

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 7, 1985

The forty-third meeting of the Senate Taxation Committee was called to order by Chairman Thomas E. Towe at 8:06 am in Room 413-415 of the Capitol Building.

ROLL CALL: Senator Hager was excused and all other members of the committee were present.

CONSIDERATION OF HB 26: Representative Dean Switzer, House District 28, was recognized as chief sponsor of the bill. He explained that the bill expanded the allowable property tax benefits to include reconstruction and expansion of buildings. He said it would require separate action for an exemption on each project.

PROPONENTS

Mr. John M. Shontz, representing the Glendive Chamber of Commerce and Glendive Forward, submitted his testimony in writing (Exhibit 1).

Ms. Marie MacLear, representing the Montana Association of Counties, said that amendments put on the bill in the House were causing them some concern. She said the exact taxing authority applicable needed to be clarified. She said they do support the bill.

Mr. Alex Hansen, representing the Montana League of Cities and Towns, said that the Glendive people had come to the Revenue Oversight Committee with a sincere concern. He said the broad application of the bill would help others as well.

Mr. Dave Goss, representing the Billings Chamber of Commerce said the bill would help all across Montana with the erosion of the tax base. He said the bill would not erode the base currently but would phase in future revenues. He also asked for clarification of the governing body to which application should be made.

Mr. Joe Weggemen, Helena Chamber of Commerce, supported the bill without further comment.

Representative Bob Bachini supported the bill without comment.

Mr. Don Engles, representing the Montana Chamber of Commerce, rose in support of the bill.

Mr. Carl J. Knutson, representing the Brothers of the Maintenance of the Way, rose in support of the bill.

Mr. Jeff Quick, Missoula Chamber of Commerce, supported the bill.

Senator Larry Tveit, Senate District 11, said that this bill is a good complement to the build Montana program and would do a lot to help the business climate.

Senator Pat Goodover said the Great Falls Chamber of Commerce supported

the bill.

OPPONENTS

Ms. Louise Kunz of the Montana Low Income Coalition presented her testimony in writing (Exhibit 2).

Questions from the committee were called for.

In response to a question from Senator Halligan, Mr. Dan Bucks of the Department of Revenue said that any construction that changes the valuation is already looked at by local appraisers anyway, and that no additional work would be necessary to comply with the bill.

Senator Mazurek asked about the ambiguity in the bill's language. Mr. Bucks said the bill may not be clear in its application to state-wide mills. Representative Switzer said the state was separated from the exemption. Senator Mazurek felt the distinction between city and county levies was not clear. Representative Switzer said that it was the intention of the House Taxation Committee to let the city and county operate independently.

In discussion of how this would impact Glendive, Representative Switzer said that reconstruction of the existing roundhouse by Burlington Northern would be a \$7 to 11 million project. He said that keeping the roundhouse there would mean an increase of about 40 jobs to the community and losing it would be a loss of about 90 to 100 jobs.

Senator Eck asked if the School Districts should be consulted in the waiver of levies. Representative Switzer said that the action should bring them additional students, additional A and B money and it does not exempt anything paid at this time, but only delays payment on future taxes paid.

In response to a question from Senator Goodover, Representative Switzer said that the House committee did not want a project foisted on one unit of local government by another unit. He said there must be cooperation to receive the whole exemption. In discussion with Senator Towe it was clarified that if the city approves it would apply to city mills and would not apply to the county until it had acted as well. A separate resolution would be required for each project.

Senator Hirsch asked what the tax savings would be. Representative Switzer said that in the first year, no tax would be paid on the new facility. Senator Towe said that with Burlington Northern the \$11 million would be absorbed by the unitary system and very little would be paid here anyway. Representative Switzer agreed that the greater impacts would be other than the Burlington Northern.

Senator Lybeck asked if this was setting a precedent. Representative Switzer answered that the exemption was already created in 1981 and this was merely an expansion of it. Mr. Shontz said that it would be granted on a case by case basis, and with industrial development bonds, the commissions had acted independently on each decision.

Senator Goodover clarified that on smaller projects, it wouldn't

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make much difference.

Senator Halligan asked if market value, rather than taxable value should be used.

Representative Switzer closed without comment.

CONSIDERATION OF HB 171: Representative Switzer, House District 28, was recognized as chief sponsor of the bill. He said the bill changes the interest on delinquent property taxes so that people won't be investing money elsewhere rather than paying taxes.

PROPOSERS

Mr. Charles Gravely, representing the Montana Treasurers Association, said that the Assessors Association also passed a resolution in support of the bill. He said the bill would send interest rates at 14 percent the first year and 12 percent thereafter. He said it would encourage people to pay taxes. He said that the major delinquencies are with developers. He used Butte/Silver Bow as an example where two taxpayers owed the consolidated government almost \$1 million.

