

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

March 22, 1985

The forty-seventh meeting of the Taxation Committee was called to order by Chairman Gerry Devlin at 8:08 a.m. in room 312-1 of the state capitol.

ROLL CALL: All members were present with the exception of Representative Iverson, who was absent. Also present were Dave Bohyer, Researcher for the Legislative Council, and Alice Omang, secretary.

CONSIDERATION OF HOUSE BILL 287: Representative Jack Moore, Great Falls, stated that in 1981, the legislature increased the business investment tax credit to 3% and in 1983, it was reduced to 1/2% and this bill proposes to increase the credit to 30% of the federal credit and raises the ceiling amount of credit that may be claimed. He contended that the provisions of this bill will help the business people of this state - those that have the incentive to expand and this creates primary and secondary jobs.

PROPOSERS: Janelle Fallon, representing the Montana Chamber of Commerce, distributed to the committee Exhibit 1 and explained this to them.

Joe Weggenman, representing the Helena Chamber of Commerce, said that they view this as an incentive to keep small business in business and they support the bill.

Jeff Poitier, representing the Missoula Chamber of Commerce, commented that this is an excellent bill to help business to expand and urged a do pass.

There were no further proposers.

OPPOSERS: John LaFaver, representing the Department of Revenue, stated that they oppose this bill and he wondered what the reaction of appropriations would be if he brought down a \$16.8 million spending item on top of everything else.

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Don Judge, representing the Montana AFL-CIO, indicated that they oppose this bill and the only place to make up this difference is with property taxes, income taxes or plugging loopholes.

Louis Kunz, representing the Montana Low Income Coalition, offered testimony in opposition to this bill. See Exhibit 1-A.

There were no further opponents.

QUESTIONS ON HOUSE BILL 287: Representative Sands asked Mr. LaFaver what his views would be if the state did have enough money.

Mr. LaFaver replied that based on the evidence they have had over the past three years of accelerated recovery of investment tax credit, the weight of evidence shows that it does not spur economic development in the way the proponents would have the committee believe. He continued that there is evidence that firms that received some of the major tax cuts in 1981 actually have decreased their investments. He feels that business invests because the markets are there.

Representative Williams asked Ms. Fallon if she could come up with some figures to tell them how many jobs have been created and the effect on the economy due to the investment tax credit.

Ms. Fallon responded that she would be happy to work on some figures, but they have to realize that it is difficult to determine this one figure in a vacuum and the nation is recovering right now from a national recession and there are a lot of factors that have to be taken into account.

Representative Patterson asked if they have not seen a lot of businesses in the last few years taking chapter 11 and chapter 13.

Ms. Fallon replied that she cannot give those respective figures, but there has been a lot of them.

Representative Patterson asked if this was not a trend in Montana and a trend across the nation.

Ms. Fallon answered that it is her opinion that things are rougher in Montana than in the nation.

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Representative Raney asked what programs should be eliminated or how should taxes be increased to fund all the tax breaks that they have been advocating.

Ms. Fallon said that most of the time she has appeared before this committee was to oppose tax increases and there indeed has been a good amount of growth in state government, but she could not specifically name programs.

There were no further questions.

Representative Moore stated that the negative attitude of some of the people in this state is what has caused some of the problems they are having today. He offered an amendment to this bill. See Exhibit 2.

The hearing on this bill was closed.

CONSIDERATION OF SENATE BILL 280: Senator Bob Williams, District 15, offered testimony in support of this bill. See Exhibit 3.

PROPOSERS: Representative Ernst, District 29, testified that they have tried to get a bill through to get some revenue from this mine and they are asking that they tax a non-renewable resource that will be gone in years to come. He explained that their commissioners said that they have never received any taxes under the net proceeds tax.

Don Hoffman, representing the Department of Revenue, advised the committee that they worked with them in developing this bill and they looked at several alternatives. He explained how they came up with this bill and indicated that they are not trying to get the small miner or the weekend digger in this bill.

Gary Langley, Executive Director of the Montana Mining Company, said that this simply transfers the tax on gemstones from a net proceeds tax to a gross proceeds tax. He acknowledged that they do not have any problem with it as long as it has the \$40,000.00 exemption. He cautioned that this is a precedent-setting bill and if they attempted to place other producers of minerals from a net proceeds to a gross proceeds, they are going to have a fight on their hands because they would not tolerate that.

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There were no further proponents.

OPPONENTS: Harry Bullock, Chairman of Intergem, the company that owns and operates the yogo sapphire mine near Utica, offered testimony in opposition to this bill. See Exhibit 4.

Mary Bielenberg, Hamilton, stated that she and her daughter own a sapphire mine in Granite County. She gave testimony in opposition to this bill. See Exhibit 5. She declared that she was terribly disappointed with the position of the man representing the Montana Mining Association and at the next election, she will see that he is voted out.

Alan Hart, owner of the El Dorado Sapphire Mine, northeast of Helena, offered Exhibit 5-A in opposition to this bill.

Lynn Seely, Great Falls, and representing Intergem, focused on the structure of this tax and how it would harm the producers and miners of this industry. He said that this would impose a tax on gross carats at the mining site and ignores value and it is not fair to tax worthless dust and worthless carats because of flaws. He advised that it also ignores the fact that it takes so much to turn a stone into a gemstone and he concluded by saying that this state is rich in resources, but is poor in capital for investment.

Cleatus Sypult, a small mine owner, gave a statement in opposition to this bill. See Exhibit 6.

Dick Tablin, current owner of Gem Mountain in Phillipsburg, stated that they were principally a tourist operation and attract approximately 20,000 people a year. He said that they were concerned because the cost would have to be absorbed and there is not much money in the sapphire business.

Russ Thompson, from the Castles Sapphire Mine, gave a statement in opposition to this bill. See Exhibit 7.

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Leroy Battershell, Helena, stated that there was a misunderstanding as to what is a gemstone and what is not. He held up an agate about the size of his fist and informed the committee that this is a gemstone and weighs about 2,000 carats; and he contended that to tax an agate is a little ridiculous. He informed the committee that a gemstone is any stone that can be cut or polished and is normally worn for adornment.

Willis Leaf, Helena, advised the committee that he was a rock hound and in his lifetime he will never take \$40,000.00 in gemstones, but there are approximately 57,000 tourist days of tourists that come to these areas and they have to buy gas, they all have to eat and they all have to have someplace to stay and there is much more revenue from the tourists than you could possibly get from the sapphires.

Beverly Tyson, Helena, informed the committee that she runs a small business and cuts sapphires and she indicated that this bill would put a lot of them in a very bad position and would take business away from them.

There were no further opponents.

QUESTIONS ON SENATE BILL 280: Representative Zabrocki asked which would be more valuable - a sapphire of one carat or a diamond of one carat.

Mr. Bullock replied that the value of precious stones go in the order of diamonds, emeralds, rubies and then sapphires are quite a ways down.

Chairman Devlin entered into the record Exhibit 8, which is a mailgram from Robert Bogensberger, President of North American Mining Company.

Representative Harp noted that George Bennet had testified in connection with HB 690 on the difference between gross and net proceeds and he asked him if they would be in conflict if they passed this bill.

Mr. Bennett, a lobbyist for the W. R. Grace Company, replied that the metal mines have been on a gross proceeds since the 70s, but the nonmetallic mines have been

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on a net proceeds for several years. He continued that it was his understanding that because most of the metal mining was done in Silver Bow County, that this was a compromise to alleviate the fluctuation on these mines and he did not think there would be a conflict any more than there would be a conflict presently between the nonmetallic paying on net proceeds and the metallics paying on the gross proceeds.

Representative Patterson asked Representative Ernst if this mine had not had some trouble in the past where it has been sold and been left vacant or has it been continually a thriving, productive business.

Representative Ernst explained that it has been very intermittent; it was owned by an English corporation years ago and he did not know if anything was taken out at that time; it had been down for a number of years and he did not know the exact dates, but the last ten to twenty years the developers have purchased that site and tried to develop it off and on. He continued that he would give credit to Bullock for the last few years, he has tried to make it a viable operation - he has the mine there, a payroll and everything in the summer months and there is property on that - they do not deny that - it just is that this is a method of taxation on the gems themselves. He informed the committee that the county has watched this, the assessors have watched it and they were directed by them to go to the Department of Revenue to get this gross proceeds tax on them. He indicated that it has been the concern of the county for years that there has been no net proceeds paid.

Representative Patterson asked if they knew what a Montana agate was worth and should they be taxed.

Representative Ernst responded that this was new to him and he was not aware of the agate being in there.

Representative Keenan said to Gary Langley that she has heard him talk so much about marginal dollars on production and with this bill, they would be putting a lot of people in trouble and she asked him the logic of being a proponent.

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Mr. Langley answered that he simply said that the Montana Mining Association would not be in objection to this bill; it is pretty hard for him to argue logic when the metal mines and the nonmetal mines are paying proceeds tax to the county and if he felt that this tax was unfair, he would be the first one in there to complain about it. He explained that he could not find a logical basis by which to object to this tax. He added that Senator Williams and he worked very hard on this bill to place an exclusion on it for folks who are marginal producers and there is the exemption of \$40,000.00.

Representative Asay referred to page 3, line 19 of the bill and asked if the mines would have to keep track of all the people and how much they got in order to keep track of the \$40,000.00 exemption.

Senator Williams responded that he would leave that up to the Department of Revenue.

Mr. Hoffman explained that the person extracting the gemstones is the person who is going out there and sifting through the dirt and that would be the person who is extracting the mineral from the mine. He indicated that there was no way for them to police this but under present law, they would be required to file and they are not filing and he found it quite interesting to find that there are people here testifying today that he did not think they were getting returns on so he cannot see if it is just moving from a net proceeds to a gross proceeds how it is going to place a new tax on these people.

Representative Asay asked if they would be excluding all these tourists.

Mr. Hoffman responded, "Exactly. In order to police this, you would have to have someone sitting out there with a car with a book writing down license numbers or something."

Representative Asay referred to page 5, line 10 and asked if this was a procedure to file this kind of a tax lien.

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Mr. Hoffman answered that this was standard language in the oil and gas net proceeds act.

Representative Asay asked him if he had an opportunity to look at the amendment.

Mr. Hoffman pointed out that there is a net proceeds return in there and that return reports 123,014 carats being extracted and he finds it interesting that, all of a sudden, now those are not extracted carats any more and they no longer feel they should be reporting those. He said that he has not taken a look at the amendments for a while.

Chairman Devlin asked how the department was going to determine the values of this material as it varies so much.

Mr. Hoffman responded that it is going to be based upon an arms-length transaction - a transaction where these carats are being sold in a rough form and they were speaking to a miner the other day and he sells all of his stones in a rough form and he sells them for 10 cents a carat and in that instance, he would have to sell 400,000 carats to become taxable. He continued that in the information that Mr. Bullock handed out, he is reporting on \$4.00 per carat and that was something that Mr. Bullock and one of my predecessors in the department worked out as a reasonable value.

Mr. Bullock said that is not so and he did not know where that came from.

Mr. Hoffman said that it was his understanding that Mr. Bullock and someone from the Miscellaneous Tax Division had sat down and discussed the value of the rough sapphires as they came out of the mine and he will go back to that person and talk to him and find out what was done.

Chairman Devlin replied that he would like that information and he asked Mr. Bullock if he recalls how this figure was set at \$4.00 per carat.

Mr. Bullock declared that he personally was never involved in establishing any \$4.00 price and in 1980, the Department of Revenue came to them and asked what is the basis that they feel they should be taxed on and he said that he did not know and a short time later, the Department of Revenue said they would base the net proceeds tax on \$4.00 a carat. He stated that they had no objection to that if it were a net proceeds tax and by the time they get past the point where they are making any money, it would be alright.

Representative Raney noted that in the metal mines, every bit of that ore is property, such as gold, silver or copper mines, but, in this case, if they mine 100,000 carats, maybe only 15 to 20,000 of those carats are merchantable and he asked how this would compare with a metal miner.

Senator Williams responded that as far as a lawsuit is concerned, he would have no idea, but it came out of senate taxation and there were several lawyers in there and there was a good discussion on this and a good discussion on the floor of the senate and that question was never brought up. He commented that he would seriously doubt it.

Representative Sands asked, as a matter of tax policy, why are they taxing some on net proceeds and some on gross proceeds.

Mr. Hoffman responded that back in about 1977, the legislature took a look at the metal mines at that time and principally the only mines at that time in Montana were gold mines and the Anaconda Company in Silver Bow County, and there was a fluctuation up and down in the valuation of the tax. He explained that in 1979, the net proceeds went below zero as there was a loss in mining operations and Silver Bow County was deprived of their tax base so they requested that they go to gross proceeds. He indicated that was his understanding of why metal mines were taken out of net proceeds. He said he could not answer why coal was put on net proceeds.

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Representative Sands asked what deductions they are allowed under the net proceeds tax.

Mr. Hoffman explained that because of the way the law was originally written back in the 20s, they always get into a discussion of what is deductible under the net proceeds law - what are direct mining costs - and that is one of the primary reasons the gross proceeds seems to be beneficial to everyone as it establishes what the tax is going to be rather than a fluctuation.

Representative Sands asked if he was saying that there is really no rationale for distinguishing between coal, metallic and gemstones and that we should go to a gross proceeds on all of them.

Mr. Hoffman replied that he was not the one to set tax policy but from an administrative point of view, gross proceeds tax is easier to administer.

Representative Sands asked the same question of Mr. Langley, who responded that he would hope this bill was not precedent-setting and it should not be because nonmetallic producers prefer a net proceeds calculation tax. He advised that they had a bill in here that clarified production on the net proceeds mine tax.

Representative Sands said that he wanted to know the rationale between gemstones and nonmetallic mines - if it is appropriate for them, why not for the other.

Mr. Langley responded that he was not saying it was appropriate for gemstones and he contended that the basic problem is that his testimony is being misconstrued that he was a supporter of this bill and he wanted to make it clear - he is not a supporter of this bill - he does not like this bill - but the Montana Mining Association cannot logically object to this bill.

Representative Sands asked, if he were not objecting to this bill, why would he object to doing the same thing to other nonmetallic mines.

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Mr. Langley replied that he may not - he would have to see the bill.

Representative Williams said that he was out to the Castles Sapphire Mine and he bought a sack of gravel for \$25.00 and when they are selling gravel under those conditions, how do they establish the gross value of that gravel.

Mr. Hoffman responded that there would not be any, because he was extracting the gravel and there is no way to police that. He noted from the purest point of view, he (Representative Williams) should be reporting that but there is no way for them to police that.

Representative Williams said that his wife found a stone worth \$1,000.00 and do they get the \$40,000.00 exemption.

Mr. Hoffmand replied that they would.

There were no further questions.

Senator Williams said that he was afraid that there is a misunderstanding as to who would be affected and he could not see what it is going to do with the tourist business in Montana as a mine has to mine \$40,000.00 worth of gross proceeds. He contended that for many years there has been no proceeds out of that sapphire mine and this is what they are trying to come up with is somehow to end up with a little bit of value from this operation. He indicated that he appreciates what is going on at the mine there - it creates jobs and he thought there was one person there right now. He said a definition of gemstones was asked for and he would not know how to define gemstones any more than he would know how to define trees. He mentioned that Mr. Bullock said that the article in the Wall Street Journal was not accurate and he contended that he did not give the information to the Wall Street Journal - that came from Mr. Bullock's office. He noted that one of the proposals that was offered was that they pay so much a carat and the companies should be willing to pay a tax of \$10.00 on any stone over one carat, when it was sold. He continued that if you look further in some of the information, you will find out that their inventory is there and they have six of those stones on hand and with the county's

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share and the state's share, someday they should get \$60.00.

The hearing on this bill was closed; and the chairman called a recess at 10:04 a.m.

The meeting reconvened at 10:14 a.m.

CONSIDERATION OF SENATE BILL 400: Senator Yellowtail, Senate District 50, stated that the ethanol industry presents an exciting promise for Montana and this bill clarifies the existing statute and it enhances the marketability of ethanol.

PROPOSERS: Steve Brown, representing PLM Financial Services, Inc., gave testimony in support of this bill. See Exhibit 9.

Representative Rapp-Svrcek, District 51, offered some amendments to the bill. See Exhibit 10. He explained the amendments and said that the ethanol production industry uses renewable resources and has a great potential in this state.

John Brunbeck, representing the existing producers of ethanol in the state, offered Exhibit 11 for the committee and gave some background information as to what has been done in the past.

Gary Wicks, representing the Montana Highway Department, stated that they have been in opposition to all the other gasohol bills and the difference is that with this bill, they get some assurance of how much will come out of the earmarked funds. He indicated that they support the bill, but they do not support the amendments with the exception of the cap amendment.

Don Allen, representing the Wood Products Association, said that they support this bill along with the amendments provided by Representative Rapp-Svrcek. He advised that they think this is an excellent opportunity for development of a new market for a renewable resource industry.

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Ron Johnson, a rancher and cattle feeder from Dillon, offered testimony in support of this bill. See Exhibit 12.

