MINUTES OF THE MEETING TAXATION COMMITTEE 50TH LEGISLATIVE SESSION HOUSE OF REPRESENTATIVES

February 19, 1987

The meeting of the Taxation Committee was called to order by Chairman Ramirez on February 19, 1987, at 8 a.m. in Room 312B of the State Capitol.

ROLL CALL: All members were present. Also present was Dave Bohyer, Researcher, Legislative Council.

CONSIDERATION OF HOUSE BILL NO. 743: Rep. Walter Sales, House District #76, sponsor of HB 743, said the bill would cut the sale of vacant lots down to twelve months.

PROPONENTS OF HOUSE BILL NO. 743: John Lawton, City of Billings, explained that the bill addresses delinquent SID's, because although many subdivisions fail, interest must still be paid. He said, right now, taxpayers end up picking up these costs.

Alec Hansen, Montana League of Cities and Towns, said HB 743 is a priority for organization this session, to protect taxpayers in this situation.

Chuck Stearns, Finance Officer, City of Missoula, told the Committee he supports the bill, and said Missoula just took over tax deeds for 61 lots in failed subdivisions, amounting to \$825,000. He explained that the 36 month period is actually stretched out to 4 years, as November tax bills are not certified until July of the following year.

OPPONENTS OF HOUSE BILL NO. 743: There were no opponents of the bill.

QUESTIONS ON HOUSE BILL NO. 743: Chairman Ramirez asked for an explanation of how the bill works. Rep. Sales replied that when a developer can't make payments, the city can take tax title and allow a twelve month redemption period instead of the current 36 month period.

Rep. Asay asked if declarations of future payments would be due immediately. Rep. Sales replied that after one installment became delinquent, a taxing entity could call the SID delinquent.

Chairman Ramirez asked if, under present law, there were not an acceleration provision. Chuck Stearns replied that the City of Missoula already has this power, which is provided for on page 2, line 16 of the bill.

Chairman Ramirez asked if there were any grace period. Mr. Stearns replied that a city could pass a resolution to allow a grace period, but Missoula has never done so. He added that the City of Missoula requires a letter of credit or a deposit of up to one-third of the investment, for SID's.

CLOSING ON HOUSE BILL NO. 743: Rep. Sales made no closing comments.

CONSIDERATION OF HOUSE BILL NO. 678: Rep. Mary Ellen Connelly, House District #8, sponsor of HB 678, said the bill was introduced at the request of Flathead area real estate brokers and the City Council of Whitefish. She explained that the bill would change the amount of delinquent property tax to a percentage schedule.

PROPONENTS OF HOUSE BILL NO. 678: Chuck Stearns, Missoula, stated the bill would speed up payment of delinquent tax bills. He said that in Missoula, 147 delinquencies were between \$1,000 and \$10,000 each, of which 53 were owned by development corporations, and 25 by developers from Las Vegas. He added that 38% of \$1.2 million in taxes billed were delinquent in 1986.

OPPONENTS OF HOUSE BILL NO. 678: There were no opponents of HB 678.

QUESTIONS ON HOUSE BILL NO. 678: There were no questions on the bill.

CLOSING ON HOUSE BILL NO. 678: Rep. Connelly advised the Committee the fiscal note indicates a positive fiscal impact.

CONSIDERATION OF HOUSE BILL NO. 658: Rep. Red Menahan, House District #67, sponsor of HB 658, said the bill would establish a fee in lieu of taxes on boats, as the vast majority of owners are not licensing their boats, in view of the fact that it is easier to pay fines.

PROPONENTS OF HOUSE BILL NO. 658: Dave Severt, owner, Flathead Sports, Kalispell, read from a prepared statement in support of the bill (Exhibit #1, and provided an example of boat taxation rates among western states (Exhibit #2). He said the fiscal note shows a slight decrease in revenue, but the bill makes the system equitable. Mr. Severt added that he would anticipate that 10,000 more boats could be registered, should the bill pass.

Tom Hanson, Canyon Ferry businessman, told the Committee that, under the present system, it costs \$600 per year to register a \$13,000 boat.

Bruce Perry, Kim's Marina, Canyon Ferry, read from a prepared statement in support of the bill (Exhibit #3), and said the state is taxing itself out of the market.

OPPONENTS OF HOUSE BILL NO. 658: Todd Udack, said the bill would reduce the university levy without providing an alternative source of revenue.