Mr. Alex Hanse, Montana League of Cities and Towns, rose in support of the bill. He said it was aimed at people who were playing games with public finances. He said they withhold the payment of taxes because the margin of investment allows them to profit. He said closing the margin would make paying taxes good investment policy.

Mr. Greg Jackson of the Urban Coalition, rose to support the bill.

Mr. John Larson, representing the Montana Department of Public Instruction, also supported the bill as it would help school district funding.

Mr. Mike Young, Finance Director for the city of Missoula, said that they support the bill.

Senator Dorothy Eck rose to support the bill saying that in her county other taxpayers are picking up the difference by increased levies and that they are tired of it.

OPPOSERS

None were heard.

Questions from the committee were called for.

Senator McCallum said that this bill had been before the Legislature before and testimony at that time indicated that 80 percent of the delinquent taxes were owned by persons owing less than \$200.

Mr. Gravely disagreed, saying that studies revealed that retired folks, farmers and ranchers, pay taxes. He said that the major delinquent taxpayers are large ones and that it is an unfair burden to the conscientious taxpayer. Mr. Hansen pointed out that the small taxpayers would experience an almost insignificant increase as a result of this bill.

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Senator Goodover asked if the falling interest rates make this bill less necessary. It was agreed that it is not as urgent now as it was.

Representative Switzer closed without comment.

CONSIDERATION OF SB 461: Senator Dave Fuller, Senate District 22, was recognized as chief sponsor of the bill. He explained that the cash flow and financing problems of local governments result because of the timing of the tax collections. He said that now to borrow money local governments have to register warrants and pay interest. He said this bill would allow the Economic Development Board to buy tax anticipation notes from local government. He said the cost would be less to local governments and it would also benefit the Economic Development Board.

PROPOSERS

Mr. Dale Harris, Deputy Director of the Economic Development Board, said they are slightly involved with local government financing because of the municipal bond pooling act. He said that Sections 1 through 9 of the bill give local governments the option to issue tax anticipation notes rather than register warrants. Sections 9 through 12 allow the Economic Development Board to purchase these. He said this would be an advantage to local government as they are now paying 8 to 10 percent interest and this would give them the money they need at 0 to 2 percent interest. He said that the current process of registering warrants is very cumbersome for both the unit of local government and the banks. He said that his Board can support the program with legal arbitrage. He said no additional debt authority is created. He said the bonds can roll over in 13 months for the Board, which would allow the local governments to borrow one month's shortfall and the next month's expenditures.

Mr. Bill Verwulf, City of Helena and City Finance Association, said that this would save local governments money both in decreased paper work and decreased interest rates.

Mr. Mike Young, City Finance Director for the City of Missoula, said it would reduce their cost of borrowing.

Mr. Alex Hanson, Montana League of Cities and Towns said they support the bill for three reasons: 1) efficiency, 2) economy and 3) it would give help where it was most needed. He used Butte/Silver Bow as an example, saying they could save hundreds of thousands of dollars with this bill.

Mr. Greg Jackson of the Urban Coalition supported the bill for the same reasons.

Mr. Bob Ellerd an investment banker said this bill would be both effective and efficient.

Mr. John Larson of the Superintendent of Public Instruction's office said they have no position on the bill, but would like to see it amended to have the county treasurer act in a clarifying role for

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local government entities needing to use the tax anticipation notes. He said it should be coordinated with Title 20.

OPPONENTS

None were heard.

Questions from the committee were called for.

Mr. Harris explained to Senator Towe that a holding account is needed to handle receipts before disbursements could be properly made.

In response to other questions Mr. Harris said the long-term obligation would be borne by the state. He said this is the same process the state uses for its tax anticipation notes and that almost all states allow their local governments to do this.

Senator Neuman asked if local governments would be tempted to borrow and not pay back quickly because of the no or low interest rates.

Senator Fuller was excused to return to another committee and was not present to close on the bill.

CONSIDERATION OF SB 280:

Exhibit 3 was distributed to the committee for consideration of this bill. Senator Towe said the problem is that Intergem is currently paying no taxes because they have no net profit and that if a gross proceeds tax is enacted that their gross product is not immediately saleable, and saleable only in a small percentage.

Mr. Don Hoffman of the Department of Revenue told the committee that the \$4 carat assessed value had been previously agreed to. He said that it was difficult because the corporate ownership had changed five times in the last eight years, sometimes with the same stockholders. He said they were a "moving target".

Senator Brown said he wanted Intergem to pay fairly, but had no desire to bankrupt them. Senator Williams responded that he did not think that would be the case. Senator Williams questioned the figures on the cost of a saleable carat and also on the percentage of useful stones mined.

Senator Hirsch inquired about taxing only certain classifications. Senator Williams said that he wanted it taxed per carat as it leaves the mine.

Senator Eck asked if local officials were willing to risk the company folding. Senator Williams responded that the mine "has been nothing but a cost to the county for 90 years."