Lavina Lubinus, representing Women Involved in Farm Economics, gave a statement in support of this bill. See Exhibit 13.

Representative Howe, District 99, said that she was appearing in favor of this bill and submitted a letter from Donald Stewart, Sr. of the Crow Tribal Council. See Exhibit 14.

Woody Shore, representing the Hardin Chamber of Commerce, emphasized the benefits to the local area. See Exhibit 14-A.

Diana Scheidt, representing the Hardin Chamber of Commerce, advised the committee of the total barley production. See Exhibit 15.

Rodney Svee, representing the Hardin Public Schools, advised the committee of the benefits to the state of Montana. See Exhibit 16.

Bill Hemminos, representing the City of Hardin, informed the committee of the municipal services. See Exhibit 17.

Larry Fox, Supervisor of the Big Horn Conservation District, presented Exhibit 18 to the committee.

Marg Green, representing the Montana Farm Federation, stated that they were strongly in favor of this bill as it encourages the use of renewable resources and looks to the future.

Representative Hanson rose as a proponent on this bill.

Bruce Kania, President of A. E. Montana, Inc., Amsterdam, expressed their strong support for the amendments offered by Representative Rapp-Svrcek.

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There were no further proponents.

OPPONENTS: There were none.

QUESTIONS ON SENATE BILL 400: Representative Raney asked about the subsidy.

Senator Yellowtail replied that as he understood it, the subsidy would be paid quarterly, so based on the quarterly production of each plant, they will receive a portion of that share. He indicated that he would have to resist any further compromise on a per-plant cap.

Representative Raney asked what would happen if there were a lot more applications to divide up the \$2.5 million than this would allow for and how would they decide who would get it.

Norris Nichols, representing the Department of Revenue, replied that they would have to divide it by a rules procedure unless the legislature put something in this bill to divide it up.

Representative Harp asked how long can they subsidize dollars until this industry can stand on its own two feet and his concern is that any industry can survive with these kinds of subsidies.

Mr. Wicks replied that he is not an expert on the gasohol industry and his concern is on the highway earmarked account and in this they are looking at real clear caps and the subsidy program ends.

Representative Asay asked if there was not a contract for electricity for Montana Power and Senator Yellowtail replied that that is correct.

Representative Asay asked if this outfit in Hardin is comfortable with the termination of this program.

Senator Yellowtail said that is the understanding they are operating under - the program will terminate in 1989

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and when PLM comes on the line, the subsidy will already have been reduced to 30 cents.

Representative Williams asked what his reaction was to the proposed amendments.

Senator Yellowtail replied that he had no problems with the amendments except the lowering of the cap and he thought that was unrealistic as they are talking about a substantial investment in Montana.

Representative Ellison asked what is the maximum production of that plant.

Senator Yellowtail answered that it would be 10 million gallons per year per plant.

Representative Ellison asked if he would resist an amendment to allocate the funds so that if claims were over \$2.5 million, that they would be distributed evenly across the board.

Senator Yellowtail responded not if they were tied to proportional production and that would be the same effect as had already been pointed out.

Representative Williams asked Mr. Brown if he could give them the dollar-and-cents difference if they leave the law as it is right now and if they passed this bill without the amendments.

Mr. Brown explained that this bill only changes the law in allowing exported ethanol to be eligible for the tax break and if they had \$3 million worth of production in Montana, there would be \$1.5 million spent on the subsidy, but it would have to be sold in Montana to be eligible for the subsidy under existing law, but there is a case in dispute right now where there are legitimate questions as to whether exported ethanol would be eligible for the subsidy. He said that they did not want to build a \$60 million plant and not have that question answered.

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Representative Patterson asked if this was not part of the "Build Montana" program.

Senator Yellowtail responded that he thought they were applying for it.

Mr. Brown said that they are applying for another program but they probably would not qualify and they can only loan up to \$1 million and they have expressed no interest in it at all.

There were no further questions.

Senator Yellowtail said that they would like to have a much more ambitious subsidy, but they are trying to strike a realistic balance. He contended that the development of this industry is going to return far more to the state in terms of revenue and economic growth than what the tax is going to be.

The hearing on this bill was closed.

CONSIDERATION OF HOUSE BILL 937: Representative Fritz, testified that this bill would tax intangible property instead of tangible property and it would put a tax on stocks and bonds. He informed the committee that this tax was taken off the tax rolls in 1973 and this bill will put it back on the tax rolls.

PROPOSERS: Don Judge, representing the Montana State AFL-CIO, indicated that taxation of tangible property is paid by the working people and if you have \$10,000.00 and invest it in a home, you are taxed; but if you have \$10,000.00 and invest it in stocks and bonds, you are not taxed.

Senator Towe stated that this bill should be used to reduce property taxes on residential property as property taxes are going too high on homes.

There were no further proposers.

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OPPONENTS: George Bennett, representing the Montana Bankers' Association, gave testimony in opposition to this bill. See Exhibit 19.

Beverly Soules, representing herself, offered Exhibit 20 to the committee.

Bruce MacKenzie, representing D. A. Davidson, gave a statement in opposition to this bill. See Exhibit 21.

Clark Pyfer, a C.P.A. and representing himself, said that this tax is discriminatory and he was around when they had this tax and only one person paid on it in Jefferson County.

Mike DaSilvia, representing G. T. Murray Company, pointed out some things in the bill that would make it unworkable and urged the committee to kill the bill.

Janelle Fallon, representing the Montana Chamber of Commerce, wanted to be on record as opposing this bill.

John Cadby, representing the Montana Bankers, said that the reason this bill will not work now and would not work then is that you can't move land and buildings, but you can move money all over and there is no mechanism for enforcement.

Mike Zimmerman, representing the Montana Power Company, gave a statement in opposition to this bill. See Exhibit 22.

John Alke, representing the Montana-Dakota Utilities, stated that this tax would be utter nonsense and this would be the third tax on these intangibles and he contended that you don't live in them and you don't farm them.

There were no further opponents.

QUESTIONS ON HOUSE BILL 937: Representative Raney noted that the biggest problem is that this will tax money that has already been taxed.

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Representative Fritz replied that this happens all the time - it happens when you invest in a home.

Representative Ellison noted that this would be deposited in the general fund and Mr. Judge alluded to property tax.

Mr. Judge replied that he understands there are some amendments to distribute this back to the local areas.

Representative Patterson gave an example of an older woman who sold her home, invested in stocks and bonds to take care of her in a rest home and in this bill, it says that if she fails to report that, they are going to come back and take her real estate, but she has already sold that so how is this woman going to pay for that.

Representative Fritz responded that the bill does exempt official retirement plans and he thought the committee should consider exempting small amounts of stocks and bonds amounting to about \$10 to \$15,000.00.


There were no further questions.

Representative Fritz distributed to the committee some proposed amendments. See Exhibit 23.

The hearing on this bill was closed.

ADJOURNMENT: There being no further business, the meeting adjourned at 12:08 p.m.


GERRY DEVLIN, Chairman


Alice Omang, Secretary

DAILY ROLL CALL

HOUSE TAXATION

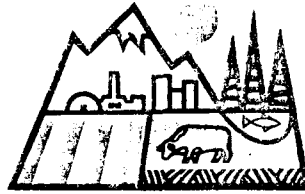
COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date _____

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

Exhibit 1
HB 287
3/22/85
Janette Fallon



MONTANA CHAMBER OF COMMERCE

P. O. BOX 1730

• HELENA, MONTANA 59624

• PHONE 442-2405

IMPORTANCE OF SMALL BUSINESS TO MONTANA

The majority of new jobs come from the birth and expansion of independent corporations.

Small firms contribute crucially to new job creation.

Seventy-five per cent of private employment in Montana is in firms with fewer than 50 workers .

More than 60 per cent of private employment growth from 1970-1976 in Montana came in small firms.

The ability of small firms to add new jobs has increased, relative to large business.

Nearly all industries were at one time the result of one individual's efforts.

Ninety-two per cent of the businesses in Montana have fewer than 20 employees.

Montana has the second highest number of small businesses per capita (Wyoming is higher) of any state in the nation.

Will Cuts in State Taxes Stimulate Montana's Economy?

By Bruce L. Benson

(Benson is an Associate Professor of Economics at Montana State University and an associate with the Political Economy Research Center.)

With every legislative session, the debate over the impact of state taxes on economic activity resurfaces. Do taxes influence decisions to expand or contract business operations? Business people answer with a resounding "YES," offering as evidence the fact that high tax burden states such as New York and Massachusetts have lost large numbers of businesses and hundreds of thousands of jobs to low tax burden states like Texas.

On the other hand, many studies by "experts" (mostly economists) disagree. These studies conclude that after all other factors which influence business location and expansion decisions are considered (differences in wages, unionization, and energy costs), interstate shifts in economic activity cannot be attributed to tax differentials. On this basis, "experts" advise state legislators not to be concerned about taxes when devising their development strategies. For example, a report from the Council of State Planning Agencies recommends the following: "States should resist the temptation to cut business taxes in order to stimulate development. Reduced business taxes have little effect on location or investment decisions."

Such studies, however, have one major flaw: they consider the impact of state taxes on economic activity in a given year. However, it obviously takes business people time to react to changes in relative tax levels. Rarely does a business simply close in one state and open in another following a tax change. Firms gradually phase out a relatively costly operation while simultaneously initiating or expanding production at a lower-cost site.

To correctly assess the impact of state taxes on a state's economy a colleague and I considered one year's economic activity in light of taxes in previous years. We accounted for interstate tax competition by considering each state's tax collections as a fraction of state personal income relative to competing states. Recognizing that a high tax state can experience similar or even greater levels of economic development if other location advantages exist, we controlled for many other interstate differences.

Our estimation procedure was designed to account for the lagged impact of taxes on economic development measured in terms of capital investment. As with previous studies, we found that the immediate impact of a change in a state's taxes relative to its competitors is slight. However, the lagged impact of previous years' relative taxes is highly significant with approximately half of a change in the relative tax position of a state felt more than two years later. For every one per cent increase (decrease) in a typical state's tax relative to other states, capital expenditures in that state fall (rise) by 1.02 per cent over the next six years.

These results suggest two points legislators should consider. First, a brief tax incentive or a temporary rebate may send a very different signal to business than a permanent tax cut.

Second, an alternative approach for building Montana is to cut or eliminate more taxes. Governor Schwinden's programs generally involve considerable spending by the state government paid with tax revenues, but these taxes are counter productive to the very goals that the "Build Montana" programs are intended to achieve. Reducing tax rates can increase economic activity over the next half dozen years and raise the tax base considerably.

The bottom line is that taxes do make a difference. New York tried to support high levels of public services and found that high state taxes were driving away their tax base. They are now considering substantial tax reductions and very painful service cuts to try to prevent further losses. Any state whose taxes get too far out of line with those of its competitors can expect to face a similar dilemma. Montana may be in that situation.

(This piece was taken, by the author, from a 40-page paper on the same subject. Minor editing has been done on this piece by the Montana Chamber.)

Exh. b. 1-A
HB 287
3/22/85

WITNESS STATEMENT

NAME LOUISE KOPUZ BILL NO. HB 287
ADDRESS ~~287~~ 107 LAURENCE DATE _____
WHOM DO YOU REPRESENT? MT LOW INCOME COALITION
SUPPORT _____ OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments: WE OPPOSE HB 287. MT. has been very willing to give business incentives yet we have seen very little job development. While there has been a steady erosion of our tax base that enables us to give a living incentive to those affected by unemployment.

This bill will ~~mean~~ mean a 8 million loss to the Gen. Fund that is already coming up short to meet human needs.

We URGE A DO NOT PASS ON THIS BILL

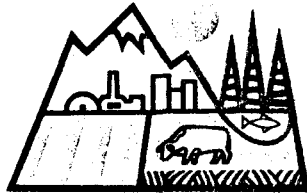


Exhibit 2
HB 287
3/22/85
Rep. Moon

MONTANA CHAMBER OF COMMERCE

P. O. BOX 1730

• HELENA, MONTANA 59624

• PHONE 442-2405

Amendments to HB 287

P. 1

line 6
delete 30
add 10

P. 2

line 6
delete 30%
add 10%

P. 5

line 6
delete 30%
add 10%

(2)

(5)



The Big Sky Country

MONTANA STATE SENATE

Exhibit 3

SB 280

3/22/85

Sen. B. Williams

SENATOR BOB WILLIAMS

SENATE DISTRICT 15

BOX 338
HOBSON, MONTANA 59452
PHONE: (406) 423-5418

COMMITTEES:

AGRICULTURE, LIVESTOCK & IRRIGATION
BUSINESS & INDUSTRY
HIGHWAYS & TRANSPORTATION

This bill came to be at the request of the Judith Basin County Commissioners. One commissioner is new, one a veteran of two terms, and the third has been in the office for over 20 years. The significance of this is that none of the Commissioners -- or any of the people in the Court House can remember of the county ever receiving a penny on the gemstones taken from the Yogo Sapphire mine. The promises have always been, they would pay a real generous tax on the profit when and if that day should ever come. It never has and it never will come to be under the present operation. That is why we are asking for a mine/mouth tax per carat on the precious gems before they leave Montana.

A few facts-----If my information can be counted on. They are the Great Falls Tribune, Wall Street Journal, a gem stone trade magazine and Intergem, Inc's own reports.

Of the several sources I've studied I seem to have a problem understanding and following the reports given by Intergem, that are usually signed by a "Harry Bullock".

I have reason to believe that SB 230 somehow caught his attention. He has been here at the Capitol at least twice in the last month. (He lives in Colorado) Some of my problems in understanding Intergem's problems are: on Bullock's testimony at a hearing before the Taxation Committee on February 12th, he stated that this approximately 50 cent per carat tax would increase the cost of producing from \$53.27 per carat to \$75.90. I kinda had the idea he felt we weren't too swift at arithmetic



The Big Sky Country

MONTANA STATE SENATE

SENATOR BOB WILLIAMS

SENATE DISTRICT 15

BOX 338
HOBSON, MONTANA 59452
PHONE: (406) 423-5418

COMMITTEES:

AGRICULTURE, LIVESTOCK & IRRIGATION
BUSINESS & INDUSTRY
HIGHWAYS & TRANSPORTATION

2.

and almost put it in the back of my mind until Mr. Bullock came back to visit a couple of weeks ago and his guess-ti-mate this time (which was on a handout he gave to Taxation Committee) was an increase of from \$53.27 up to "around \$90,00 per carat. Now, I don't believe that even the most liberal, far out bureaucrat in the federal government would try to slip a 50 cent increase past us with an inflated price of \$36.23. Now this little differential caused me to really start digging and I came up with several pages of interesting information. I'm sure you would like to have me read it to you, word for word, but because of the lack of time I'll just hit a few high spots.

#1 Mr. Bullock first appeared on the scene at the Yogo sapphire mine in 1969 and is still involved today and signs the reports as Chairman of Intergem, Inc.

#2 Now, Intergem, Inc. was formed on March 25th, 1983, the result of a merger between Newport Oil & Gas, Inc., a Nevada corporation that organized way back in January, 1981, and Intergem, LTD, a Colorado partnership.

#3 Now here I'm a bit confused and wish ~~somehow~~ I could contact a gemstone company geneologist, if there is such a person because I can't figure out where the LTD part joined the Intergem part, but maybe that was one of the 5 times in the past few years the name of the company has changed. Now for you folks with a computer type mind and like to keep



The Big Sky Country

MONTANA STATE SENATE

SENATOR BOB WILLIAMS

SENATE DISTRICT 15

BOX 338
HOBSON, MONTANA 59452
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COMMITTEES:

AGRICULTURE, LIVESTOCK & IRRIGATION
BUSINESS & INDUSTRY
HIGHWAYS & TRANSPORTATION

3.

things legal I just have to take a minute to read a section from Intergem Inc., Notes to Financial Statements

READ FROM PAPER

#4 Intergem claims to be a development-stage mining company for both financial statement and tax purposes, whatever that means. Sapphires were mined and sold from this mine before the turn of the century. Only the good Lord could give a good estimate as to how many million carats of sapphires have come from this mine. Mr. Bullock has been involved in one way or another for 15 years and Intergem (something or the other) has been sending in reports to the State of Montana since 1930 (and Mr. Bullock involved that I know of, since 1969) so this could hardly be considered a new comer that can make it if we only give them a tax break. Intergen claimed in 1983 to have over 450 jewelers in 45 states carrying their product, from Saks Fifth Avenue to the May Companies 50 of these dealers (chain stores) control over 3,000 stores.

#5 Intergem estimated the Yogo mine had reserves of over a billion dollars value and that I can believe. Wall Street Journal reported on August 29, 1984 that Intergem planned to mine 300,000 carats in 1984 and hoped to step up production to a million carat a year in the near future.

~~#6 In Judith Basin County have known for many years that the~~



The Big Sky Country

MONTANA STATE SENATE

SENATOR BOB WILLIAMS

SENATE DISTRICT 15

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HIGHWAYS & TRANSPORTATION

4.