QUESTIONS ON HOUSE BILL NO. 658: Rep. Ellison asked if fines would be raised, should the bill pass. Mr. Severt replied they would be.

Rep. Raney commented that one inch is not covered in the description of boats from 14' to 14.11" and from 15' to 15.11", and suggested the bill be corrected. He asked Rep. Menahan if the bill could be amended to establish the fee at 100% of the delinquent tax. Rep. Menahan replied that could be accomplished.

Rep. Raney asked what the average cost of licensing a boat is. Mr. Severt replied it runs between \$200 and \$400.

Chairman Ramirez asked if boats were covered in Sen. Smith's bill. Rep. Menahan replied they are not, but include 2% on autos and 1% on recreational vehicles. Rep. Menahan commented that Greg Groepper, DOR, stated it costs less to administer a fee system.

Rep. Ellison asked if boats depreciated as quickly as autos do. Mr. Severt replied they did not, as values are much higher.

Rep. Raney asked if there were a "blue book" for boats. Mr. Severt replied that there are more than 800 manufacturers, but only 60-80 are listed in the boat blue book, but do not include engine options. He said that since boats are not titled it is easy to alter engine information on a bill of sale and to pay a lower tax.

Rep. Williams asked if a minimum penalty of \$50 would be effective. Chairman Ramirez commented that the penalty for aircraft is five times higher, in order to encourage registration of aircraft, and asked Rep. Menahan if he would agree to a higher penalty. Rep. Menahan stated his agreement.

CLOSING ON HOUSE BILL NO. 652: Rep. Menahan made no closing comments.

CONSIDERATION OF HOUSE BILL NO. 652: Rep. John Harp, House District #7, sponsor of HB 652, said the bill was requested by the Office of the Governor. He explained that in April, 1986, the Governor created a revenue estimating council to gather revenue information and to make assumptions for the

budget. Rep. Harp advised that the Council held a public hearing in October, 1986, and is now in need of statutory authority.

PROPONENTS OF HOUSE BILL NO. 652: Fritz Tossberg, member, Governor's Revenue Estimating Council, said he hoped the Council would continue to exist to serve Montana in cooperation with the legislative branch of government. HE told the Committee Council estimates were within 1-2% of revenue received, and that it is unfortunate the Council is not in a position to make guarantees on revenue.

David Hunter, Director, Office of Budget and Program Planning (OBPP), said the Council will provide an open process to allow the public to participate in revenue estimating. He urged the Committee to support the bill.

OPPONENTS OF HOUSE BILL NO. 652: There were no opponents of the bill.

QUESTIONS ON HOUSE BILL NO. 652: Rep. Patterson asked if a fiscal note were needed on the bill. Dave Hunter replied that a fiscal note had been drafted, but not approved.

Rep. Keenan stated there appears to be conflicting information in the bill, with the section of law pertaining to reimbursement for services. Rep. Harp replied the matter could be discussed during executive session.

Rep. Sands asked what would happen if the Governor disagreed with estimates of the Council. Dave Hunter replied the bill states the Governor agrees to accept the recommendations of the Council.

CLOSING ON HOUSE BILL NO. 652: Rep. Harp closed without comment.

CONSIDERATION OF HOUSE BILL NO. 730: Rep. Red Menahan, House District #67, testified in the absence of the bill's sponsor, Rep. Bob Bachini. He said the bill would require certification of ownership for motor boats and vessels.

PROPONENTS OF HOUSE BILL NO. 730: Dave Severt, told the Committee 20 states title boats now.

Ken Hoovestal, said be believes boats should be titled.

OPPONENTS OF HOUSE BILL NO. 730: There were no opponents of the bill.

QUESTIONS ON HOUSE BILL NO. 730: Rep. Hoffman asked at what length boats or vessels would begin to be titled. Dave Severt replied that the Coast Guard recommends beginning at

10 feet. He added that all boats from 1974 on have identification numbers.

Chairman Ramirez asked what administration costs would be. Dave Severt replied that federal funds are available to the Registrar of Motor Vehicles from the Coast Guard. Rep. Bachini advised that start-up costs would be minimal.

CLOSING ON HOUSE BILL NO. 730: Neither Rep. Menahan nor Rep. Bachini made closing comments.

CONSIDERATION OF HOUSE BILL NO. 716: Rep. Jan Brown, House District #46, sponsor of HB 716, said the bill would continue funding for the Shodair Hospital Genetic Research Program. Rep. Brown explained that last session the program asked for 45 cents from each health insurance policy sold, to fund continuing research. She said the program is requesting 40 cents for the coming biennium, and that she would propose that amount be amended to 35 cents per policy. Rep. Brown commented that Dr. Opitz is a world-renowned geneticist, and asked the Committee to continue funding for this research.