Mr. Hoffman could not provide the committee with information about what other states do in these cases, noting that Intergem is a one-of-a-kind mine. He also said that the loss the company claims is on the whole company and not just the mine itself.

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MOTION: Senator Halligan moved that SB 280 do pass. Senators Brown, Eck, Halligan, Lybeck, Neuman and Towe voted yes; Senators Goodover, Hirsch, McCallum and Severson voted no. The chair ruled that the motion carried subject to the vote of the absent members.

Senator Towe noted that it was a difficult issue because it is not a tax on a sale.

MOTION: Senator Eck moved that HB 171 be concurred in. Senators Eck, Halligan, Lybeck, Severson and Towe voted yes; Senators Brown, Goodover, Hirsch, McCallum and Neuman voted no. The chair ruled that the motion failed subject to the vote of the absent members.

CONSIDERATION OF SB 234: Senator Severson said that he and Senator Smith were meeting with folks at the Department of Revenue and would like the bill held until those meetings were complete.

Chairman Towe recognized Mr. Jim Lear, committee staff, to discuss the amendments in Exhibit 4. He said the amendments were presented in two alternative forms per the wishes of the committee. He said the first designated The Official Guidebook to be used by the Department and that the owner would carry the burden if the wholesale value was not appropriate. He said then it dropped to loan value and if that was too high the property owner would have to prove that it was not appropriate. He said alternative two would leave the Department more discretion.


Senator Eck was reassured that the language would apply only to agricultural machinery.

Senator Towe said that he would combine parts of each amendment and strike reference to a particular guidebook.

Senator Severson said that according to the county people that he was working with at the Department of Revenue, these amendments would be unworkable. He said that loan value is acceptable and can be justified. He said the Department of Revenue would have no problem with that either.

Senator Eck said that anything valued at less than \$1000 should not be taxed. Senator Towe responded saying that lowering the valuations would not solve administrative problems.

Senator Towe adjourned the meeting at 10 am.



Chairman

ROLL CALL

SENATE TAXATION COMMITTEE

49th Legislative Session -- 1985

Date March 7, 1985

Location -- Room 413-415

Name Present Absent Excused

Senator Brown	✓		
Senator Eck	8:10		
Senator Goodover	✓		
Senator Hager			✓
Senator Halligan	✓		
Senator Hirsch	✓		
Senator Lybeck	✓		
Senator Mazurek	✓		
Senator McCallum	✓		
Senator Neuman	✓		
Senator Severson	✓		
Senator Towe	✓		

DATE:

March 7, 1985

COMMITTEE ON

TAXATION

VISITORS' REGISTER

[illegible]

(Please leave prepared statement with Secretary)

TESTIMONY OF GLENDIVE CHAMBER OF COMMERCE
AND
GLENDIVE FORWARD

HOUSE BILL 26
SENATE TAXATION COMMITTEE
MARCH 7, 1985

MR. Chairman and Members of the Committee,

For the record I am John Shontz and am speaking today on behalf of the Glendive Chamber of Commerce and Glendive Forward.

Glendive's economic base has been shaken in recent years by changes in the railroad business, the communications business, and the energy business.

In December of 1983 Dawson County's labor force numbered 6,686 persons. In December of 1984, that number stood at 5,497 persons. This is a drop of seventeen percent in one year.

In 1982, retail sales in Dawson County totaled about \$76,400,000. In 1984 this dropped to about \$64,400,000. A ten million dollar loss in two years.

During the past two years Mountain Bell has cut 70 jobs in Glendive, the BN has reduced its workforce by 200, and the shut down of the oil industry has contributed to the loss of jobs as well.

That is a sample of the down side. There is an "up" side that can look particularly good with your help.

Currently, the BN employs 300 people in Glendive. The railroad is proposing to build a new Roundhouse and has selected Glendive as one of the potential sites. We understand the railroad is planning to make a final decision in mid-April with Glendive's competition for the roundhouse coming from Mandan, North Dakota.

If the new roundhouse is built in Glendive an additional 30-45 employees will be added to our local labor force, a welcome addition to our community. If Mandan is chosen, Glendive will lose 90-100 jobs...a loss we cannot afford. In addition, the new roundhouse will add between 10 and 15 million dollars over three years in new construction to the Glendive economy and Montana's tax base.



J.M. SHONTZ & ASSOCIATES

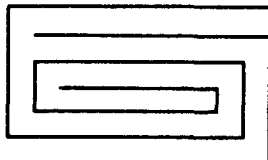


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We believe House Bill 26 provides an equal competitive footing for Glendive and other Montana cities competing with North Dakota communities for jobs and tax base.

We will all benefit in Montana if we can expand our industrial base to provide decent jobs for our people. House Bill 26 helps move us along that road.