#6 We in Judith Basin County have known for many years that the Yogo Sapphire was the only one like it in the world and it should have some value to it that would produce a few dollars for the county and also for our state-wide education program. We, nor the Department of Revenue have not had much luck at getting anywhere with any of the various companies. Seems that they always change their name before they even get close to a profit. We feel the only way possible for us to get anything is to take this small tax on the precious gem right at the mine before the gem ever leaves the state.

If you look on your fiscal note, you will see Intergem reported they mined 123,014 carat in 1983. Several knowledgeable people I've talked to would agree that that number was very likely the least they could report for the year. Using that figure at the amended rate of 45% and at today's mill levy in that district the total amount of taxes paid by Intergem allowable by this bill would be \$58,309.74. Or broken down it figures 47.4 cents per carat. This is not a lot of bucks but just the idea of getting something that has been long overdue might help ease the pain when the local people go in to pay their ever increasing taxes.

Mention Montana Mining Association's part in ~~amending~~
amending down from 50 to 45% and exempting first 40,000 dollars of
production to exempt small gemstone mines.

Exhibit 4
SB 280
3/22/85
Harry Bullock

I N T E R G E M

Market Tower II, 3025 S. Parker Road, Suite 209, Aurora, Colorado 80014. (303) 695-8777

March 20, 1985

Mr. Jerry Devlin
Chairman of the House Tax Committee
House of Representatives
Helena, Montana

Mr. Chairman:

My name is Harry Bullock, Chairman of Intergem, Inc., the company that owns and operates the Yogo sapphire mine near Utica, in Judith Basin County, and also the company to which Senate Bill 280 is solely directed.

We oppose Senate Bill 280 not because it is a tax but because it is an unjust, unfair and totally discriminatory tax aimed directly at our company, despite Sen. Williams' previous statements to the contrary. This position is certainly supported by Item 6 on the Fiscal Note.

Senate Bill 280 implies, and Sen. Williams has attempted to convey to the committee, that Intergem has paid no or little taxes to either the county or the state of Montana.

Such is not the case. In the packet of material in your possession, you will see the tabulation of the 1983 taxes paid by the company to the various agencies involved. 1984 will be similar.

You will note that Intergem has filed or paid in every category of state or local tax applicable to our operation.

Senate Bill 280 proposes to amend the "Assessment of Net Proceeds Tax" by eliminating the mining, production, processing and marketing costs as a deduction to the gross proceeds before any tax in this category is applied.

The Net Proceeds Tax, as currently in place, permits a developing company the opportunity to get into a profitable condition before any revenue in this area is subject to taxation. The present bill encourages companies like us to develop a business and contribute to building the economy in somewhat underdeveloped areas such as Judith Basin County.

Mr. Jerry Devlin
Chairman of the House Tax Committee
March 20, 1985
Page 2

The Amended Bill - Senate Bill 280 - does away with all of the production and marketing cost deductions and taxes the mine production on total carats of sapphire material produced with complete disregard to the fact that only about 9% of the total production is usable in any form. The balance of the material is sacked and stored or disappears as dust during cutting. Because we are trying to enhance the image of the Montana Sapphire, we deliberately keep the worthless material out of the public view. It has virtually no value and we would not be interested in selling it anyway, if there was a market, because it would detract from the quality of the product we sell.

This material is not classified as sapphires, but as corundum, the same as worthless rubies.

Senate Bill 280 proposes to tax us on everything produced. The amended "Net Proceeds Tax" now becomes a "Gross Proceeds Tax" on 100% of the material when 91% is of no commercial value.

To help acquaint you with our operation, I have prepared a table showing 1983 actual mine yield and how it equates to actual finished product, utilizing our most recent sorting and cutting retention statistics. All of the statistical data shown is audited by our certified auditors, Arthur Andersen & Co.

	<u>Carats</u>
(1) 1983 Rough Carats Mined (as reported to the State on 1983 Assessment of Net Proceeds of Mines Return)	123,014
(2) 1983 Waste Corundum (based on actual sorting loss factor of 57.6%, this material is not gem quality and has no commercial value)	- <u>70,856</u>
(3) 1983 Gem Quality Sapphire	52,158
(4) 1983 Cutting Loss (based on actual cutting loss factor of 78.5%)	- <u>40,944</u>
(5) 1983 Net Yield	11,214
(6) 1983 Flat/Flawed Classifications (lowest classifications of cut gemstones, which have extremely limited commercial value)	- <u>3,364</u>
(7) 1983 Royal American and Fine Sapphire Classifications (saleable material)	<u>7,850</u>

Mr. Jerry Devlin
Chairman of the House Tax Committee
March 20, 1985
Page 3

However, actual sapphire sales for 1983 amounted to only 2,200 carats which came out of item (7) above. We expect that sales for fiscal year ending March 31, 1985, will be approximately 3,200 carats.

As was stated during our testimony at the hearing on February 12th, the Company's profit on the sapphire is less than 4% of the total profit and, without the jewelry sales, there would be no market for the sapphires mined at Yogo Gulch because of the high mining and recovery costs.

Our entire company's economy is based on the sale of Item (7) above. Someday, we hope to create a mass market for Item (6).

Senate Bill 280 is structured to tax us primarily on material of no value, either now or in the future. We could not pay the tax currently proposed without further increasing the cost of our jewelry, which is now already higher than our competition due to U.S. mining costs. What the reasoning is behind this type of a tax escapes us. Who else and what else is taxed on anything of no value?

It is essential to recognize that Intergem is primarily a Jewelry Marketing Company. The bulk of our business and gross revenues come from the sale of gold, diamonds, and jewelry design and manufacturing.

As an example, I would like to offer two rings that are typical examples of our jewelry line. One features a .07 carat sapphire, the other features three (approximately .12 carat) sapphires. Please note that approximately 90% of our entire cut inventory falls in this size range. Only half of our inventory is our top quality, represented here. The rest are of less value.

The smaller ring, item number SSF5835 has a

total selling price of	\$ 99.00
the .07 ct. sapphire sells for	7.70
the cost of the sapphire	3.85
the sapphire profit	\$ 3.85

Of a total gross sale of \$99, the profit on the sapphire represents less than 4%.

Mr. Jerry Devlin
Chairman of the House Tax Committee
March 20, 1985
Page 4

The larger ring, item number HBF508AS has a

total selling price of	\$469.00
the .37 ct. sapphire sells for	40.70
the cost of the sapphire	<u>20.35</u>
the sapphire profit	\$ 20.35

Again, the profit on the sapphire represents less than 4% of the gross sale.

In considering Intergem's gross sales, which in 1983 amounted to \$1.6 million, \$1.4 million of which came from jewelry sales, only a tiny fraction was derived from actual sapphire sales. The bulk of the gross sales came from the sale of gold and diamonds, and, of course, Intergem also manufactures ruby, emerald, pearl and all-diamond jewelry that are part of our gross sales figures and have nothing to do with sapphires.

- Royal American Sapphire jewelry, an important Montana product.

Seventy-four retail jewelers, who employ hundreds of Montana citizens, depend on Royal American Sapphire jewelry for up to 27% of their business. Approximately \$3,000,000 in retail sales were developed from the sale of our jewelry, \$2,000,000 of which funds retailers' overhead employees, taxes and profits. The remaining million being cost-of-product paid to Intergem, which in turn is used to pay mostly for gold and diamonds, and includes our overhead, mine employees in Montana and assorted other costs.

We can't stand this tax at this time. Sen. Williams insists on oversimplifying a very complex problem.

If this bill is passed as is and the Net Proceeds Tax is changed to the Gross Proceeds Tax, we will have to modify our recovery operations radically so that this worthless corundum is not recovered. As a result, the carats recovered will be dramatically reduced and we certainly shouldn't be taxed on cutting dust, and that won't leave very much.

Sen. Williams has repeatedly said that this tax amounts to only 50¢/carat. If you want to put a tax of 50¢/carat on sapphire gemstones, that's fine with us. However, we have to distinguish what is a merchantable sapphire, as this bill refers to on numerous occasions, and what is just blue corundum. Any jeweler can tell you the difference.

Mr. Jerry Devlin
Chairman of the House Tax Committee
March 20, 1985
Page 5

In the packet each of you have is our comments on Senate Bill 280 on a line-item basis as to why we believe the bill is totally unworkable, even if it is passed. No one took the time or trouble to meet with us on this bill and we found out about it purely by accident.

A wise man told me many years ago that there are no solutions to problems, only intelligent choices.

With that thought in mind, we would like to suggest what, hopefully, could be considered an intelligent choice. If this is not acceptable, maybe some modification of it would be. It is not original with us. It came from one of your own legislators, but we thought it had merit.

Rather than being based on such an elusive number of "sapphires mined" and since we are a public company, registered under the 1934 Securities Act, and since we have a big eight auditing firm, Arthur Anderson & Co., it appears that an imputed tax of 2%, based on total "sapphire revenues", would be very workable.

We have computer programs that keep tack of every piece of jewelry sold and to whom and the amount of sapphire, gold, diamonds, etc. in each piece. We have gone over our total jewelry revenues with respect to the sapphire segment of these revenues and determined that for FY84 the percentage of sapphire revenue averaged 15.22%.

However, the following scenario seems practical and would workd alonge the following lines:

Example #1

(1) Total estimated fiscal 1984 revenues	\$2,800,000
(2) Less estimated non-jewelry and other related gemstone sales (7.16%)	<u>(200,480)</u>
(3) Total estimated sapphire-related revenue including gold, diamonds, labor, etc.	\$2,599,520
(4) Less % of value not related to sapphires (84.78%)	<u>(2,203,873)</u>
(5) Total sapphire revenue	<u>\$ 395,647</u>

% of gross = 14.13%
Imputed tax of 2% of line (5)

Mr. Jerry Devlin
 Chairman of the House Tax Committee
 March 20, 1985
 Page 6

Based on estimated 1984 revenues, the tax would have amounted to \$7,913.

In looking down the road at our projections for a new offering memorandum now in progress, we see the following possibilities arising.

	(March 31st)			
	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>
Total Revenues	\$5,500,000	\$8,000,000	\$12,000,000	\$16,000,000
- Non-Related Jewelry (Rubies, Emeralds, etc.)	393,800	572,800	859,200	1,145,600
- Value of Gold, Diamonds, etc.	<u>4,329,036</u>	<u>6,296,780</u>	<u>9,445,170</u>	<u>12,593,560</u>
Total Sapphire Value	\$ 777,164	\$1,130,420	\$ 1,695,630	\$ 2,260,840
2% Montana Tax Defferred	\$ 22,608	\$ 33,913	\$ 45,217	

Projecting farther down the road with total revenues of \$40 million and \$50 million, which is our target for the 1990's, and assuming the sapphire value remains at the same percentage of the of the total adjusted revenues, then the recovered tax to Montana would range between \$140,000 to \$200,000 annually.

We understand the problems the municipalities and counties have with respect to revenue outside of property taxes. We want to cooperate and help, but not to the extent that it includes suicide.

We also understand that the other producers in the state have problems different than ours and maybe the exemption solves their problem. Based on merchantable sapphires, the exemption solves ours also.

Whether or not you would feel that some distribution take place between the state and the county, and at what point, would be a matter for you to decide.

If the state feels that this method is also fair and equitable, then a bill to make this a reality could be forthcoming. We would be happy to provide any assistance that was requested in structuring the bill so that the appropriate time frames could be achieved.

Mr. Jerry Devlin
Chairman of the House Tax Committee
March 20, 1985
Page 7

Arthur Anderson & Co. would, of course, certify all numbers as to accuracy. We would appreciate the tax being deferred one fiscal year to take effect in FY87 to us. (This year actually ends March 31, 1987, not December).

In addition, we feel all sapphire or other gemstone operations in the state should share a similar burden and any exemptions should apply equally to all.

Thank you for your time and consideration and we would appreciate being kept apprised of any new developments.

Very truly yours,

INTERGEM, INC.



Harry C. Bullock
Chairman

HCB:mag

Taxes:

Metal Mines License Tax	\$ 3,361.14
Resource Indemnity Trust Tax	2,460.28
Montana Property Taxes	4,860.08 -
Mobile Homes Tax	72.10
1984 Personal Property Taxes	3,290.49
Annual Fee for Operating Permits	50.00
Filing Fees (Misc.)	326.00
Assessment of Net Proceeds of Mines	<u>-0-</u>
	\$ 14,420.09

Payroll:

8 Employees	
Gross Payroll	\$ 73,380.40
Fica (Employer Portion)	5,136.63
State Withholding	2,283.66
Workers' Compensation	6,329.72
Unemployment	<u>1,929.83</u>
	\$ 89,060.24

Vendors:

Montgomery Construction	\$223,076.48
ABBCO	16,705.09
Woods Oil	7,553.63
Centana Communications	1,145.57
Central Electric	1,707.59
Montana Power	2,565.26
Yogo Inn	1,579.21
Reese Tire & Fuel	870.84
Miscellaneous	<u>4,499.87</u>
	\$259,703.54

Total: \$363,183.87

In addition, we have a \$60,000 reclamation bond with the State. We have already cleaned up a lot of disturbance by others, and, about May 1st, will start some additional reclamation. No one before us ever did anything.

READ INSTRUCTIONS
ON BACK OF THIS
SHEET BEFORE
PREPARING REPORT.

STATE OF MONTANA
ASSESSMENT OF NET PROCEEDS OF MINES
(Chapter 15 M.C.A.)
RETURN AND STATEMENT OF NET PROCEEDS
For Year Ending Dec. 31, 1983

This statement must be
filed with the Depart-
ment of Revenue, Natural
Resource and Corpora-
tion Tax Division,
Helena, Montana, on or
before March 31.

Name of Owner or Operator..... Intergem, Inc..... Telephone # (303) 695-87
Address..... 3025 South Parker Road, Suite 209..... City, Aurora..... State, Colorado Zip Code, 80014
Name of Mine..... "Yogo" Sapphire Mine..... Location: Utica, Section 20-24 Twp. 13N. Rgs. 11E.
County..... Judith Basin..... School Dist. No.....
Name, Title and Address of Person having Active Charge of Mining Operations and Business in Montana..... Fred Woods, Plant.....
..... Supervisor.....
Name, Title Address of Person Having Active Charge of Tax Matters in Montana..... Lynn Sealey, 502 Strain Building.....
..... Great Falls, MT

Total number of tons of ore mined or extracted during year ended December 31, 19.....

Yield in constituents of commercial value:

.....oz. per oz.	\$
.....lb. per lb.	\$
..... tons per ton	\$
..... 123.014 other \$4.00 per carat	\$ 492,056
Total Gross Value		\$ 492,056

Type of Product.....

GROSS PROCEEDS		DEDUCTIONS	
Total Gross Value in dollars and cents		NOTE: These deductions must be itemized in accordance with the schedule on the back of this report.	
Of above Products.....	\$ 492,056	1. Cost of extracting or mining ore or deposit.....	\$ 572,917
Total Deductions.....	\$ 759,910	2. Cost of transporting crude ore or deposit from mine or deposit to reduction works.....	\$ -0-
Net Proceeds.....	\$ (267,854)	3. Cost of sale of crude ore or deposit.....	\$ -0-
		4. Cost of reduction of crude ore or deposit.....	\$ -0-
		5. Cost of marketing metals and minerals and conversion into money.....	\$ 167,992
		6. Cost of construction, repairs and betterments of mines during year.....	\$ -0-
		7. Cost of repairs and replacements of reduction works, mills, and smelters during year.....	\$ 16,599
		8. Depreciation of reduction works, mills and smelters.....	\$ 2,402
		TOTAL DEDUCTIONS.....	\$ 759,910

THE STATEMENT MUST BE COMPLETED IN ITS ENTIRETY

Dated at..... the..... day of..... 19.....

STATE OF..... ss.....
County of.....

..... being first duly sworn according to law, on oath, deposes and says that he has read the foregoing return and knows the contents thereof, and that the statements, and all thereof, contained therein are true.

Subscribed and sworn to before me this..... day of..... 19.....

Notary Public for State of..... Resid.....

Commission expires..... 19.....

EXTRACTING ORE OR DEPOSIT:	
Supplies, Materials, Tools	\$ 162,073
Machinery	\$ 4,010
Fuel, Power, Light	\$ -0-
Royalties	\$ 10,417
Other Expenses (Mining Subcontractors)	\$ -0-
	\$ 396,021
Total Cost	\$ 572,917
COST OF SALE OF CRUDE ORE OR DEPOSIT: (3)	
	\$ -0-
Total Cost	\$ -0-
COST OF MARKETING AND CONVERSION INTO MONEY:	
Freight and Express	\$ -0-
Shipping Charges or Commission	\$ 81,630
Other Product Related Marketing	\$ 86,362
Total Cost	\$ 167,992
COST OF REPAIRS AND REPLACEMENTS TO REDUCTION WORKS:	
Repairs to Building	\$ -0-
Repairs to Machinery and Equipment	\$ 16,599
Buildings for Replacements	\$ -0-
Machinery for Replacement Purposes	\$ -0-
Total Cost	\$ 16,599

Reduction works located near ore body. Depreciation costs reported in item 1(f), Other Expenses.