Rep. Brown read a letter from Blue Cross/Blue Shield, who, she said, do not oppose the bill (Exhibit #5).

PROPONENTS OF HOUSE BILL NO. 716: Chad Smith, a Helena attorney, told the Committee that with statistics from the research, it is possible to reduce funding requests to two sources, the Alan R. Litz Foundation, and the Alberta Fund. He said 35 cents per policy would raise the \$260,000 necessary to fully fund the program, and that costs for genetically disabled persons would be reduced because of the bill. Mr. Smith provided a letter from the Commissioner of Insurance concerning funding of the program (Exhibit #6).

Dr. John Opitz, Chairman of Medical Genetics at Shodair Hospital, and Chairman of the Montana Medical Genetics Program, explained that he was awarded a study grant by the Department of Health and Environmental Sciences (DHES). He said HB 230 requires that certain genetic duties fulfilled and also requires a quarterly financial report to be filed. Dr. Opitz explained he is reluctant to come before the Committee again, as the program was designed to be funded for only one biennium. He added that because of the financial bind the state is in, the program will need this funding to complete its purpose.

Dr. Opitz advised that in 1985 it was estimated that national health care cost \$750 per person, or a total of \$485 billion. He said those figures are \$956 per person and \$1.54 billion in Montana. He said this small tax is needed to offset these staggering figures, which Shodair matches with about \$258,000 annually.

Dr. Opitz read a letter from Dr. Van Kirke Nelson, President of the Montana Medical Association, in support of the bill (Exhibit #7).

Joan Fitzgerald, genetic counselor, Shodair Hospital, provided a map of the areas served in the state and read from a prepared statement in support of the bill (Exhibit #8).

Tanya Ask, Montana Insurance Department, also read from a prepared statement in support of the bill (Exhibit #9) and provided copies of a proposed amendment (Exhibit #10).

Brooks Morris, Administrative Officer, City of Helena, told the Committee his son died at four months of spina-bifida. He said the genetic program at Shodair provided support and counseling, which lessened the emotional and economic burden. He also shared that he now has two healthy children, as a result of genetic testing.

Chris Pelinkady, stated she was testifying on behalf of developmentally disabled people, for whom the program has been extremely cost-effective.

Jerry Loendorf, Montana Medical Association, stated his support of the bill, advising that it costs \$67,000 per year to keep a patient in Boulder state hospital.

Bill Lahring, Montana Hospital Association, stated his support of the bill.

Marie Connelly, told the Committee her son was born without legs, 18 months ago, that Dr. Opitz explained the medical problem immediately, alleviating her fears. She said the situation can happen to anyone and asked the Committee to please fund the program.

Janice Frankino Doggett, told the Committee that she is an attorney, wife, and mother, who underwent six weeks of testing and counseling with her first pregnancy. She asked the Committee to support the bill.

Barbara Booher, Director, Montana Nurses Association, stated her support of the bill.

OPPONENTS OF HOUSE BILL 716: Tom Hopgood, Montana Health Insurance Association, said he questioned whether or not the program should be supported by the general fund, or a specific tax to insurance companies. He stated he felt betrayed to have the bill before the legislature again, as the program was to be sunset at the end of the current biennium. Mr. Hopgood said more than \$90,000 was collected last year, which went to the general fund, and not to Shodair.

Mr. Hopgood explained that commercial insurance carriers pay 2.75% on insurance premiums, amounting to \$1.2 million, or 96% of program funding, while health services carriers paid only 50 cents each, or \$52,460, for 4% of total contributions.

As an alternative, Mr. Hopgood advised that Blue Cross/Blue Shield could pay for the program, and/or give the commercial insurance carriers a credit against the premium, as compensation. Mr. Hopgood said HB 741, sponsored by Rep. John Harp, would impose a premium tax on health service corporations, such as Blue Cross/Blue Shield, and would raise \$3.4 million. He said the bill allows health service corporations and commercial carriers equality in the field, and suggested that HB 716 be tabled until HB 741 is before the Committee. (Exhibit #11)

Bonnie Tippy, Montana Association of Life Underwriters, stated that the problem exists in when the situation will end. She stated her belief that the program is worthwhile, and said she supports HB 741. Mr. Tippy also urged the Committee to table HB 716, until HB 741 is heard.