On behalf of our efforts to get Glendive moving forward, we ask your careful consideration of this bill and request a "do pass" recommendation from the committee.



PROFESSIONAL
MEMBER OF
 AMERICAN
MARKETING
ASSOCIATION

J.M. SHONTZ & ASSOCIATES



MONTANA LOW-INCOME COALITION



P. O. Box 1029
107 West Lawrence
Helena, Montana 59624

(406) 449-8801

<i>Statewide</i>	MONTANA HRDC DIRECTOR ASSOCIATION MONTANA LEGAL SERVICES EMPLOYEES MONTANA SENIOR CITIZEN ASSOCIATION NORTHERN ROCKIES ACTION GROUP
<i>Helena</i>	LAST CHANCE PEACEMAKERS COALITION LOW INCOME SENIOR CITIZENS ADVOCATES MONTANA ALLIANCE FOR PROGRESSIVE POLICY
<i>Missoula</i>	LOW INCOME GROUP FOR HUMAN TREATMENT NATIVE AMERICAN SERVICES AGENCY
<i>Great Falls</i>	CONCERNED CITIZENS COALITION MONTANA POWER TO THE PEOPLE
<i>Butte</i>	BUTTE COMMUNITY UNION
<i>Bozeman</i>	BOZEMAN HOUSING COALITION

Louise Kunz
107 Lawrence
Helena

Lobbist for MLIC

We wish to go on record as opposing HB 26. Businesses, in general, do not make location decisions based on state and local taxes. The average firm pays \$1 in state and local taxes for \$20 in wages and salaries. It would take a 100% property tax decrease to off set 2 $\frac{1}{2}$ % difference in wages. If a corporation is in the 46% bracket the Federal Government actually absorbs 46% of the cost of local tax through Federal tax deductions. Proximity to market, labor and energy costs are among the weightier factors that determine locations.

Why should we then be eroding our tax base with incentives that are unlikely encourage business growth? While we must encourage business growth we must also insure the survival of those who are jobless until the time there is a new job market. We must protect our tax base that will allow us to supply this aid.

I N T E R G E M

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

February 28, 1985

The Honorable Tom Towe, Chairman
The Senate Taxation Committee
Montana State Senate
Helena, Montana 59620

Dear Senator Towe:

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 (sale-able material)	<u>7,850</u>

The Honorable Tom Towe, Chairman
The Senate Taxation Committee
Montana State Senate
February 28, 1985
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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.

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?

In fairness to all concerned, we would suggest a graduated tax rate based on cut carats in certain size range categories sold annually by stone size. Arthur Anderson & Co. would be instructed to certify sales of sapphires by size range category and footnote disclosure in the financial statement so that State auditors could easily verify the computation of the tax.

We propose the following rate schedule:

<u>Carat Weight</u>	<u>Tax Rate per Carat</u>
Over 1 ct.	\$10.00/carat
-1 ct. + $\frac{1}{2}$ ct.	\$6.00/carat
$-\frac{1}{2}$ ct. + $\frac{1}{4}$ ct.	\$4.00/carat
$-\frac{1}{4}$ ct.	\$1.00/carat

In addition, we propose that the following provisions apply:

- Tax to become effective Fiscal Year 1987.
- Tax to be due on or before June 30th:
 - Sorting and grading is not completed until May-June each year.
 - Intergem's fiscal year ends March 31st and audit is not completed until late May or early June.
- The \$40,000 exemption to apply to all producers.

The Honorable Tom Towe, Chairman
The Senate Taxation Committee
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Once again, we must emphasize that the Yogo deposit consists of basically stones of less than one-fourth carat and, over its entire history, this size range has been consistent even until today.

We realize that, to most of the Montana citizenry and, particularly, those in the Judith Basin area, a mystic has been built around this mine for almost 100 years as to its value.

We, ourselves, do everything we can to publicly perpetuate this illusion so that buyers of sapphire jewelry will, hopefully, look upon this as a rare and special gem. Unfortunately, the size range works against us as to value and rarity.

Since our entry into the Montana sapphire operation, we have been well aware of the fact that many people are of the opinion that millions of dollars of taxes have and still are going out under the fence. However, it seems strange that a bill of this nature has never been introduced in the Montana legislature before and that a considerable amount of work has been done without anyone's making an attempt to talk to us about this matter until you did.

Although Sen. Williams, in his closing remarks, stated that this tax was not aimed directly at Intergem, Item 6 on the yellow "Fiscal Note" accompanying the bill suggests otherwise.

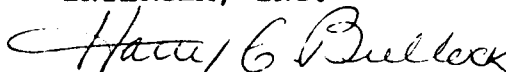
Along this same line, a new public company, called Missouri River Gold & Gem Corporation, capitalized at over one million dollars, came on stream recently. In addition, there was a new public company mining in the Rock Creek area last year, as well as several independent operators in both the Rock Creek and Missouri River areas.