Depreciation costs are not segregated in Company records, and are included in items (b) and (d).

Rough sapphire sold in 1983.

COST OF TRANSPORTING CRUDE ORE FROM THE MINE TO THE SMELTER OR REDUCTION WORKS: (1)	
(a) Hauling	\$ -0-
(b) Freight Charges	\$ -0-
(c)	\$ -0-
Total Cost	\$ -0-
4. COST OF REDUCTION OR MILLING: (2)	
(a) Labor	\$ -0-
(b) Supplies, Materials, Tools	\$ -0-
(c) Fuel, Power, Light	\$ -0-
(d)	\$ -0-
(e) Other Expenses	\$ -0-
Total Cost	\$ -0-
6. COST OF CONSTRUCTION, REPAIRS AND BETTERMENTS TO MINE:	
(a)	\$ -0-
(b)	\$ -0-
(c)	\$ -0-
(d)	\$ -0-
(e)	\$ -0-
Total Cost	\$ -0-
8. DEPRECIATION OF REDUCTION WORKS:	
(a) Total number of tons of ore milled or treated from mine for which this return is made	20,000
(b) Total number of tons of ore milled or treated from other mines worked or operated by the person working or operating the mine for which this return is made	-0-
(c) Total number of tons of custom ore milled or treated	-0-
(d) Total number of tons of ore milled or treated at mill, smelter or reduction works	20,000
(e) Percentage of depreciation to be entered in Schedule 11, being that part of the total depreciation which ore milled from mine for which this return is made bears to the total ore milled (a divided by d)	100 per cent
(f) Adjusted valuation of mill, smelter or reduction works, Calendar year 19	\$ 40,041
(g) Total depreciation during year at 6%	\$ 2,402
(h) Depreciation to be entered in Schedule 11 (g multiplied by e)	\$ 2,402

GENERAL INSTRUCTIONS

Every person engaged in mining, extracting, or producing from any quartz vein, or lode, placer mine, dump or tailing, or other place or source whatever precious stones or gems, vermiculite, tonite, or other valuable mineral, except coal and metals, must on or before March 31 each year, make and file a return and statement on this form.

The return and statement must be made and filed with the Department of Revenue, Natural Resource and Corporation Tax Division, at Helena, Montana, not later than March 31 in each year.

Expenses expended for improvements, repairs, and betterments necessary in and about the operation of the mine shall be allowed as a deduction at the rate of 10% per annum for a period of 10 consecutive years beginning with the year of expenditure.

The return shall include all monies expended for actual costs of necessary labor in the extracting of the mineral deposit.

Salaries of engineers, geologists, and other technical personnel are a deductible item only to the extent that such personnel are employed exclusively in the mine operation.

Superintendents shall be meant to include only persons or officers actually engaged directly in the operation of the mine or superintending the management thereof (at the mine site or in the vicinity thereof). This deduction is not meant to include any personnel in a corporate or headquarters office who have no part in the actual operations of the mine.

Payments for taxes on production, license taxes, corporation, income, sales, real estate, personal property, and excise taxes may be used as a deduction.

CUTTING RETENTION

CUMULATIVE TOTAL - 1 NOVEMBER, 1984

	Rough Carats	Finished Carats	Percent Retention
Choice	1,250.0	358.2	28.7
Select Regular	12,182.5	3,272.2	26.9
Select Irregular	6,462.4	1,485.3	23.0
Flat Regular	21,884.1	4,747.2	21.7
Flat Irregular	16,613.7	3,143.5	18.9
Extra Flat	<u>16,559.3</u>	<u>2,852.7</u>	<u>17.2</u>
	74,952.0	15,859.1	21.2

COMMENTS TO SENATE BILL 280

1. Line 4, Page 2 - The annual gross proceeds of gemstone mines.
 - a. Does not address the issue of value upon which any tax should be based.
2. Lines 12 & 13, Page 2 - Property described in subsection 1(d) is taxed at 50% of its annual gross proceeds.
 - a. See 1(a) - above.
3. Lines 20 - 23, Page 2 - (3) "Gross proceeds" or "gross yield" means the revenues realized from the extraction of gemstones, determined by multiplying the quantity produced by merchantable value.
 - a. The term revenue implies dollars or profits received by the sale of any goods or merchandise sold through a distribution or sales network to the ultimate consumer. Revenue, as we interpret it in this instance, is moneys received for the goods through an "arms length transaction".
 - b. The word "quantity" in this section obviously applies to goods of merchantable value.
 - c. Merchantable value obviously means goods that are marketable in a competitive market. The value of these type of goods (gemstones) varies significantly due to size range and color quality. An across the board value in dollars per carat would not only be arbitrary but would place the tax on real value in an untenable position from the standpoint of continued operations or would so limit the production of gemstones to the point that the tax would be of no significance to the state.
4. Line 1 - 3, Page 3 - (5) "Merchantable value" means the average market value of all gemstones produced or extracted in a county over a 12-month period.
 - a. What does "average market value of all gemstones" mean? Is this the value at the mine in a rough state; after cutting in loose form; value when set in jewelry at a cost level; value in jewelry at a wholesale level; value at a retail level; value used in off-pricing promotions; value used for banking or borrowing purposes; or value used by accountants, on a discounted basis, for audit reports?
5. Line 4 - 11, Page 3 - New Section. Section 4. Gemstone mines....ad valorem taxation.....etc.
 - a. In a normal mining season for Intergem, the rough stones mined during the operating season are not finished being graded and sorted until June or July each year. This section places a burden on the producer that is not possible to meet physically.

6. Line 19, Page 3(d) - The name and location of each purchaser....
 - a. This places Intergem in the unfavorable position of being required to disclose their customer base, which would have serious and adverse effects to the company as all competitors would now be aware of our sales base.
 - b. Line 22 of the same section (e) once again raises the question of what "value" means.
7. Line 3, Page 4 - (3) - Any sampling, testing, or weighing made necessary to comply.....etc.
 - a. Only a preliminary total weight can be determined at this time. This includes potential gemstones, waste dirt and coatings. Security of plant personnel would be compromised and the facilities for sorting and grading are not present.
8. Line 8 - 16, Page 4 - New Section. Section 5. Valuation
9. Line 17, Page 4 - New Section. Section 6. Taxation.....
 - a. Dates established and time frames suggested are not compatible when information will be available.
10. Line 1 - 8, Page 5 - New Section. Section 7. Imputed value.....
 - a. Since Intergem only operates through distributors not related in a business sense to Intergem, the issue of arms length transaction to us is moot. However, if there is no sale of gemstones, it would be reasonable to assume that none were produced and that being the case there is no value, and what "imputed" tax calculation on what escapes us.
11. Line 9 - 14, Page 5 - New Section. Section 8. Lien of Tax.....
 - a. This section radically conflicts with present banking collateral now in place and could cause an immediate cessation to our Montana operations. In addition, it places in jeopardy the original "contract for sale" under which the mine is being currently purchased.

There are several other sections that need to be noted, such as Line 2 - 19, Page 9, and Lines 1 - 4, Page 9. However, these items are all part of the greater issue.

Conclusion:

We believe Senate Bill 280 is not a workable bill in the sense that it is directed primarily at gemstone mining with very little thought given to a fair and equitable treatment of the subject matter, namely: taxation.

In addition, no investigation was done prior to the bill's being submitted as to just what real value comes out of the Yogo mine on an annual basis. No attempt has been made to recognize that only a very small percentage of these stones have ever been marketable or ever will be, yet the bill ignores this fact entirely.

Due to lack of communication between the bill's sponsor and Intergem, time frames for mining, processing, sorting and grading and final compilation of records and other data were not taken into consideration.

As a result, some of the dates specified for compliance of the statute are neither reasonable nor able to be complied with.

It is our recommendation that this bill be permanently tabled and that an entirely new approach be made to the issue along the lines previously suggested.

FACT SHEET
March 21, 1985

Exhibit 5
SB 289
3/21/85
Many Bielenberg

IMPACT OF SB 280 ON MONTANA'S SMALL SAPPHIRE MINES

1. It is ill advised to give the same tax treatment to gemstones that we give to other minerals. There are no set prices on sapphires; the value of each must be determined individually. In a lot of (say) 7,500 carats of gemstones, there may be one single stone of marketable quality.
2. Most of Montana's sapphire operations are small company or family operations. Since other Mineral Statutes make distinctions between large and small operations, perhaps the same sort of distinction should apply here. (Large and small coal mines for tax purposes, large and small mines for reclamation purposes, etc.).
3. In many cases sapphire operations consist of opportunities for visiting rockhounds to pay a flat rate for a quantity of dirt. Are you going to tax the mine on the income from the rockhounds, or are you going to tax the rockhound for the value of the gemstones they find?
4. How will this statute be enforced so that honest taxpayers can be assured that all miners are paying the same rate? The problems of enforcement include:
 - a. Determination of the actual value of gemstones requires unusual expertise in both gemology and current world markets.
 - b. The combination of expertise is rare and quite expensive.
 - c. To get expertise into the field will be expensive; will the expense outweigh the income to the state?
5. Most gem mines operate only about six months in each year. The fixed costs associated with the mine must be considered along side of the gross income in considering the fairness of this tax. A forty five percent tax rate on top of year around fixed expenses could very likely close many operations.
6. The Montana Sapphire, including the Yogo, has only recently been recognized by international markets. Only three or four colors, the Yogo Blue, the Golden, the Ruby, and the Padparajaha experience demand in the international market. A good Ruby is found (perhaps) in 10,000 carats raw sapphires. Most carats that are mined are marketable only as curiosities, and have no real market value.
7. This statute is very burdensome to the small operator; it indicates a lack of understanding of gemstone operations. For example, in new section 4 paragraph d, the law asks a report of the name and location of each purchaser to whom gemstones have been shipped or sold. Does the state require jewelry stores to keep the same kind of records?
8. In years when the gemstone miner chooses to hold his or her production in reserve, rather than sell it on a flooded market, does the operation have to pay this tax? Does a wheat farmer with grain in storage pay on the gross value of actual production each year? Is value established in the year the stone is mined, or in the year that it is sold?
9. What is to keep the more devious operator from selling the product of his operation to a phony purchasing company that purposefully keeps the price below actual value? If the burden of proving the true value is with the contesting party, litigation from either side will be endless due to the highly varying and unique nature of the product.
10. The Montana Sapphire may one day be the best in the world. Princess Diana wears a Yogo. Now is the time to develop the markets for this potentially valuable product, and to let the various mining enterprises gain strength. Perhaps later, after more time is spent understanding the whole industry in Montana better reasons can be developed for taxing sapphire mines in a way other than normal businesses in Montana are already being taxed.

Exhibit 5-A
SB 280
3/22/85
Alan Hart

STATEMENT IN OPPOSITION

TO

SB 280

WE, THE OWNERS OF THE EL DORADO SAPPHIRE MINE, ARE IN OPPOSITION TO SENATE BILL 280. THE EL DORADO SAPPHIRE MINE IS OWNED BY EL DORADO, INC., OF WHICH I, ALAN M. HART, AM A STOCKHOLDER, DIRECTOR, AND SECRETARY/TREASURER. I AM A CERTIFIED PUBLIC ACCOUNTANT, BY PROFESSION, AND RESIDE IN MISSOULA, MT

THE EL DORADO SAPPHIRE MINE IS LOCATED APPROXIMATELY 35 MILES NORTH WEST OF HELENA, MONTANA. THE PRIMARY SOURCE OF INCOME FOR THE MINE IS FROM DIGGING FEES PAID BY TOURISTS AND ROCKHOUNDS. THE MAJORITY OF THESE PEOPLE ARE FROM OUTSIDE MONTANA. THE PEOPLE COME FROM THROUGHOUT THE UNITED STATES AND MANY FROM COUNTRIES IN EUROPE, ASIA, AFRICA, AUSTRALIA, ETC. MOST OF THESE PEOPLE DIG FOR SAPPHIRES AS ENTERTAINMENT OR AS A HOBBY. VERY FEW OF THE DIGGERS ARE THERE TO PROVIDE MATERIAL FOR BUSINESS USES.

THE FEES WHICH WE CHARGED FOR DIGGERS IN 1984 WERE:

ONE PERSON/PER DAY	\$20.00
TWO PEOPLE/PER DAY	\$30.00

THESE FEES WERE SLIGHTLY HIGHER THAN 1983 FEES. THE 1984 FEES RESULTED IN SOME OPPOSITION FROM DIGGERS AS THEY BELIEVED WE WERE GETTING SOMEWHAT EXPENSIVE, BUT BY PROVIDING GOOD SERVICE AND TREATING THE PEOPLE PROPERLY THEY GENERALLY WENT HOME HAPPY. BECAUSE OF THE RESISTANCE TO THE FEES IN 1984, WE ARE VERY HESITANT IN CONSIDERING FEE INCREASES IN 1985.

BY CHARGING THE ABOVE FEES IN 1984, EL DORADO, INC., EXPERIENCED A LOSS FROM OPERATIONS, BEFORE DEBT SERVICE, OF OVER \$28,000. THE COMPANY IS WORKING ON TRYING TO INCREASE BUSINESS BY ADVERTISING AND IMPROVING THE FACILITIES AT THE MINE. THIS IS NECESSARY FOR THE COMPANY TO SURVIVE SINCE OURS IS A BUSINESS THAT HAS BEEN HIT VERY HARD BY THE RECESSION.

IF THE STATE OF MONTANA IMPOSES ANY TYPE OF GROSS PROCEEDS TAX ON THE MINING OF SAPPHIRES, I HAVE NO DOUBT THAT WE WILL CLOSE THE MINE AND WILL POSSIBLY END UP IN DEFAULT ON OUR PURCHASE AGREEMENT. I BELIEVE THIS WILL HAPPEN BECAUSE WE WOULD HAVE TO ADD ANY TAX TO THE AMOUNT OF FEES WE CHARGE THE DIGGERS AND OUR EXPERIENCE INDICATES THAT THIS WOULD REDUCE THE AMOUNT OF REVENUE GENERATED RATHER THAN INCREASE IT, WHICH WE NEED TO SURVIVE.

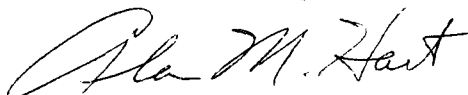
THIS WOULD RESULT IN A GREATER LOSS TO THE STATE OF MONTANA THAN JUST FOREGOING SOME TAX REVENUE. AS I STATED EARLIER, MOST OF THE SAPPHIRE MINE CUSTOMERS ARE FROM OUT OF STATE. MANY OF THESE PEOPLE COME TO MONTANA SPECIFICALLY TO VISIT THE SAPPHIRE MINES AND DIG FOR SAPPHIRES. MONTANA IS ONE OF THE FEW PLACES IN THE WORLD WHERE THE GENERAL PUBLIC CAN DIG FOR SAPPHIRES. THE REVENUE BROUGHT INTO THE STATE BY THESE PEOPLE IS MUCH LARGER THAN JUST THE FEES PAID AT THE MINES. IF A TAX IS IMPOSED AND THE DIGGING FEES ARE RAISED, I BELIEVE THAT MOST OF THESE PEOPLE WOULD NOT COME TO MONTANA AT ALL AS THEY COME HERE SPECIFICALLY FOR THE SAPPHIRES. IF MONTANA'S GOVERNMENT IS TRULY SERIOUS ABOUT THE "BUILD MONTANA" PROGRAM, THEN THIS TYPE OF A TAX IS ONE WHICH SHOULD NOT BE PASSED BY THE LEGISLATURE.

IN SUMMARY, I AM OPPOSED TO SB280 BECAUSE IT WOULD DO GREAT HARM TO OUR COMPANY, EL DORADO, INC.; I BELIEVE IT WOULD ALSO DO GREAT HARM TO ALL OTHER SAPPHIRE MINES; I BELIEVE IT WOULD REDUCE REVENUE FOR OTHER AREAS OF THE MONTANA ECONOMY; AND, THEREFORE, IT WOULD RESULT IN AN ACTUAL REDUCTION OF TAX REVENUE FOR THE STATE IN THE LONG RUN.

THANK YOU, FOR CONSIDERING MY VIEWS.

RESPECTFULLY SUBMITTED,

EL DORADO, INC.



ALAN M. HART, CPA
SECRETARY/TREASURER

Exhibit 6
SB 280
3/22/85
Cleatus
Sypult

OPPOSE SB 280

March 22, 1985

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I Cleatus Sypult, a Mining Claim Owner, OPPOSE SB 280 as an ungovernable proposal. The bill would cost more to regulate than[✓] what it would bring in and would chase a very large number of tourists out of the State (and 1983⁺⁸⁴ was down drastically already).

As the Bill is worded "Gem stones" include Montana Agate, our State Gem Stone. How can you regulate tourists who pick them up on the shores of the Yellowstone River and other rivers and tributaries by the ton each year? These people come to the State of Montana just for that reason! The same thing goes for the fee diggers of sapphires! The State would lose ten times as much money as the tax would bring in on gasoline alone.

