMITTEE

BILL NO. HOUSE RESOLUTION2 DATE February 12, 1985

SPONSOR COMMITTEE BILL

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
JOHN W. NORTHEY	OLA - HELENA		

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.