Obviously, we realize that this matter should be settled once and for all to everyone's satisfaction and would like to work to that end.

Thank you for the opportunity to meet again.

Very truly yours,

INTERGEM, INC.



Harry C. Bullock
Chairman

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.

INTERGEM, INC.

Discussion Points--\$4/Carat Proposal

- The \$4/carat tax already exists. It is called "State of Montana Assessment of Net Proceeds of Mines" Chapter 15 M.C.A.). Intergem has prepared and filed a return each year since 1980. The 1980, 1981, 1982 and 1983 were audited in December of 1984 by the Montana Department of Revenue. Their findings have not yet been formally released, but indications were that Intergem was in basic compliance. This assessment allows the mine owner to deduct certain costs (see 1983 return attached), so Intergem will actually begin paying the tax when mine production increases and Intergem ceases to be a development-stage mining company. Our auditors, Arthur Andersen & Co., are very conscious of these tax bases and only those costs that are appropriate go in.
- Intergem is a development-stage mining company for both financial statement and tax purposes. The Assessment of Net Proceeds of Mines Tax is designed to allow development-stage mining companies reach full production. Once Intergem reaches production stage, and mine proceeds exceed allowable deductions under the existing tax regulations, then Intergem will begin paying large amounts of severance tax to the state.
- Intergem has a net operating loss of \$818,545 for the year ended 12/31/83, and expects a similar loss for the fiscal year ending 3/31/85. Altogether, Intergem will have lost in excess of \$2.5 million by March 1985, which is common for a development-stage company. We are not yet profitable and expect to pay some severance taxes only when we are out of the development stage.
- Intergem pays all taxes currently imposed by the State Department of Revenue, and has since 1980. In addition, the Company employs eight individuals, full or part-time, in Montana, and provides revenues for several Montana companies (see list).

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:	<u>\$363,183.87</u>
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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 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 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

Total Gross Value in dollars and cents

Of above Products..... \$ 492,056
Total Deductions..... \$ 759,910
Net Proceeds..... \$ (267,854)

DEDUCTIONS

NOTE: These deductions must be itemized in accordance with the schedules on the back of this report.

1. Cost of extracting or mining ore or deposit.....	\$ 572,917
2. Cost of transporting crude ore or deposit from mine or deposit to reduction works.....	\$ -0-
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

THE STATEMENT MUST BE COMPLETED IN ITS ENTIRETY

TOTAL DEDUCTIONS..... \$ 759,910

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

STATE OF

ss.

County of.....

..... being first duly sworn according to law, on oath, deposes and say

..... that he has read the foregoing return and knows the content

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.....

ACTING ORE OR DEPOSIT:	\$ 162,073
Supplies, Materials, Tools	\$ 4,010
Machinery	\$ -0-
Fuel, Power, Light	\$ 10,417
Royalties	\$ -0-
Other Expenses (Mining Subcontractors)	\$ 396,021
Total Cost	\$ 572,917

OF SALE OF CRUDE ORE OR DEPOSIT. (3)	\$
	\$
Total Cost	\$ -0-

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

OF REPAIRS AND REPLACEMENTS TO REDUCTION WORKS:	\$
Repairs to Building	\$ -0-
Repairs to Machinery and Equipment	\$ 16,599
New Buildings for Replacements	\$ -0-
New Machinery for Replacement Purposes	\$ -0-
Total Cost	\$ 16,599

duction works located near ore body.
 Duplicate costs reported in item 1(f), Other expenses.

duction costs are not segregated in Company records, and are included in items 1(b and d).

rough sapphire sold in 1983.

COST OF TRANSPORTING CRUDE ORE OR DEPOSIT TO MILL, SMELTER OR REDUCTION WORKS: (1)	\$
(a) Hauling	\$
(b) Freight Charges	\$
(c)	\$
Total Cost	\$ -0-

4. COST OF REDUCTION OR MILLING: (2)	\$
(a) Labor	\$
(b) Supplies, Materials, Tools	\$
(c) Fuel, Power, Light	\$
(d)	\$
(e) Other Expenses	\$
Total Cost	\$ -0-

6. COST OF CONSTRUCTION, REPAIRS AND BETTERMENTS TO MINE:	\$
(a)	\$
(b)	\$
(c)	\$
(d)	\$
(e)	\$
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.

Monies expended for improvements, repairs, and betterments necessary in and about the operating 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 operating 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.

Intergem, Inc.

"Yogo" Sapphire Loose Stone Sources

Comparative Cost/Ct.