For these reasons and others, I OPPOSE SENATE BILL 280 and ask that you DO NOT PASS this bill.

Thank you

Exhibit 7
SB 280
3/22/85
Russ Thompson

OPPOSE SENATE BILL 280

March 22, 1985

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

My name is Russell M. Thompson, from CASTLES SAPPHIRE MINE. I am originally from a mining town of Anaconda. I moved to Helena to fulfill a dream of mining for gem stones. Senate Bill 280 will destroy my dreams as well as others. If this bill is passed the tourist trade will diminish totally. At the present time the mines around Helena are just barely making it. If Bill 280 passes the mining will cease.

Governor Schwinden's BUILD MONTANA PROGRAM will be destroyed and gemstone mining will be past history.

I am asking that you DO NOT PASS Senate Bill 280.

Thank you.

Russell M Thompson

OPPOSE SB 280

March 22, 1985

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I am Deborah Thompson, from CASTLES SAPPHIRE MINE near Helena. We OPPOSE Senate Bill 280. Our business brings a heavy tourist business into the state of Montana. This brings needed revenue to many different businesses, motels, restaurants, and stores.

DO NOT PASS Senate Bill 280. This will be the immediate death of mining and the end of the tourist flow. This will cause extra expense to the state of Montana. This bill, if passed, will return next session and again be an issue. Mining is an important part of Montana. Montana is famous worldwide for our Gemstone Mines. It is a special and unique to this State.

Senate Bill 280 is UNFAIR. It is ridiculous to tax 45-50% of gross proceeds. It is also ridiculous to assume that Intergem is the only gemstone mining company in Montana. There are numerous gemstone mines, and hundreds of claims that are also affected.

How can the Department of Revenue decide the rate of \$4.00 per carat valuation. Gemstone value are not steady. They change rapidly. They cannot be tied to a Consumer Price Index since there is no determined value. The value is matter of opinion.

I feel there was a personal reason behind the drafting of Senate Bill 280 by the Representative who originated this. This bill stems from a personal conflict between this individual and the Intergem Company. I feel this bill was created for all the wrong reasons and this is not right.

The number of carats mined per year DOES NOT remain constant. We hit "Dry Holes" constantly and the production of gems is not a sure thing. As the old miners axiom goes "**You can be an inch from a million dollars, or a million inches from a dollar.**"

Mining Gems is very unsteady. Even the mine in Utica can be depleted in a short period of time. Gemstones are a rarity.

The Department of Revenue will be sole controller of the gemstone business, of which they know nothing. They will need to hire experts to determine the values. (Maybe I can go over to the other side and apply for a job)

Members of the Taxation Committee, you must look elsewhere for your taxation, As We, in the mining business, **-WILL NOT SUPPORT THIS BILL.**

ROBERT R BOGENSBERGER <PRESIDENT>
521 HARVARD AVE EAST SUITE 1
SEATTLE WA 98102 20PM

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Exhibit 8
SB 280
3/22/85
R.B.
Rep. Devlin

HONORABLE JERRY DEVLIN, CHAIRMAN
HOUSE TAXATION COMMITTEE
CAPITOL STATION
HELENA MT 59620

DEAR HONORABLE DEVLIN,

THIS IS TO EXPRESS OUR STRONG OPPOSITION TO THE PASSAGE OF SENATE BILL 280 AS IT APPLIES TO SAPPHIRE MINING, FOR THE FOLLOWING REASONS:

1. IT IS DIFFICULT, IF NOT IMPOSSIBLE, TO ACCURATELY DETERMINE THE VALUE OF SAPPHIRE. EACH STONE IS UNIQUE IN ITSELF AND VALUE IS HIGHLY SUBJECTIVE. SAPPIRES SHOULD NOT BE "LUMPED" TOGETHER WITH OTHER MINERALS WHOSE VALUES CAN BE MORE READILY DETERMINED.
2. THE BILL TAXES GROSS RECEIPTS WITH NO PROVISION FOR COSTS OF EXTRACTION (WHICH VARIES GREATLY IN SAPPHIRE MINING), EXPLORATION, MARKETING, OR OTHER EXPENSES:
3. THE SAPPHIRE INDUSTRY IN MONTANNA IS STILL IN ITS INFANCY, MADE UP PRIMARILY OF SMALL COMPANIES LIKE OURSELVES WHO CAN ILL-AFFORD SUCH A HEAVY TAX. FURTHER, THIS INDUSTRY FACES SEVERE COMPETITION FROM LONG-ESTABLISHED OVERSEAS SUPPLIERS OF JEWELSTONES. THE TAX CONSEQUENCES OF SENATE BILL 280 CANNOT BE READILY PASSED ALONG TO THE CONSUMER, AND WOULD THUS SORELY CRIPPLE FLEDGLING INDUSTRY.

PLEASE READ THESE COMMENTS INTO THE RECORD. MORE TO FOLLOW BY REGULAR MAIL.

MOST RESPECTFULLY YOURS,

ROBERT R BOGENSBERGER
PRESIDENT
NORTH AMERICAN MINING CO

1951 EST

NGBNOMP NGBN

(57)

Exhibit 9
SB 400
3/22/85
Steve Brown

Senator Bill Yellowtail

FACT SHEET CONCERNING SENTATE BILL 400

1. S.B. 400 does not increase the existing maximum amount of money available for alcohol tax incentive payments under Section 15-70-522, MCA. In fact, S.B. 400 imposes a maximum annual dollar cap of \$2.5 million in addition to the "percentage of production" maximums in existing law.

2. S.B. 400 is the product of 4 months of negotiaton between PLM Financial Services, Inc. and the Schwinden Administration concerning alcohol tax incentive payments. S.B. 400 is supported by the Department of Revenue, the Department of Highways and PLM.

3. S.B. 400 makes the following changes in the allocation of alcohol tax incentive payments within the percentage and dollar caps:

(A) Exported alcohol will be eligible for tax incentive payments subject to the "percentage cap" in Section 15-70-522(3) and the absolute "dollar cap" of \$2.5 million in Section 15-70-522(4).

(B) The tax incentive payments made to the alcohol producer under Section 15-70-522(2), MCA, will be paid in full and there will be no fifteen cent (15¢) deduction for the gas tax on nonaviation fuels under 15-70-204, MCA. Instead, the Department of Revenue will collect the gas tax on alcohol sold in Montana from the distributor at the time of sale.

(C) The 50 cent per gallon tax incentive payment for alcohol will be extended from April 1, 1986 to April 1, 1987. This change corrects an error in Section 15-70-522 as originally codified.

(D) Only alcohol that has been blended with gasoline to produce gasohol as defined in Section 15-70-201(8) will be eligible for tax incentive payments. This provision clarifies existing law and addresses enforcement concerns of the Department of Revenue.

4. The percentage cap on tax incentive payments for alcohol blended with gasoline to produce gasohol works as follows under S.B. 400. Assuming 450 million gallons of total gasoline and gasohol sold in Montana and exported alcohol eligible for the tax incentive payments, the applicable "percentage caps" under Section 15-70-222(3), MCA, are:

(A) Tax incentive payments will be reduced from 50¢ to 30¢ per gallon of alcohol when the amount of gasoline and gasohol sold in Montana and exported alcohol eligible for tax incentive payments comprises 11% or more of production. Eleven percent of 450 million gallons equals 49.5 million gallons of gasohol. Tax incentive payments of 50¢ per gallon on 4.95 million gallons of alcohol would total \$2.475 million.

(B) Tax incentive payments will be 30¢ per gallon of alcohol if the total gasoline and gasohol sold in Montana and exported alcohol eligible for tax incentive payments is 11% or more but less than 18% of total production. Eighteen percent of 450 million gallons equals 81 million gallons of gasohol. Tax incentive payments of 30¢ per gallon on 8.1 million gallons of alcohol would total \$2.43 million.

(C) Tax incentive payments for alcohol expire April 1, 1989 and could terminate sooner if the amount of gasoline and gasohol sold in Montana and exported alcohol eligible for tax incentive payments comprises 18% or more of total production for 2 consecutive quarters.

5. Senate Bill 400 has been amended by the Senate Taxation Committee to limit payments to any single alcohol producer to \$1.3 annually. This amendment was added to address the concerns of Montana's existing producers that a single large plant would receive all of the available tax incentive payments.

BENEFITS TO MONTANA STATE

Employment: 60 to 65 full-time employees
Average 90 construction employees; peak 115.

Payroll: Annual payroll including fringes, \$1.4 million.
Construction payroll, over two years, \$5.5 million.

State Coal
Severance Tax: \$550,000 per annum on 150,000 tons coal

State Personal
Income Tax: Includes multiplier of 2.32 (estimate provided by
Montana Department of Administration) - \$340,000 in the
first year end escalates by 6% per year for full time
employees (assume the taxpayer is in the 10% bracket).

Construction multiplier is 1.75 - \$500,000 per year for
two year construction time.

State Business
Income Tax: Taxes will be paid by all suppliers of additional materials
(including coal). Additional tax will be paid by farmers
and growers for increased profits due to lower transportation
costs of barley.

State
Ad-Valorem Tax: 2/10 of a mill per kilowatthour generated, or \$210,000.

Industrial
Facility Taxes: \$560,000 (\$70,000 for first three years).

Other Benefits: Usage of 5.25 million bushels of barley, or close to
10% of annual crop.

Use of alcohol instead of lead as an octane enhancer
will be a non-pollutant from automobile engines.

Total Montana
State Financial
Benefits:

From Coal Severance:	\$16,500,000
From Personal Income Taxes:	26,500,000
From Ad-Valorem Taxes:	6,300,000
From Facility Taxes:	<u>15,300,000</u>
Total Over 30 Years	\$64,600,000

PROJECT DESCRIPTION

Project Name: Bighorn Energy Partners

Project Location: Hardin, Montana

Products:

- 10 million gallons per year anhydrous ethyl alcohol
- 50,000 tons per year Distillers Dried Grains and Solubles (DDGS), a high-protein livestock feed
- 10,000 tons per year raw carbon dioxide gas
- 15,000 kilowatts electricity

Feedstocks:

- 5.25 million bushels barley
- 150,000 tons coal
- Chemicals and water

Markets:

- Ethanol - Montana, Wyoming, Colorado, Washington
- DDGS - Montana, Wyoming, Washington, Japan
- Carbon Dioxide - Montana

Capital Investment: \$55 million

Employment: 60 to 65 full-time employees
Average 90 construction employees; peak 115

Construction Time: Two years

Exhibit 10
SB 400
3/22/85
Rapp - Svrcek

AMENDMENT EXPLANATION -- SB-400

- Amendment #1: This change clarifies the definition of Gasohol to stipulate ethanol must be produced within Montana.
- Amendment #2: This amends the definition of Gasohol to include wood or wood products within agricultural products designation to be used to make ethanol in Montana.
- Amendment #3: This amendment clarifies that ethanol production, to qualify for the incentive, must be produced in Montana.
- Amendment #4: This clarifies the inclusion of wood or wood products for the purpose of ethanol production feedstock and the purposes of this "Act".
- Amendment #5: This amendment deletes a redundant July 1, 1983 incentive commencement date.
- Amendment #6: This amendment deletes the 50 cent figure on the April 1, 1985 incentive date schedule and inserts a 70 cent figure.
- Amendment #7: This amendment deletes the 30 cent figure on the April 1, 1987 incentive date schedule and inserts a 50 cent figure.
- Amendment #8: This amendment places a per-plant cap of \$1,000,000 and a total-amount cap of \$2,500,000 on the over-all incentive program.
- Amendment #9: This amendment makes the incentive program retroactive to April 1, 1985 to coincide with the current incentive reduction schedule 15-70-522 (2) (b).

AMENDMENTS -- SB-400

1. Page: 3
Line: 25
Delete: "...and sold in..."
Insert: "...produced in..."
2. Page: 4
Line: 4
Insert: "..., Including wood or wood products." after the word products
3. Page: 5
Line: 18
Delete: "...in this state."
Insert: Period after distribution
4. Page: 5
Line: 22
Insert: "...including wood or wood products," after the word products
5. Page: 6
Line: 10
Delete: "(a) beginning July 1, 1983, 70 cents per gallon;"
NOTE: renumber appropriate following sections.
6. Page: 6
Line: 11, following "...1985,"
Insert: "70".
7. Page: 6
Line: 12, following "...1987,"
Delete: "...30..."
Insert: "...50..."
8. Page: 8
Line: 12, 13, 14 and 15, following the sub-paragraph number "(4)"
Delete: "Regardless of the alcohol tax incentive provided in subsection (2) or (3), the total payments made for the incentive under this part may not exceed \$2,500,000 in any consecutive 12-month period beginning April 1, 1985."
Insert: "Regardless of the tax incentive provided in subsection (2) or (3), in any calendar year: (a) no distillation operation may receive in excess of \$1,000,000 in alcohol tax incentive; and (b) the total amount paid in alcohol tax incentive for all distillation operations may not exceed \$2,500,000 beginning April 1, 1985."
9. Page: 10
Line: 3, 4, 5 and 6, following the word "effective..."
Delete: "...July 1, 1985. Section 5 and this section are effective on passage and approval, but no rules adopted under section 5 may be made effective before July 1, 1985."
Insert: "Retroactively to April 1, 1985."

Exhibit 11
SB 400
3/22/85
J. Braumbeck

March 21, 1985

MEMORANDUM

TO: Norris Nichols, Administrator
Motor Fuels Tax Division

FROM: Paul Van Tricht, Tax Counsel
Legal Bureau

RE: Proposed Amendments to Senate Bill 400
Very Brief Comments

First Proposed Amendment

This amendment presents a problem because it will or might limit the payment of the tax incentive to alcohol which is blended with gasoline to produce gasohol only in Montana. That is, the only gasohol which is "gasohol" as defined in the Act is gasohol produced in Montana. The intent of these amendments to the Act is to allow the tax incentive for all alcohol which is produced in Montana from Montana agricultural products whether the alcohol was blended with gasoline to produce gasohol inside Montana or outside Montana.

This amendment would cause some confusion.

Second Proposed Amendment

This proposed amendment presents no problems. Our current rules include wood products as an "agricultural product".

Third Proposed Amendment

This amendment should present no real problem. I'm not sure why it is being proposed.

Fourth Proposed Amendment

Again, this proposed amendment presents no problem. Wood or wood products are included under the present Department's rule.

11

Fifth, Sixth, and Seventh Proposed Amendments

These amendments would increase the tax incentive for each gallon of alcohol after April 1, 1985.

Eighth Proposed Amendment

Proposed amendment #8 conflicts with sub-paragraph "(5)". There is no definition of "distillation operation". The term "alcohol distributors" should be substituted for "distillation operation." It changes period for judging the total amount of the tax incentive from a "12 month period beginning April 1, 1985" to "any calendar year". This presents a problem as I'm not sure what the term "in any calendar year" modifies. I think it modifies sub-paragraph (a). It may modify sub-paragraph (b). The language is very confusing. It is very poorly worded.

Ninth Proposed Amendment

This amendment is necessary if the 5th, 6th and 7th amendments are adopted.

AMENDMENT SENATE BILL NO. 400

Proposed Amendment:

1. Page 9, line 13:
Following: alcohol
Delete: sold
Insert: blended

Comments:

This amendment is to eliminate a possible source of confusion. The tax incentive is paid for alcohol that was blended with gasoline to produce gasohol. Therefore, the critical information on the certificate is the amount of alcohol that was blended to produce gasohol and not the amount of alcohol that was sold to the gasohol dealer. The gasohol dealer may use some of the alcohol for some purpose other than producing gasohol.

AMENDMENTS -- SB-400

1. Page: 3
Line: 25
Delete: "...and sold in..." *e.H.c.H.*
Insert: "...produced in..."
2. Page: 4
Line: 4
Insert: "..., Including wood or wood products." after the word products *5.11*
3. Page: 5
Line: 18
Delete: "...in this state."
Insert: Period after distribution
4. Page: 5
Line: 22
Insert: "...including wood or wood products," after the word products *only*
5. Page: 6
Line: 10
Delete: "(a) beginning July 1, 1983, 70 cents per gallon;" *Highway*
NOTE: renumber appropriate following sections. *Decks 100*
6. Page: 6
Line: 11, following "...1985," *Highway*
Insert: "70".
7. Page: 6
Line: 12, following "...1987," *Highway*
Delete: "...30..."
Insert: "...50..."
8. Page: 8
Line: 12, 13, 14 and 15, following the sub-paragraph number "(4)"
Delete: "Regardless of the alcohol tax incentive provided in subsection (2) or (3), the total payments made for the incentive under this part may not exceed \$2,500,000 in any consecutive 12-month period beginning April 1, 1985."
Insert: "Regardless of the tax incentive provided in subsection (2) or (3), in any calendar year: (a) no distillation operation may receive *Income* in excess of \$1,000,000 in alcohol tax incentive; and (b) the total amount paid in alcohol tax incentive for all distillation operations may not exceed \$2,500,000 beginning April 1, 1985."
9. Page: 10
Line: 3, 4, 5 and 6, following the word "effective..."
Delete: "...July 1, 1985. Section 5 and this section are effective on passage and approval, but no rules adopted under section 5 may be made effective before July 1, 1985."
Insert: "Retroactively to April 1, 1985."