Ken Hassler, State Legislative Chairman for the Montana Association of Life and Health Underwriters, said he was not opposed to genetic research, but was concerned with industry footing a major portion of the bill. He asked if the Montana Hospital Association, or any other health organizations were willing to contribute to the program. He stated the program is worthwhile, but needs a different source of funding.

QUESTIONS ON HOUSE BILL NO. 716: Rep. Williams asked if the fee were passed on to policy holders. Mr. Hopgood replied that it is.

Rep. Raney asked if the program prevents people from ending up in Boulder state hospital. Dr. Opitz replied that is accomplished through genetic counseling, testing, and carrier diagnosis.

Rep. Patterson asked if program records are open to the public. Dr. Opitz replied they are, and that he is required to file quarterly reports with the state.

CLOSING ON HOUSE BILL NO. 716: Rep. Brown stated that the Governor's office originally deleted the program from the DHES budget, and the legislature agreed to fund genetic research from the general fund, but can't meet that obligation right now because of general fund shortages. She asked the Committee not to listen to Tom Hopgood, adding she did not want to ask to continue the program, but it seemed the only option. Rep. Brown commented that to her

knowledge, no one else has ever asked to have a program funded in this manner.

CONSIDERATION OF HOUSE BILL NO. 667: Rep. Tom Hannah, House District #86, sponsor of HB 667, told the Committee section 2 of the bill deals with exemptions from income tax for in-home care of dependents age 65 or older. He said the bill is designed for people who care for their own families as long as they are able to do so.

PROPONENTS OF HOUSE BILL NO. 667: There were no proponents of the bill.

OPPONENTS OF HOUSE BILL NO. 667: There were no opponents of the bill.

QUESTIONS ON HOUSE BILL NO. 667: Rep. Raney asked how language in the bill could be tightened up to limit the exemption to families, to prevent it from becoming a commercialized situation. Rep. Hannah replied that was his intent.

Rep. Asay asked if the bill would apply to persons who turn 65 and remain in their own home. Rep. Hannah replied he was not certain.

Rep. Ellison stated he liked the idea, but it looked like the bill would need amendments.

Rep. Keenan asked what amount could be deducted for a child. Dan Bucks, Deputy Director, DOR, replied the state personal exemption is either \$1,060 or \$1,080, and that the bill provides for twice that amount.

Rep. Williams asked if current law did not define dependents. Dan Bucks replied there are standards in the law for qualification of dependents. He offered to check this information and to report back to the Committee.

Rep. Hanson asked if the fiscal note included all elderly persons in the state. Rep. Hannah replied he did not think so.

Rep. Williams asked Rep. Hannah if he would object to an income cap in the bill. Rep. Hannah replied he would be somewhat hesitant, but would go along with committee amendments.

CLOSING ON HOUSE BILL NO. 667: Rep. Hannah made no closing comments.

CONSIDERATION OF HOUSE BILL NO. 666: Rep. Jack Ramirez, House District #76, sponsor of the bill, said the bill would permit municipalities to pledge revenues other than property

taxes to the payment of bonds issued to finance urban renewal projects or costs thereof.

PROPONENTS OF HOUSE BILL NO. 666: John Lawton, City of Billings, stated his support of the bill.

OPPONENTS OF HOUSE BILL NO. 666: There were no opponents of the bill.

QUESTIONS ON HOUSE BILL NO. 666: Rep. Raney asked what other sources of revenue could be pledged. Rep. Ramirez replied it could be just about any, other than property tax.

CLOSING ON HOUSE BILL NO. 666: Rep. Ramirez closed without comment.

CONSIDERATION OF HOUSE BILL NO. 703: Rep. Bob Gilbert, House District #22, said the bill would clarify corporate license or income tax under the water's-edge unitary tax method. He explained the bill is bi-partisan, non-partisan and read read from a prepared statement on the bill (Exhibit #11).

Rep. Gilbert stated this legislation would allow Montana to be competitive with other states and is, therefore, a very important bill, deserving to be studied closely. He added the bill would lure large corporations to the state, build the tax base, and provide jobs.

PROPONENTS OF HOUSE BILL NO. 703: George Anderson, Helena CPA and representative of the Montana Chamber of Commerce, provided formulas for unitary tax (Exhibit #12), and said it is not really a unitary tax.