Rich Gems
Herman Richards
1500 N. Villa Sp. 134
Clovis, CA 93612

\$.0154 (see
worksheet)

Idaho Opal & Gem Corp.
Frank Farnsworth
P. O. Box 4881
Pocatello, ID 83201
(208)233-4059

\$40-50/ct. finished
x .0912 = \$3.65-\$4.56

JoGem, Inc.
Ed Nowak
4th and Pike Bldg., #1027
Seattle, WA 98101
(206)624-4430

\$50-60/ct. finished
x .0912 = \$4.56-\$5.47

Intergem is the first company that has made a serious effort to mine the property in a business-like fashion since the English stopped production in 1927.

During our tenure, we have made every effort to cooperate with all the applicable state, local and federal agencies, and, to our knowledge, have complied with all the laws, rules and regulations that are pertinent to the work we are engaged in. Many before us have failed on this same property, and we are probably the only people around that can tell you why.

The why is this: The Yogo sapphire deposit as a source of unlimited wealth is an illusion. An illusion that has been created by many people over the past eighty-some years. Those who came before, came with stars in their eyes, believing that all they had to do was mine this blue stone, cut it and the riches of the world were theirs. This is anything but the reality of the situation.

First of all, you can't mine, cut and sell the Yogo sapphire and make a profit. Not any profit. Unlike diamonds, there is no market for the Yogo sapphire at a price anyone could make any money at.

It costs us \$53.27 to produce one cut carat of sapphire. Any additional tax, such as the one proposed, would raise our cost to around \$90/carat and, obviously, put us out of business.

Two firms who sell thousands of carats of Yogo's every year, Idaho Opal from Pocatello and JoGem's from Seattle, sell at wholesale between \$40-60/carat and they have no mining costs. They buy from the hundreds of people in Montana that own barrels full of Yogo sapphires that were left from previous ventures.

The records reflect that 16-20 million carats of sapphires were taken out of this deposit in previous years. That amounts to between 3.5 and 4 tons of sapphires. Gentlemen, the bulk of that is still in Montana in basements, garages, storage sheds and cellars; we haven't mined 500,000 carats. We get offered lots of it every year. These people are not going to pay any taxes. Yet, we are forced to compete against them, along with Australian sapphires that come out of Bangkok, Thailand, where one-carat stones can be bought for \$15. They have no tax either. Nor any import duties.

We are also faced with several other problems:

1. Outside of Montana, there is very little demand for the Yogo. What demand there is now, we have created.
2. Only about 20-30% of the total production is usable.

Example:	100,000 carats
	x 25% gem quality
	<u>25,000 carats</u>
	- 74% cutting loss
	<u>6,500 carats recovered for use</u>
	x 98%
	<u>6,370 carats are under 1/4 carat</u>
	+130 carats are over 1/4 carat
	<u>6,500</u>

We have six stones at present over 1 carat.

Now this is not all of what we call the Royal American Sapphire. This 6,500 carats represent about 7 different grades. Grade 1 and 2 are Royal American Sapphire, while 3-7 are of considerably less quality and sell for substantially less.

Our entire Company's economy is based on sales of 1 and 2 (approximately 3,250 cts.±). Someday, we hope to create a mass market for the rest (approximately 3,250 cts.±).

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	<u>3.85</u>
the sapphire profit	\$ 3.85

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

MINE TOURS

Intergem conducted mine tours in 1974, all summer, for jewelers and their staff from across the nation. Seven hundred people were attracted to Lewistown and the Judith Basin area to visit the mine and vacation.

Intergem plans to make mine tours an annual event and expand them to include an ever-growing number of interested parties.

CONCLUSION

The Yogo sapphire mine is more valuable for the interest it lends our jewelry product than for the sapphire it produces. We have had to keep this in sharp perspective to maintain a viable business foundation and not share the fate of past Yogo ventures.

We have done a lot to put Montana on the gem map of the world.

1. Book written;
2. Over 400 articles in magazines;
3. 40 TV/radio stations;
4. Over 750 newspaper articles;
5. Last night - CBS in Philadelphia;
6. PM Magazine;
7. Front-page of The Wall Street Journal.

If Intergem is to succeed, we need to produce and sell a lot more than we do now. To do this will require an underground mine, employing from 30 to 60 people, in the next few years. That will translate in a fairly good-sized boom for Utica, Hobson, Stanford, as well as Lewistown and Great Falls. I don't see any other industrial activities happening out there.

We had hoped to become a permanent part of Montana and Judith Basin County. I've been coming here regularly since 1977, and before then less often. We feel a part of this state.

We would hope that this committee would look down the road and see greater benefits and considerably more revenue if we are allowed to survive. If not, then we all lose.

Thank you for the opportunity to speak. I would welcome any questions and also would be happy to make available any or all of our records to the committee to support our position. As a public company with 1900 shareholders, there is not much to hide.

MINE TOURS FOR SUMMER 1985, RSVP NOW!

Dear Jeweler:

More than 700 jewelry professionals representing over 100 firms across the United States participated in summer tours of the Yogo Gulch sapphire mine, the world's largest sapphire deposit, located near Lewistown, Montana. Intergem, Inc., which owns and operates the mine, offered the day-long tours exclusively to jewelry retailers.