Exhibit 12
SB 400
3/22/85

LAND & CATTLE MANAGEMENT, INC.

JOHNSON REALTY CO.

310 East Sebree P.O. Box 791 Dillon, Montana 59725
Office (406) 693-6113 Residence (406) 693-2882

March 22, 1985

TO: House Taxation Committee
Helena, Montana

Good Morning Ladies and Gentlemen:

My name is Ron Johnson. I am a rancher and a cattle feeder from Dillon, Montana. I appreciate this opportunity to give you my views on Senate Bill 400 and ask that you consider the amendments that we have offered here this morning.

In 1984, after much research and encouragement by the livestock sector of the Montana economy, I decided to approach the Department of Natural Resources for a loan in the amount of \$330,000 to help build an alcohol plant in conjunction with our 6000 head cattle feeding operation in Dillon, Montana. We prepared the application and were granted the loan for \$330,000. With the additional funds from our own company in the amount of approximately \$200,000, we are in the process of completion of the first alcohol and feed plant in conjunction with a cattle feeding operation in Montana. The benefits of the wet distillers grain have been known for many years to be very valuable for the feeding of livestock. I am sure that most of you know the problems that the livestock industry is having in our state today and would certainly welcome the opportunity to improve agriculture's financial statement.

I was an agricultural banker for 16 years and I know the financial problems that are confronting the cattle feeders and the ranchers and farmers in the state of Montana. The alcohol plant in conjunction with our feedlot gives us an opportunity to use Montana grain to produce Montana alcohol, feed Montana cattle, and produce finished products from our raw agricultural products.

One of the amendments that I am most concerned with is the individual cap on each alcohol plant. I feel that there must be a cap because without it one large alcohol plant could come into the state of Montana and virtually dry up all of the state money that was set aside to help support the fledgling alcohol industry in Montana. So many times I have seen large out-of-state corporations come into Montana and virtually wipe out the funds that were primarily set up to promote small business and industry in Montana. I feel that the \$800,000 cap is certainly sufficient for any one producer in any one operating year. I also feel that Montana-produced alcohol should be saleable on the open market as Montana certainly needs the cash flow into the state itself.

I would, of course, like to see the incentive raised to 70¢ a gallon as the costs of producing a gallon of alcohol in our plant will

12

be approximately \$2.12 a gallon. It is my understanding that the market price for alcohol at the present time is \$1.35 a gallon, and it doesn't take a very smart banker to see that this ratio of income to expense can make you a very poor man very quickly. We feel that in our plant our salvation will be the added benefit of the wet distillers grain that we will use in our cattle feeding operation. We anticipate the wet distillers grain to decrease our cost of gain on the cattle by approximately 12%; therefore, I would ask you to consider the amendments that we have proposed and help us build a more viable economy for the agricultural sector of Montana.

It makes more sense to me to help the small producers that are involved in livestock and alcohol production by spreading the production of alcohol and wet distillers grain over the entire state of Montana than concentrating the financial backing of the state of Montana on one or two large producers in the state that require depreciation and investment credit to show a positive financial picture.

To summarize my remarks, I would like to think that this committee would consider the overall good of all of the state of Montana, for it is my belief that five or six or ten small alcohol plants better serve the state of Montana by providing employment throughout the state of Montana and by promoting the use of locally grown grain and locally grown livestock for the betterment of each of these individual communities. I am enclosing our projected operating income and expenses for our plant in Dillon, Montana, and you can see that if the plant was operated just as an alcohol plant alone it would be a losing proposition.

Thank you.

(This sheet to be used by those testifying on a bill.) ^{SB400}
^{Exhibit 13}
^{SBY00}

NAME: Lavina Lubinus DATE: 3/22/85

ADDRESS: 1501 Chestnut Helena

PHONE: 442-8723

REPRESENTING WHOM? Women Involved in Farm Economics

APPEARING ON WHICH PROPOSAL: SB400

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENT:

WTFE has provided the production and use
of Alaska fuel. We feel this bill will help
this project along while using surplus grain.
We urge the passage of this bill.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

Exhibit 74
SB 400
3/22/85

CROW TRIBAL COUNCIL



Crow Country

February 15, 1985

To: Senator Bill Yellowtail
Representative Ramona Howe
Representative Marion Hanson
and
Senator Tom Towe, Chairman, Senate Taxation Committee
Members of the Taxation Committee

Reference: Extension of legislation related to Alcohol Production Incentives

This letter is to confirm that the Crow Tribal Administration is in full support of the continuance of alcohol production tax incentives to commercial facilities that convert grain products into alcohol. Specifically, we support the construction of the proposed Alcohol Plant near Hardin.

As you may be aware, unemployment on the Crow Reservation last year was certified at 68.8% and more than 70% of our families earn less than \$5,000 per year. We feel the proposed Alcohol Plant will not only generate needed jobs, but also contribute to the stability of agriculture in our area. In addition, we support the project because it offers a very effective use of renewable resources and provides the kind of energy independence consistent with tribal, state and national goals. And, of course, the diversification of industry and development of secondary jobs and markets lends additional credence to the project.

Thank you for considering our position. We hope the Montana Legislature shares our concerns and authorizes appropriate legislation to make the Hardin Alcohol Project and others in the State more feasible.

Sincerely,

A handwritten signature in cursive script, appearing to read "Donald A. Stewart Sr.", is written over the typed name.

Donald A. Stewart Sr.
Crow Tribal Chairman

BENEFITS TO LOCAL AREA

1. CONSTRUCTION PHASE

- **90 Employees Average**
 - ★ **115 Peak Employment**
- **Payroll**
 - ★ **\$5.5 Million**

2. EMPLOYMENT

- **60 to 65 Permanent Employees**
 - ★ **85% Drawn From Local Labor Pool**
 - ★ **\$1.4 Million Annual Payroll,**
including benefits

3. COAL

- **Projected Usage**
 - ★ **150,000 Tons Annually**
 - ★ **4 Mines Currently Producing in Area**

4. BARLEY

- **5.25 Million Bushel Requirement**
Projected
 - ★ **875,700 Bushels Produced in Big Horn**
County — 1983

Exhibit 15
SB 400
3/22/85

TOTAL BARLEY PRODUCTION

South-Central Montana

<u>SOUTH-CENTRAL COUNTIES</u>	<u>TOTAL PRODUCTION IN BUSHELS</u>
Big Horn	875,700
Carbon	706,700
Park	656,700
Stillwater	856,900
Sweet Grass	187,000
Treasure	158,200
Yellowstone	1,371,600
TOTAL PRODUCED	4,812,800
Projected Requirements .	5,250,000
1983 Production	4,812,800
	<u>437,200</u>

BENEFITS TO STATE OF MONTANA

Exhibit 16
SB 400
3/22/85

1. Taxes

- **Coal Severance Tax**
 - ★ \$550,000 Per Annum
 - ★ 150,000 Tons of Coal
- **Personal Income Tax**
 - ★ **Construction Phase**
\$500,000 Per Year
 - ★ **Permanent Employees**
\$340,000 Per Year
- **Business Income Tax**
 - ★ All Suppliers Will Be Taxed
- **Ad-Valorem Tax**
 - ★ \$210,000 Per Annum
 - Tax on Co-Generation
- **Industrial Facility Taxes**
 - ★ \$560,000
 - \$70,000 First Three Years

2. 30 Year Life Expectancy

- \$16,500,000; Coal Severance
- \$26,500,000; Personal Income
- \$6,300,000; Ad Valorem
- \$15,300,000; Facility
- **Total Tax Benefit; \$64,600,000**

16
18

Exhibit 17
SB400
3/22/85

MUNICIPAL SERVICES

1. Utilities

- Montana Power
- ★ Unlimited Resource If Needed
- ★ 5,000 KW Capacity
- Natural Gas
- ★ Amounts Available Depending on Customer Classification

2. Sanitation

- Oxidation Ditch
- ★ 1,000,000 Gallons Per Day

3. Water

- Big Horn River
- ★ 2,000,000 Gallons Per Day
- ★ 1,000,000 Gallons Storage Capacity

4. Health Facilities

- 18 Bed Hospital
- Nursing/Retirement Center

★ 70 Nursing Home Beds

★ 20 Apartments

• Medical Staff

★ 4 Physicians

★ 1 Physicians Assistant

★ 2 Physical Therapists

★ 2 Dentists

★ 1 Optometrist

★ 1 Chiropracter

5. Law Enforcement

• Consolidated Form

6. Fire

• Volunteer
20 Members

7. Education

• Public Schools
★ 2 Elementary,
1 Jr. High, 1 Sr. High



Exhibit 18
SB 400
3/22/85
Larry Fox

BIG HORN CONSERVATION DISTRICT

HARDIN, MONTANA 59034

PHONE 406-665-3440

February 15, 1985

Senator William P. Yellowtail, Jr.
Capitol Station
Helena, MT 59620

Dear Senator Yellowtail:

At our regular February meeting, the supervisors of the Big Horn Conservation District discussed the proposed ethanol plant to be constructed near Hardin. It is the opinion of the board that this is a vitally needed financial shot in the arm for Big Horn County and especially for the lagging farm economy here.

We feel that it is necessary that we as farmers, businessmen and citizens of Big Horn County take every opportunity to promote an industry that has the potential to involve all persons of the area.

This proposed ethanol plan has our support, and we are requesting that you include our support with the others from this area in working toward securing the necessary assistance for the plant.

Sincerely,

Richard A. Kessler, Jr.
Greg Thompson
John R. McEdward
C. Hall & Helvey
Larry Fox

Supervisors
BIG HORN CONSERVATION DISTRICT

Exhibits 19
HB 937
3/22/85
Ber Soules

TESTIMONY OF GEORGE T. BENNETT
COUNSEL FOR MONTANA BANKERS ASSOCIATION
IN OPPOSITION TO HOUSE BILL 937

* * * * *

House Bill 937 imposes a tax only upon Montana residents who own corporate stocks and bonds listed on national exchanges. It is a grossly unfair tax since it is a tax upon savings, thus discouraging investment and saving through corporate obligations. It does not tax shares owned in other businesses or obligations issued by corporations other than bonds and obligations issued by other businesses. Thus it discriminates between investment obligations by applying only to listed corporate stocks and bonds.

It is an unfair tax because it is not based on ability to pay, such as an income tax, since it is a flat rate upon market value and market value may have nothing to do with the earnings; nor does it relate to the income bracket of the owner.

As a tax it will be difficult to administer since it will be difficult to determine which obligations are from time to time listed on stock exchanges. There is no definition of a "bond" and many obligations bear some, but not all, of the characteristics of a "bond." The tax administrators and taxpayers will have to determine "residence" and "domicile."

It is also an unfair tax since it can be evaded. Investors can shift out of corporate stocks and bonds on January 1st, and then back into such investments. This was one of the principal problems with the inventory tax and other similar taxes.

Also, the proposed act is unnecessarily harsh in its imposition of a lien upon real property of the taxpayer. This will unnecessarily create title problems since no other tax, with the exception of real and personal property taxes, constitute a lien against real property in the absence of the action of the Department of Revenue as to a specific deficiency whereby they have created a lien.

The whole intent of the bill seems to be to penalize those Montana residents who have seen fit to invest in the specified corporate stocks and bonds. If the theory is that only rich people invest in corporations, this is also a myth. Many persons, particularly self-employed people, have seen fit to put their life savings or the income they intend to retire upon, which is not covered by an exempt retirement, pension or profit-sharing plan, into corporate stocks and bonds.

March 19, 1985

Exhibit 20
HB 937
3/12/85

Mrs. Ward J. Soules
185 Horseshoe Bend
Helena, MT 59601

TO: Members of the House Taxation Committee
Forty-ninth Legislature - Montana

RE: House Bill 937: Imposing tax on stocks and bonds held by citizens
of Montana.

After reading and studying this bill, I have one question to ask of
Senator Towe and Representative Fritz.

HOW MANY TIMES MUST WE PAY TAXES ON THE SAME DOLLAR?

During the past 30 years, our family sacrificed so that we could put a
moderate amount into stocks and bonds to take care of my husband and me
during our retirement years.

The money was not given to us, but earned. We have already paid social
security taxes, federal income taxes and state income taxes on the amount
of money which was used to purchase stocks.

Now these two gentlemen want us to pay another tax on this amount, with
severe penalties to be imposed if for some reason we would not be able to
pay this tax.

The idea that the State of Montana could put a lien on our property each
year til this tax is paid is repugnant and reeks of police state mentality.
For a ten dollar tax, or even lower, Montana could take our property????!
This bill says that in no uncertain terms.

We have heard nothing else in this session from the Department of Revenue
except that they are overworked, understaffed and to hear them tell it,
on the brink of poverty in that department. Now Fritz and Towe would
put an additional burden on this department. Not only would the depart-
ment be given additional duties (and the authority that goes with them)
but the corporations and companies who issue the stocks and bonds would
have to report who in the state holds their certificates. A cross check,
I suppose, to make sure that everyone does their "duty" and pays this
very unfair tax, or reaps the penalties and perhaps loses their home.

Aside from my belief that this bill is a terrible burden to all who would
have to pay this tax, I have a distinct bad taste in my mouth at the
thought of our (or anyone's) stock holdings being made public by giving
a list of those holdings to the State of Montana, where anyone and every-
one could probably request a list from the Department of Revenue and
receive it.

Please vote "Do Not Pass" on this very bad legislation. Thank you very
much.

Signature Beverley A. Soules
Mrs. Ward J. Soules (Beverley)



An investment firm you like
to tell your friends about.

M E M O

March 21, 1985

TO: Representative Jerry Devlin
Chairman, House Taxation Committee

FROM: Bruce A. MacKenzie
General Counsel
D. A. Davidson & Co.

RE: House Bill 937 - Summary of Testimony in Opposition

House Bill 937 is manifestly unfair to Montana investors, imposes on corporations nationwide unduly burdensome expenses and burdens the brokerage industry with the same expenses while at the same time exposing brokerage firms to liability for the tax itself.

The tax to be imposed by this Bill would create a disincentive for any investor when determining where to place his or her investment funds. The tax results in a $\frac{1}{2}$ of 1% annual charge on the individual's invested assets thereby reducing any potential investment return accordingly. When faced with the choice of making an investment in taxable corporate stocks or bonds compared to a non-taxable investment, the investor is given a clear incentive toward the latter. The disincentive to invest in taxable securities has a twofold impact. First, the investment choices of Montanans are significantly reduced; and second, the tax creates an inhibiting effect upon business investments at a time when the State is attempting to promote such investment.

Even if Montanans were inclined to bear the tax for the opportunity to invest, the requirements imposed by the legislation for corporations to engage in reporting would make new corporations disinclined to offer their securities within the State. This again would reduce the investment opportunities for Montanans.

While all of these create concern to D.A. Davidson & Co., our major concern is with the Bill's impact on the brokerage industry. There is no question that the imposition of such a tax and the disincentive in corporate investments it creates would have a major negative effect upon the amount of business conducted by brokerage firms located within the State. Further, the fact that the brokerage firms registered to do business in the State are required to report to the Department of Revenue the holdings of all its customers would result in significantly added financial costs. D.A. Davidson & Co. estimates the cost of this requirement in its own operations to be in excess of \$50,000 per year.

In addition to the increased burden of cost, the brokerage firms which hold taxable securities in nominee name for the beneficial ownership of a Montana resident are liable for the tax under Section 2 of the Bill. There are no provisions within this legislation authorizing withholding of proceeds, prohibition of transfer of securities, or withholding of securities from any customer in order to meet the tax liability. The brokerage industry is left totally exposed to the liability without means for collection.

Exhibit 21
HB 937
3/22/85
MacKenzie

D.A.
Davidson
& Co.

Incorporated

Davidson Building
P.O. Box 5015
Great Falls, Montana
59403

(406) 727-4200

Offices: Billings,
Bozeman, Butte,
Havre, Helena, Kalispell,
Missoula, Montana;
Williston, North Dakota;
Moscow, Idaho

Corporate Office:
Davidson Building
Great Falls,
Montana 59401

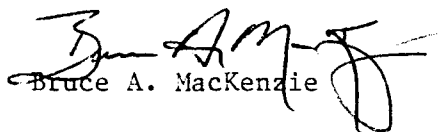
Members:
Midwest Stock
Exchange Inc.
Pacific Stock
Exchange Inc.
Securities Investor
Protection Corp.

This Bill is fraught with problems. There are problems of an administrative nature that are not addressed, the Bill exposes those in the brokerage industry to increased costs as the State's reporting agent, increased liability as the State's collection agency and declining business because of its disincentive to invest in corporate securities.

We respectfully request this Bill to be tabled and never be allowed out of the door of this Committee Room.

With best regards.

Sincerely,


Bruce A. MacKenzie

BAM:lkh

3/19/85

Mike Zimmerman

House Bill 937 - Tax on Corporate Stock

As of January 8, 1985, 13,047 Montana citizens owned 1,765,524 shares of MPC common stock. If on January 1, 1985, this stock were valued at \$22.25, the rate of tax on their common stock would have been 11.125 cents per share resulting in the collection of \$196,415.

If the sponsors of this bill are assuming that only capitalists with large stock holdings will be affected, they are mistaken. Montana Power offers stock to its customers through the Customer Stock Ownership Plan. As a result of this plan, 6,422 customers own 351,754 shares - an average of 54.7 shares per customer. Further, our information shows that

- 16.87% of all of MPC's stock is held by persons owning fewer than 15 shares (7,810 of 46,295 shareholders);
- 33.25% of all of MPC's stock is held by persons owning fewer than 50 shares (15,393 of 46,295 shareholders); and
- ~~42.56%~~ ^{62.86%} of all of MPC's stock is held by persons owning fewer than 100 shares (29,165 of 46,295 shareholders)

Thus, persons with small stock holdings, will be affected.

Many persons who are retired or are about to retire have acquired utility stock because the dividend has been deemed reliable so that it may be depended upon to supplement retirement income. This tax, then, will also have an impact on the retired person.

The revenue to be collected under this bill may not justify the resulting administrative expense. Consider an example of a

person who owns MPC common stock. Assuming a market value of \$22.25 per share, a person owning 15 shares would pay \$1.69; 50 shares would pay \$5.63; and 100 shares would pay \$11.25. It appears, then, that if Montana citizens own shares similar to the percentages of our total ownership, then for ^{62.86}~~43.56~~% of these shareholders, the administrative costs may not be justified by the tax that would be collected.

The rate of tax is "50 cents on every \$100 of the actual market value . . ." as of January 1 of each year. This rate is totally arbitrary and is subject to the vagaries of the market. In 1984, for example, the value of MPC's common stock fluctuated between a low of \$16.63 per share and a high of \$30.38 per share. Circumstances beyond the taxpayer's control could have resulted in a tax ranging from 8 cents to 15 cents per share.

HB 937 improperly taxes property and income that is already subject to tax. A share of stock equals ownership of a portion of a company's assets. These assets are taxed to the Company. The income earned through these assets is taxed. The subsequent dividend distribution of income to shareholders is taxed. Finally the gain, if any, resulting from the sale of the share of stock is taxed. There is no value, therefore, that has not otherwise been taxed.

Finally, there is no rational basis for the distinction between stock that is traded on public exchanges and other stock that is not traded on public exchanges. A share of a closely held corporation cannot be distinguished from a publicly traded share because each represents ownership of corporate assets. If

ownership of one is not taxed, then ownership of the other ought not to be taxed.

For: The Montana Power Company

By: Michael E. Zimmerman

Exhibit 23
HB 937
3/22/85
Rep. Fritz

H.B. 937 (Amend introduced copy)

- 1) Page 2, line 4.
Following: "amended"
Insert: "to any stock or bond exempt from taxation under 15-6-204 or 15-31-703, or to any stock of a corporation operating entirely within the state. Stocks of corporations deriving income within and without the state are taxable on a prorata basis according to the percent of such corporation's net income derived outside the state. Parent and subsidiary corporations are considered as separate and distinct legal entities, and the fact that a subsidiary corporation pays state franchise, property, or income taxes does not affect the taxability of shares of stock of the parent corporation"

- 2) Page 4, line 4.
Following: "shall"
Strike: remainder of line 4 through line 6
Insert: "transmit to the county treasurer of the county in which the taxpayer is located revenue collected under this act. The revenue transmitted must be allocated to each taxing jurisdiction within the county in the proportion that its mill levy for that fiscal year bears to the total mill levy of the taxing authorities of the district in which the taxpayer is located.
(3) "Taxing jurisdictions" means, for the purpose of this section, all taxing authorities within a county permitted under state law to levy mills against the taxable value of property in the taxing district in which the taxpayer is located."

- 3) Page 2, line 1.
before: "United States"
insert: "a)"

- 4) Page 2, line 1.
following "United States bonds"
delete: "or to"
insert: ", b) debts of a State or political subdivision exempt from taxation under the Internal Revenue Code, as amended, c)"

Fritz

(This sheet to be used by those testifying on a bill.) HB 287

NAME: Lavina Labinus DATE: 2/22/85

ADDRESS: 1501 Chestnut - Helena MT 59601

PHONE: 442-8723

REPRESENTING WHOM? Women Involved in Farm Economics

APPEARING ON WHICH PROPOSAL: HB 287

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

COMMENT:

Investment credit is an incentive to buy new equipment which in turn helps our down town communities.

The loss of this tax morrie 2 years ago was a Tax increase to the business community.

We urge the passage of HB 287.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.



P.O. Box 1409
HAMILTON, MONTANA
59840 USA
(406) 363-6214

March 20, 1985

EXPRESS MAIL

Mr. Gerry Devlin, Chairman
House Taxation Committee
Montana Legislature
Room 312-1, Capitol Building
Capitol Station
Helena, MT 59620

Dear Mr. Devlin:

We are a NASDAQ-listed Company located and headquartered in Hamilton, Montana. One hundred percent of our operations are based in Montana.

We are writing to express our strong opposition to House Bill No. 937 entitled "An act imposing a tax on certain corporate stocks and bonds..." This bill, imposing an annual tax of \$.50 per \$100 of actual market value of corporate stocks and bonds owned by Montana residents, is totally unconscionable.

First, the Bill would discourage investment by Montana residents in all companies' stocks and bonds and is a hindrance to the backbone of our country's economy - its businesses. Secondly, administering the provisions of the Bill by every public company throughout the country would probably be much more costly than the amount of tax that would be collected by the State. The Bill would impose a great hardship and incredible burden on all companies, particularly Montana-based companies in which many Montana residents invest heavily.

This Bill would also increase the perceived anti-business stature of this State, which we are all working to change for the betterment of our economy.

We object to the Bill not only from a company standpoint, but from the standpoint of our employees who own stock in our company. They would be highly discouraged from investing in their own workplace if they would be taxed for simply owning and holding this stock.

Appreciated value of stocks and bonds held by Montana residents is already taxed (both by the Federal government and by Montana) when the stocks and bonds are sold. Also, dividends on stock and interest paid on bonds is also subject to Federal and State income tax.

Mr. Gerry Devlin
Page 2
March 20, 1985

For these reasons, we sincerely hope that you will see the tremendous inequities and kill this Bill in Committee.

We have enclosed 25 copies of this letter and ask that they be distributed to each member of the House Taxation Committee.

Very truly yours,



Nils A. Ribí,
Chief Executive Officer

NAR/mm

cc: Ted Schwinden, Governor
Keith Colbo, Department of Commerce
Elmer Severson, Senator-District No. 32
Bernie Swift, Representative-District No. 64
Bob Thoft, Representative-District No. 63

Taxation Committee

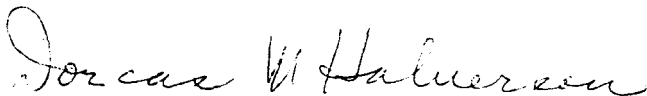
Montana House Of Representatives

Gentlemen and Ladies,

I wish to support SB 400. I have lived and worked in Big Horn County 39 years and have seen many come and go. This Ethanol plant is the type of industry we want in Big Horn County. First and foremost it is ecologically safe, It will not polute our air, water or be dangerous to workers and people living nearby. Secondly, it will use the grains grown by Montana farmers, a segment of our community that needs help. Thirdly, it will provide needed jobs for Eastern Montana. With EpA banning lead additives to gasoline, the product should have an excellent market.

Hardin and its citizens are eager to support this endeavor as you can see by those present from Hardin. I ask for your support for this bill which will make possible the building of the plant in Hardin. It 's completion will be an important addition to the economy of all of Montana.

Thank you,



Dorcas M. Halverson

Hardin Business and Professional Women

DEPARTMENT OF REVENUE



TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

HELENA, MONTANA 59620

March 26, 1985

MEMORANDUM

TO: Representative Devlin, Chairman
House Taxation Committee

FROM: Don Hoffman, Chief *D.H.*
Natural Resources Bureau
Department of Revenue

SUBJECT: How the proposed \$4.00/carat was arrived at in estimating
the impact of SB 280.

During the committee hearing on SB 280 you requested information as to how the \$4.00/carat was arrived at in estimating the value for sapphires in the fiscal note for the bill. The value/carat was based upon the value used in filing the net proceeds return for Intergem, Inc. for production year 1983. This was the only return filed for a gemstone operation in Montana for 1983, or any other year for which we have records.

Additionally, you requested how the \$4.00 was arrived at. As you can see from the attached memo from Mr. Bob McGee, Assistant Administration of the Miscellaneous Tax Division it was determined as I have testified to. Mr. Bullock, Mr. Brown and representatives of the Department sat down and discussed a mutually agreeable value for all raw uncut sapphires.

This value has been used by Mr. Bullock in filing returns since 1980 as you can see from the attached copies of the returns.

Attachments

DH/k1

DEPARTMENT OF REVENUE



TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

HELENA, MONTANA 59620

March 22, 1985

MEMORANDUM

TO: Don Hoffman

FROM: Bob McGee *Bob*

SUBJECT: Yogo Sapphire Evaluation

Since the original documentation has not been located, and due to the urgency involved, I will try to reconstruct the events as we, James Madison, Bob Conway & myself remember them.

In 1980 we received a request from former Senator Harold Dover to conduct an investigation, and do an audit on the Yogo Sapphire Mines Inc. The investigation took several months and this led to an audit in early 1981, which resulted in quite a substantial assessment which was paid.

In early 1982 Mr. Harry Bullock and Delmar Brown, his geologist, came into our office and we attempted to arrive at a fair market value of the sapphires coming out of the mine. The previous value we considered too low (approximately 35¢ per carat).

They had samples of the sapphires, some as large as 5 carats, and a lot of small ones which they said had little or no value.

Mr. Brown had a sheet of statistics which was compiled on other mining properties of a similar nature. The value we mutually agreed on was as I remember it, set at \$4.00 per carat for everything coming out of the mine.

The 1980 returns were amended to reflect this value, and the 1981 returns were filed at the same time on April 2, 1982. They also reflected the value of \$4.00 per carat on all production.

Later that year the severance taxes were all transferred to Corporation License & Natural Resource Tax Division and we have not had any contact since that time.

STATE OF MONTANA
DEPARTMENT OF REVENUE

Statement of Gross Yield of Mines
AND

Metalliferous Mines' License Tax

Year Ending December 31, 1983

Name of Person, Corporation or Association making this return: Intergem, Inc.
 Address: 3025 South Parker Road, Suite 209, Aurora, Colorado 80014
 Name and address of person in charge of tax matters in Montana: Lynn Seeley, 502 Strain Building, Great Falls, MT
 Name and address of owner of the mine, if other than the person making this return: N/A
 Description and location of mine: Utica, MT Sec. 20-24 Twp. 13N Rge. 11E School Dist. No. _____, County of Judith Basin
 Number of tons of ore or other products or deposits extracted from the mine or mining property during period covered by this statement: _____

SMELTER SHIPMENTS: Give number of tons and kind of ore shipped or sold to each smelter, mill or reduction works.

Number of Tons	Kind of Ore	Smelter, Mill or Reduction Works	Address
_____	_____	_____ shipped to _____	_____
_____	_____	_____ shipped to _____	_____
_____	_____	_____ shipped to _____	_____
_____	_____	_____ shipped to _____	_____
_____	_____	_____ shipped to _____	_____

The gross yield of such ores in constituents of commercial value, and the value thereof:

Ave. Price (See Note Below)	Differential	Montana Price	Montana Value
_____ oz. Gold @ \$ _____ less _____			
_____ oz. Silver @ _____ c less _____			
_____ lbs. Copper @ _____ c less _____			
_____ lbs. Lead @ _____ c less _____			
_____ lbs. Zinc @ _____ c less _____			
_____ 123,014 Carats of Sapphires @ _____ c less _____		\$4.00/c.t.	492,056.00
_____ @ _____ c less _____			
_____ @ _____ c less _____			
_____ @ _____ c less _____			
*Give average price for year quoted in Engineering & Mining Journal			Total Montana Gross Value \$ 492,056.00

Office Use Only
 Assessment Letter Mailed: _____
 100,000.00 X .0015 = 150.00
 150,000.00 X .00575 = 862.50
 150,000.00 X .0086 = 1,290.00
 92,056.00 X .0115 = 1,058.64
 492,056.00

I hereby swear or affirm under penalty of perjury that the statements contained herein are true and correct to the best of my knowledge.

3/22/84 (Date)
Stephane A. Felster (Signature of Principal or Agent)

INSTRUCTIONS FOR FORM PREPARATION
 Prepare statement in duplicate. Submit original to Natural Resource and Corporation Tax Division, Department of Revenue, Mitchell Building, Helena, Montana 59620. Retain duplicate in company files for audit purposes. Statement must be filed on or before April 15 covering the preceding year's production. The Department of Revenue will compute the license tax due and notify the producer by June 1 of the amount due to be paid on or before June 30.

**Statement of Gross Yield of Mines
AND
Metalliferous Mines' License Tax**

Year Ending December 31, 19 80

Name of Person, Corporation or Association making this return: Bullock Exploration, Inc.
 Address: 3025 So. Parker Rd., Suite 209, Aurora, CO 80014
 Name and address of person in charge of tax matters in Montana: Lynn Seelye - Graybill, Ostrem, Warner & Crotty, No. 18 6th St. N., #200, Great Falls
 Name and address of owner of the mine, if other than the person making this return: American Yogo Sapphire, Ltd., 3025 So. Parker Rd., #209 Falls
 Description and location of mine: Utica, MT Sec. 20-24 Twp. 13N Rge. 11E School Dist. No. _____, County of Judith Basin MT
 Number of tons of ore or other products or deposits extracted from the mine or mining property during period covered by this statement _____

SMELTER SHIPMENTS: Give number of tons and kind of ore shipped or sold to each smelter, mill or reduction works.
 Number of Tons _____ Kind of Ore _____ Smelter, Mill or Reduction Works _____ Address _____
 _____ of _____ shipped to _____
 _____ of _____ shipped to _____
 _____ of _____ shipped to _____
 _____ of _____ shipped to _____
 _____ of _____ shipped to _____

The gross yield of such ores in constituents of commercial value, and the value thereof:

Ave. Price (See Note Below)	Differential	Montana Price	Montana Value
oz. Gold @ \$ _____ less _____			
oz. Silver @ _____ c less _____			
lbs. Copper @ _____ c less _____			
lbs. Lead @ _____ c less _____			
lbs. Zinc @ _____ c less _____			
@ _____ c less _____			
@ _____ c less _____			
@ _____ c less _____			
@ _____ c less _____			
@ _____ c less _____			
@ _____ c less _____			
@ _____ c less _____			
35,000 Carats of Sapphires		\$4.00	\$140,000.00
*Give average price for year quoted in Engineering & Mining Journal			Total Montana Gross Value \$ <u>140,000.00</u>

I hereby swear or affirm under penalty of perjury that the statements contained herein are true and correct to the best of my knowledge.

4/2/82 (Date) Stanley C. Bullace (Signature of Principal or Agent)

Office Use Only
 Assessment Letter Mailed: _____
100,000.00 X .0015 = 150.00
40,000.00 X .00575 = 230.00
140,000.00 = 380.00

INSTRUCTIONS FOR FORM PREPARATION
 Prepare statement in duplicate. Submit original to Miscellaneous Tax Division, Department of Revenue, Mitchell Building, Helena, Montana 59601. Retain duplicate in company files for audit purposes. Statement must be filed on or before April 15 covering the preceding year's production. The Department of Revenue will compute the license tax due and notify the producer by June 1 of the amount which must be paid on or before June 30.

READ INSTRUCTIONS
ON BACK OF THIS
SHEET BEFORE
PREPARING REPORT.

STATE OF MONTANA
ASSESSMENT OF NET PROCEEDS OF MINES
(Chapter 15 M.C.A.)
RETURN AND STATEMENT OF NET PROCEEDS
For Year Ending Dec. 31, 1983

NOTICE:
This statement must be
filed with the Department
of Revenue, Natural
Resource and Corporation
Tax Division,
Helena, Montana, on or
before March 31, 1984.