Retailers were given the opportunity during the tour to search for sapphires and many took home samples of ore containing sizeable gemstones. One jeweler, Jay Montague, President of Montague's Jewelers, pictured here on the left along with his General Manager, Ron McCord, discovered a deep blue sapphire embedded in a chunk of ore. He estimated the stone weighed approximately 1.50 carats rough.

This is a great experience and an educational one to be able to see a working mine. Being located here in the U.S. in the central part of the state of Montana makes the mine relatively easy to get to.

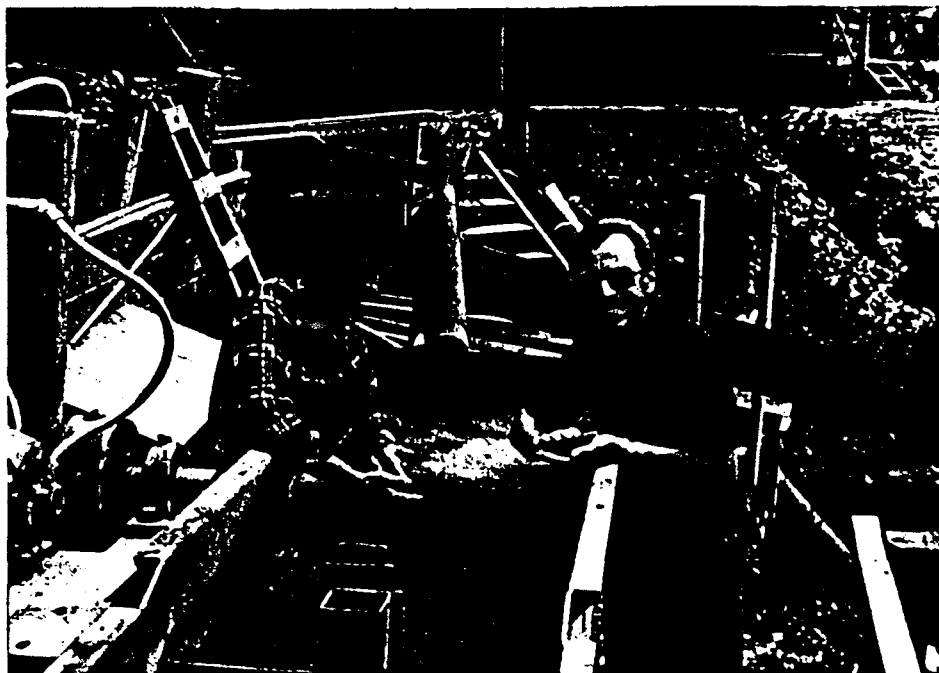
Intergem has begun to take reservations for next summer's tours. Please return the enclosed reservation form or call Phil Margetts at 1-800-221-8018. We will supply you with maps of the area and lists of accommodations.

Sincerely,

INTERGEM, INC.



Steven M. Droullard
Vice President/Marketing



MINE TOURS!

This summer a limited number of jewelers will be able to visit the fabulous American Sapphire Mine at Yogo Gulch, Montana. They will see Yogo Creek where Jake Hoover first discovered sapphires a hundred years ago and stand on the ridge where Charles Gadsen sorted sapphires for the London based New Mine Syndicate in the early 1900's.

Pick up your own sample of blue ground ore and experience first hand the world's largest and most important sapphire deposit.

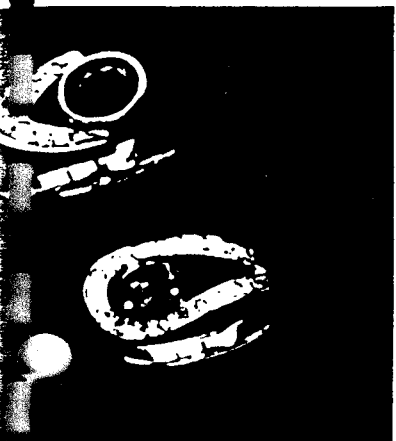


North America, showing the position of the "New Mine"

THE NEW MINE SAPPHIRE

THE most valuable deposit of precious stones existing in the United States of America is situated in Judith Basin county, state of Montana. The sapphire bearing claims extend in a continuous series for a distance of five miles, and with the possible exception of the South African diamond fields, form the largest deposit of gem bearing ore in the world.

THE NEW MINE SAPPHIRE SYNDICATE
LONDON



WOULD YOU LIKE TO VISIT THE WORLD'S
LARGEST SAPPHIRE MINE?