Name of Owner or Operator... Intergem, Inc. Telephone # (303) 695-8777
Address... 3025 South Parker Road, Suite 209 City, Aurora State, Colorado Zip Code... 80014
Name of Mine... "Yogo" Sapphire Mine Location: Utica Section 20-24 Twp. 13N Rge. 11E
County... Judith Basin School Dist. No.
Name, Title and Address of Person having Active Charge of Mining Operations and Business in Montana... Fred Woods, Plant
Supervisor
Name, Title Address of Person Having Active Charge of Tax Matters in Montana... Lynn Seeley, 502 Strain Building,
Great Falls, MT

Total number of tons of ore mined or extracted during year ended December 31, 1983
Yield in constituents of commercial value:

oz.	per oz.	\$
123,014	\$4.00	\$492,056
other	per carat	\$492,056
		Total Gross Value \$ 492,056

Type of Product:

GROSS PROCEEDS	DEDUCTIONS
Total Gross Value in dollars and cents \$ 492,056	NOTE: These deductions must be itemized in accordance with the schedules on the back of this report.
Of above Products \$ 492,056	1. Cost of extracting or mining ore or deposit \$ 572,917
Total Deductions \$ 759,910	2. Cost of transporting crude ore or deposit from mine or deposit to reduction works \$ -0-
Net Proceeds \$ (267,854)	3. Cost of sale of crude ore or deposit \$ -0-
	4. Cost of reduction of crude ore or deposit \$ -0-
	5. Cost of marketing metals and minerals and conversion into money \$ 167,992
	6. Cost of construction, repairs and betterments of mines during year \$ -0-
	7. Cost of repairs and replacements of reduction works, mills, and smelters during year \$ 16,599
	8. Depreciation of reduction works, mills and smelters \$ 2,402
	TOTAL DEDUCTIONS \$ 759,910

THE STATEMENT MUST BE COMPLETED IN ITS ENTIRETY

Dated at... the... day of... 19...
STATE OF...
County of...

being first duly sworn according to law, on oath, deposes and says
that he has read the foregoing return and knows the contents
thereof, and that the statements, and all thereof, contained therein are true.

Subscribed and sworn to before me this... day of... 19...

Notary Public for State of... Residing
at...
Commission expires... 19...

STATE DEPARTMENT
ASSESSMENT OF NET PROCEEDS OF MINES
RETURN Statement for Year Ended December 31, 1982

Operator Bullock Exploration, Inc. Address 3025 So. Parker Rd., #209, Aurora, CO 80014
 and Address of Owner of the Mine if Other Than the Person Making This Return Intergem (American Yogo Sapphires)
 of Mine Yogo Area Acres Location: Sec. 20-24 Twp. 13N Rge. 11E phir
 District No. Inside or Outside City Limits Outside Utica County of Judith Basin
 Title and Address of Person Having Active Charge of Mining Operations and Business in Montana
Fred Woods, Plant Supervisor Falls, MT
 Title and Address of Person Having Charge of Tax Matters in Montana Lynn Seeley, 502 Strain Bldg., Great Falls, MT
 Total number of tons of ore mined or extracted during year ended December 31, 1982 13,916 Tons

Yield in constituents of commercial value:

.....oz. of gold @.....per oz. \$.....oz. of silver @.....per oz. \$.....
.....lb. of lead @.....per lb. \$.....oz. of copper @.....per lb. \$.....
.....lb. of zinc @.....per lb. \$.....@.....per.....\$.....
.....@.....per.....\$.....	80.818 Carats of Sapphires @ 4.00 per.....\$323,272.00

GROSS PROCEEDS

OTE. True market value must be given even though its were sold below such value, or have not been sold time of making the return.

Gross yield or value in dollars and cents of products above specified	\$ 323,272.00
Total Deductions	\$ 347,900.00
Net Proceeds	\$ -0-

COST OF EXTRACTING ORE OR DEPOSIT:

(a) Labor	\$
(b) Supplies, Materials, Tools	\$
(c) Machinery	\$
(d) Fuel, Power, Light	\$
(e) Royalties	\$
(f) Other Expenses	\$
Total Cost	\$ 108,740.00

COST OF REDUCTION WORKS:

.....	\$
.....	\$
.....	\$
Total Cost	\$ -0-

SALE OF CRUDE ORE OR DEPOSIT:

.....	\$
.....	\$
Total Cost	\$ -0-

COST OF REDUCTION OR MILLING:

(a) Labor	\$
(b) Supplies, Materials, Tools	\$
(c) Fuel, Power, Light	\$
(d)	\$

DEDUCTIONS

NOTE. These deductions must be itemized in accordance with the schedules below.

4. Cost of extracting or mining ore or deposit	\$ 208,740
5. Cost of transporting crude ore or deposit from mine or deposit to reduction works	\$ Incl.
6. Cost of sale of crude ore or deposit	\$ -0-
7. Cost of reduction of crude ore or deposit	\$ 139,160
8. Cost of marketing metals and minerals and conversion into money	\$ -0-
9. Cost of construction, repairs and betterments of mines during year	\$ Incl.
10. Cost of repairs and replacements of reduction works, mills and smelters during year	\$ -0-
11. Depreciation of reduction works, mills and smelters	\$ -0-
Total Deductions	\$ 347,900.00

8. COST OF MARKETING AND CONVERSION INTO MONEY:

(a) Freight and Express	\$
(b) Selling Charges or Commission	\$
(c)	\$
Total Cost	\$ -0-

9. COST OF CONSTRUCTION, REPAIRS AND BETTERMENTS TO MINE:

(a)	\$
(b)	\$
(c)	\$
(d)	\$
(e)	\$
Total Cost	\$ -0-

10. COST OF REPAIRS AND REPLACEMENTS TO REDUCTION WORKS:

(a) Repairs to Building	\$
(b) Repairs to Machinery and Equipment	\$
(c) New Buildings for Replacements	\$
(d) New Machinery for Replacement Purposes	\$
Total Cost	\$ -0-

11. DEPRECIATION OF REDUCTION WORKS:

(a) Total number of tons of ore milled or treated from mine for which this return is made	13,916
(b) Total number of tons of ore milled or treated from other mines worked or operated by the person working or operating the mine for which this return is made	-0-
(c) Total number of tons of custom ore milled or treated	-0-
(d) Total number of tons of ore milled or treated at mill, smelter or reduction works	-0-

to be filed with the Department of Revenue, State Tax Division, before March 31 in each year.

STATE OF MONTANA

Assessment of Net Proceeds of Mines

NOTICE: Read instructions on back of this sheet before preparing report.

Return and Statement for Year Ended December 31, 1981

Name of Operator: Bullock Exploration, Inc. Address: 3025 S. Parker Rd., #209, Aurora
 Name and Address of Owner of the Mine if Other Than the Person Making This Return: American Yogo Sapphire, Ltd.
 Name of Mine: Yogo Area: _____ Acres: _____ Location: Sec. 20-24 Twp. 13N Rge. 11E
 District No. 25 Inside or Outside City Limits: _____ Outside Utica County of Judith Basin
 Title and Address of Person Having Active Charge of Mining Operations and Business in Montana: _____
Fred Woods, Plant Supervisor

Title and Address of Person Having Charge of Tax Matters in Montana: Lynn Seeley, Graybill, Ostrem, Warner
County, Great Falls, MT
 Total number of tons of ore mined or extracted during year ended December 31, 1981: 22,322

Yield in constituents of commercial value:
 _____ oz. of gold @ _____ per oz. \$ _____ oz. of silver @ _____ per oz. \$ _____
 _____ lb. of lead @ _____ per lb. \$ _____ oz. of copper @ _____ per lb. \$ _____
 _____ lb. of zinc @ _____ per lb. \$ _____ @ _____ per ct. \$ 440,000
110,000 Carats of Sapphires @ 4.00

GROSS PROCEEDS

NOTE: True market value must be given even though lots were sold below such value, or have not been sold at time of making the return.

Gross yield or value in dollars and cent: 440,000
 of products above specified \$ 0-
 Total Deductions 558,050 \$ 0-
 Net Proceeds 0 \$ 0-

VC

DEDUCTIONS

NOTE: These deductions must be itemized in accordance with the schedules below.

4. Cost of extracting or mining ore or deposit \$ 334,830
 5. Cost of transporting crude ore or deposit from mine or deposit to reduction works \$ Incl.
 6. Cost of sale of crude ore or deposit \$ 0-
 7. Cost of reduction of crude ore or deposit \$ 223,220
 8. Cost of marketing metals and minerals and conversion into money \$ 0-
 9. Cost of construction, repairs and betterments of mines during year \$ Incl.
 10. Cost of repairs and replacements of reduction works, mills and smelters during year \$ 0-
 11. Depreciation of reduction works, mills and smelters \$ 0-
- Total Deductions \$ 558,050

COST OF EXTRACTING ORE OR DEPOSIT:

- a) Labor \$ _____
 - b) Supplies, Materials, Tools \$ _____
 - c) Machinery \$ _____
 - d) Fuel, Power, Light \$ _____
 - e) Royalties \$ _____
 - f) Other Expenses \$ _____
- Subcontract _____
 Total Cost \$15.00 x 22,322 T. \$ 334,830

COST OF TRANSPORTING CRUDE ORE OR DEPOSIT TO MILL, SMELTER OR REDUCTION WORKS:

- a) Hauling \$ _____
 - b) Freight Charges \$ _____
 - c) _____ \$ _____
- Total Cost (Incl. in 4) \$ _____

8. COST OF MARKETING AND CONVERSION INTO MONEY:

- (a) Freight and Express \$ _____
 - (b) Selling Charges or Commission \$ _____
 - (c) _____ \$ _____
- Total Cost \$ 0-

9. COST OF CONSTRUCTION, REPAIRS AND BETTERMENTS TO MINE:

- (a) _____ \$ _____
 - (b) _____ \$ _____
 - (c) _____ \$ _____
 - (d) _____ \$ _____
 - (e) _____ \$ _____
- Total Cost (Incl. in 4) \$ _____

10. COST OF REPAIRS AND REPLACEMENTS TO REDUCTION WORKS:

- (a) Repairs to Building \$ _____
- (b) Repairs to Machinery and Equipment \$ _____

Division: **Assessment of Net Proceeds of Mines** meet before preparing report. Aurora,
 March 31 in **Return and Statement for Year Ended December 31, 1980**
 Operator: **Bullock Exploration, Inc.** Address **3025 S. Parker Rd., #209**
 and Address of Owner of the Mine if Other Than the Person Making This Return **American Yogo Sapphire, Ltd.**
 Name of Mine: **Yogo** Area **20** Acres. Location: **Sec. 20-24 Twp. 13N Rge. 11E**
 School District No. **25** Inside or Outside City Limits **Outside** County of **Judith Basin**
 Name, Title and Address of Person Having Active Charge of Mining Operations and Business in Montana

Name, Title and Address of Person Having Charge of Tax Matters in Montana
 1. Total number of tons of ore mined or extracted during year ended December 31, 1980 **5,500 Tons**
 2. Yield in constituents of commercial value:
oz. of gold @per oz. \$oz. of silver @per oz. \$
lb. of lead @per lb. \$oz. of copper @per lb. \$
lb. of zinc @per lb. \$@per \$
@per \$35,000 Carats @ 4.00 per ct. \$140,000
 of Sapphires

GROSS PROCEEDS
 NOTE. True market value must be given even though products were sold below such value, or have not been sold the time of making the return.
 Gross yield or value in dollars and cent, of products above specified \$ -0-
 Total Deductions \$ -0-
 Net Proceeds \$ -0-

DEDUCTIONS
 NOTE. These deductions must be itemized in accordance with the schedules below.
 4. Cost of extracting or mining ore or deposit \$82,500
 5. Cost of transporting crude ore or deposit from mine or deposit to reduction works. **Incl.** \$ -0-
 6. Cost of sale of crude ore or deposit \$ -0-
 7. Cost of reduction of crude ore or deposit. **\$55,000**
 8. Cost of marketing metals and minerals and conversion into money \$ -0-
 9. Cost of construction, repairs and betterments of mines during year \$ -0-
 10. Cost of repairs and replacements of reduction works, mills and smelters during year \$ -0-
 11. Depreciation of reduction works, mills and smelters \$ -0-
 Total Deductions \$137,500

COST OF EXTRACTING ORE OR DEPOSIT:
 (a) Labor \$ Incl.
 (b) Supplies, Materials, Tools \$
 (c) Machinery \$
 (d) Fuel, Power, Light \$
 (e) Royalties \$
 (f) Other Expenses \$
 Subcontract \$
 Total Cost $$.15.00 \times 5,500 T$ **\$82,500**

8. COST OF MARKETING AND CONVERSION TO MONEY:
 (a) Freight and Express \$
 (b) Selling Charges or Commission \$
 (c) \$
 Total Cost \$ -0-

COST OF TRANSPORTING CRUDE ORE OR DEPOSIT TO MILL, SMELTER OR REDUCTION WORKS:
 (a) Hauling \$
 (b) Freight Charges \$
 (c) \$
 Total Cost **(Incl. in 4)** \$

9. COST OF CONSTRUCTION, REPAIRS AND BETTERTMENTS TO MINE:
 (a) \$
 (b) \$
 (c) \$
 (d) \$
 (e) \$
 Total Cost \$ -0-

COST OF SALE OF CRUDE ORE OR DEPOSIT:
 (a) \$
 (b) \$
 (c) \$
 Total Cost \$ -0-

10. COST OF REPAIRS AND REPLACEMENTS TO REDUCTION WORKS:
 (a) Repairs to Building \$
 (b) Repairs to Machinery and Equipment \$
 (c) New Buildings for Replacements \$
 (d) New Machinery for Replacement Purposes \$
 Total Cost \$

COST OF REDUCTION OR MILLING:
 (a) Labor \$
 (b) Supplies, Materials, Tools \$

11. DEPRECIATION OF REDUCTION WORKS:
 (a) Total number of tons of ore milled or treated from mine for which this return is made **5,500**
 (b) Total number of tons of ore milled or treated from other mines worked or operated by the person working or operating the mine for which this return is made **-0-**
 (c) Total number of tons of custom ore milled **-0-**

VISITOR'S REGISTER

HOUSE TAXATION COMMITTEE

BILL SENATE BILL 280

DATE March 22, 1985

SPONSOR SENATOR B. WILLIAMS

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
CLAUDIA BIELENBERG	BIG SPOK, MT			X
MARY BIELENBERG	Hamilton MT			X
Richard M. Taylor	Phillipsburg, mt.	Gen mtn Sapphiric		X
Harry Bullock	Utica	Rtergen		X
Stephanie Steinbrun	Box 114 Cheney	Montana Council General Mineral Mts		X
Willis H. Leaf	3652 N. Montana	Helena Mineral Society		X
Epho. R. Hess	Phillipsburg	Cornish Sapphiric		X
Grace Hess	Phillipsburg mt	" "		X
LYNN McSEWYE	Gt Falls Mont	Intergen INC		X
LEROY R. BATTERSHEN	1104 BRIDWAY HELENA	Self		X
Beverly Tyson	3131 York Rd. Helena	self		X
Alan M. Hart	4222 Lab Place, Missoula	El Dorado Sapphiric Mine		X
Russell W. Anonson	4397 Hart Dr, Helena	Castles Sapphiric mine		X
Jenna Seelye	Gt. Falls 415 Riverside Ct	Intergen Inc.		X
Courtney Seelye	Gt. Falls 415 Riverside Ct	Intergen Inc.		X

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

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITOR'S REGISTER

HOUSE _____ TAXATION _____ COMMITTEE _____

BILL _____ SB 400 _____

DATE March 22, 1985

SPONSOR _____ SENATOR YELLOWTAIL _____

NAME	RESIDENCE	REPRESENTING	SUP- PORT	OP- POSE
Rodney Svec	Hardin, MT	Hardin Public Schools	✓	
Woody Shore	Hardin, MT	Hardin Cham. of Comm.	✓	
Barbara Duro	Hardin, MT	Hardin Chamber of Comm.	✓	
Digina Scheidt	Hardin, MT	Hardin Area Chamber of Comm.	✓	
Larry Fox	Hardin, mt.	Big Horn Conservation District	✓	
Jim Kamussen	Hardin, MT	Hardin Area Cham. of Commerce	✓	
Ben Johnson	Dillon	Small Plant Products	✓	
John Brunbeck	Helena	"	✓	
Bill Hemmings	BILLINGS, MT	CITY OF HARDIN	✓	
Bruce Kania	Amsterdam, Mt	A. E. Montana, Inc	amendments	
Larina Lubius	WIFE Helena	WIFE	✓	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.
 WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

TAXATION

COMMITTEE

BILL NO. HB 937

DATE March 22, 1985

SPONSOR REPRESENTATIVE FRITZ

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Hal G Stearns	Helena		X
CLAUDIA BIELENBERG	BIGFORK		X
Harry Bullock	Helena		
Deverly A. Soules	Helena		X
Etho. P. Hess	Phillipsburg		X
George Anderson	Helena		X
Robert B. Haseman	Helena		X
Janelle Fallon	Helena		X
David H. Roberts	Helena		X
Mike Zimmerman	Butte		X
Joe Weggenman	HELENA		X
MIKE DASILVA	HELENA		X
Clark Ryck	East Helena - self		X
BRUCE A. MACKENZIE	GREAT FALLS		X
Don Judge	Helena (MT STATE AFL-CIO)	X	
Pat Wilson Mexico - Trans Energy	Billings		X
Tom Edzery NERCIS	Billings		X
Riley Johnson	NEFB, mont Home Builders		X
Chas S. Wilfinger	MBMFA		X
Geoff Zwick	Missoula chamber		X

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.