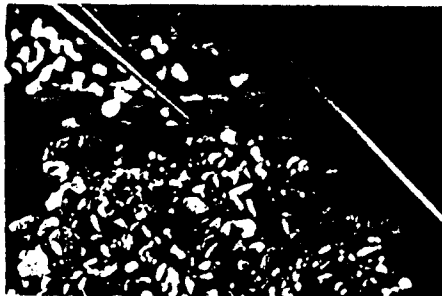
Intergem will be organizing tours of this historic mine in Yogo Gulch, Montana in late June through August of 1985.

A visit to our mine in the beautiful Judith River Basin can be combined perfectly with a vacation to nearby Yellowstone National Park and Glacier National Park. It is near some of the best fishing and outdoor sport centers in the United States.

Maps and brochures of the area are available at no charge from our Denver office.

Please fill out the form below and return it to Intergem as soon as possible. Due to limited accommodations and transportation, reservations are on a first come, first served basis.

We will send you information on what to wear and what to bring along to make your trip more comfortable and enjoyable.



FILL OUT AND MAIL TODAY!

cut here

Your name _____

Company name _____

Address _____

Phone () _____

Approximate date of visit _____

Number of visitors _____

Amendments to SB 234
Alternative A

1. Title, line 6.

Following: "APPRAISING"

Insert: "certain"

2. Page 1, line 13.

Following: "in"

Strike: "subsection"

Insert: "subsections (2)(c) and (d)"

3. Page 1, lines 19 and 20.

Following: "trucks;" on line 19

Strike: "agricultural tools, implements, and machinery;"

4. Page 2, line 3.

Strike: "(3)(a)"

Insert: "(c)"

5. Page 2, lines 4 through 12.

Following: "value of" on line 4

Strike: "property in 15-6-134 through 15-6-140"

Insert: "all agricultural tools, machinery, and equipment
used in a bona fide farm, ranch, or stock operation"

Following: "agents" on line 5

Strike: through end of line 12

Insert: "shall use the wholesale value specified in the Official
Guide, Tractor and Farm Equipment (published by the
National Farm and Power Equipment Dealers Association,
St. Louis, Missouri) unless the owner claims that the
wholesale value is not representative of market value
because of age, continual nonusage, or other functional
or economic obsolescence, in which case the department
may not use replacement cost as a substitute for market
value, but shall:

(i) use the loan value specified in the Official
Guide, Tractor and Farm Equipment, unless the owner
establishes to the satisfaction of the department that
an amount lower than the loan value is representative
of market value;

(ii) remove from the tax rolls any agricultural
tools, machinery, and equipment that the owner
establishes to the satisfaction of the department are
functionally or economically obsolescent because of
age, disrepair, or nonusage for two or more tax years
immediately preceding assessment because of economic
factors.

(d) In making the official assessment and appraisal
of the value of improvements no longer necessary to the
function of a bona fide farm, ranch, or stock operation
because of age, continual nonusage, or other functional
or economic obsolescence established by the owner to
the satisfaction of the department, the department may
not use replacement cost as a substitute for market
value, and shall remove from the tax rolls any such

improvement if it has a market value of less than \$1,000 or if it has not been used for two or more tax years immediately preceding assessment because of economic factors, age, disrepair, or other factors indicating functional or economic obsolescence."

6. Page 2, line 13.

Strike: "(b)"

Insert: "(3)"

Amendments to SB 234
Alternative B

identical to Alternative A except that in amendment no. 5 the second insertion would read:

"shall use market value based on an appropriate manual or guide as adopted by rule by the department unless such manual or guide is not representative of market value because of economic or functional obsolescence of the item assessed and appraised, in which case the department may not use replacement cost as a substitute for market value.

(d) In making the official assessment and appraisal of the value of improvements no longer necessary to the function of a bona fide farm, ranch, or stock operation because of age, continual nonusage, or other functional or economic obsolescence, the department may not use replacement cost as a substitute for market value."

ROLL CALL VOTE

SENATE TAXATION COMMITTEE 49 th Legislative Session -- 1985

Time 7:15 Date March 7 Room 413-415

Motion: 4917 to convene in

Name	Yes	No	Excused
Senator Brown		✓	
Senator Eck	✓		
Senator Goodover		✓	
Senator Hager			
Senator Halligan	✓		
Senator Hirsch		✓	
Senator Lybeck	✓		
Senator Mazurek			
Senator McCallum		✓	
Senator Neuman		✓	
Senator Severson	✓		
Senator Towe	✓		

ROLL CALL VOTE

SENATE TAXATION COMMITTEE 49 th Legislative Session -- 1985

Time 9:40 Date March 7 Room 413-415

Motion: Mr. Spill do pass.

Name	Yes	No	Excused
Senator Brown	✓		
Senator Eck	✓		
Senator Goodover		✓	
Senator Hager			
Senator Halligan	✓		
Senator Hirsch		✓	
Senator Lybeck	✓		
Senator Mazurek			
Senator McCallum		✓	
Senator Neuman	✓		
Senator Severson		✓	
Senator Towe	✓		