Mr. Anderson explained that Montana is one of three states now retaining the world-wide method. He said South Dakota and Wyoming don't have an income tax and read from a prepared statement in support of the bill (Exhibit #13). Mr. Anderson told the Committee the figures in the formulas he presented are random numbers and don't pertain to anything in particular. He said that with the Montana unitary method, U.S. parent companies with subsidiaries all over the world must include those subsidiaries and, conversely, a foreign parent company would not have to include parent company income.

Mr. Anderson pointed out that this method discriminates against U.S. business, and said he does not believe the unitary method is fair, adding Montana should not tax income from other jurisdictions. He said companies have presently agreed to accept the water's-edge method, or to continue with the world-wide method. Mr. Anderson explained he doesn't believe companies will flock to Montana, but it would provide a chance to talk to business. He said

Colorado got Texas Instruments because it got rid of its unitary tax.

Fred Ferguson, Vice President of the Council of State Chamber's of Commerce, told the Committee he works with the national committee on state taxation, and would address why business doesn't like the unitary tax. Mr. Ferguson explained the tax creates distortion, via a shift of income, and referred to Mr. Anderson's formulas, which assume all factors produce equal profitability and use an accounting process which carries assets on the books from the date of purchase.

Mr. Ferguson said the distortion works both ways, allowing taxation people to sit down with plant people or management, and when large profits occur, taxes increase under the unitary method. He stated the Japanese have a prohibition against states using the world-wide method, as do the British. He cautioned the Committee that the water's-edge method works if the right "edge" is established, and if not, the situation would worsen, creating a greater gap.

Mr. Ferguson advised that HB 703 is a fair and equitable bill, first passed by the State of Idaho, and treats all corporations on the same basis. He said the legislation is compatible with Idaho, North Dakota, Utah, Colorado, and Nebraska, and commented that Nevada, South Dakota, and Wyoming do not use the unitary method.

Mr. Ferguson said he didn't recommend Montana do what California has done, because it is not in a position to be that competitive. He told the Committee that, in Sen. Baucus' meeting with larger corporations, he found those corporations like Montana, but not its tax situation. Mr. Ferguson said Sen. Baucus stated Montana should not discriminate against corporations. He added that Digital Equipment and Micro Development companies stated that if Montana were to change this tax law, they would be far more inclined to look at Montana for business.

George Bennett, Helena attorney, representing National Cash Register (NCR), told the Committee he began working with DOR 30 years ago, and has spent the past 15 years heavily involved in corporate disputes over unitary tax, comparable only to anti-trust suits. He said the unitary tax, world-wide method needs to be addressed.

Mr. Bennett stated NCR competes with foreign corporations and is presently in litigation. He explained NCR has foreign subsidiaries for which DOR does not consider payroll and equipment, causing the company to be non-competitive with foreign parent companies who have subsidiaries in Montana. He advised that if the Committee wants to let

corporations know the state is willing to abandon the world-wide method, it will pass HB 703.

Ward Shanahan, Helena attorney, told the Committee he has two unitary tax appeal suits pending now, and urged the Committee to support the bill.

Dennis Burr, Montana Taxpayers Association, said he supported the bill as it treats domestic corporations the same as foreign corporations.

Bob Correa, Bozeman and Billings Chamber of Commerce, encouraged support of the bill.

Brian Enderle, Missoula Chamber of Commerce, said he believes HB 703 is a reasonable compromise.

Ken Williams, Entec and Montana Power, stated his support of the bill.

Gary Langley, Executive Director, Montana Mining Association, said HB 703 would bring new business to the state.

George Allen, Montana Retail Association, stated his support of the bill.

Robert Helding, Montana Association of Realtors, stated his support of the bill.

Sen. Larry Tveit, said the state is setting a different course now for the direction of the state and the budget. He explained HB 703 is one area in which to achieve positive results.

John Cadby, Montana Bankers Association, stated his support of the bill.

Janelle Fallan, Montana Petroleum Association, stated her support of the bill.

OPPONENTS OF HOUSE BILL NO. 703: Dan Bucks, Deputy Director, DOR, provided information on the effect of corporate tax rates (Exhibit #14). He said a July, 1983, Supreme Court decision, determined the world-wide unitary method to be fair and not distortional of income. He explained the proposed change would result in a higher tax burden for Montana businesses, and said that in comparing tax rates versus value of corporations created in Montana, overall, Montana corporations are identical to multistate and multinational corporations.

Mr. Bucks explained that the world-wide method gives smaller companies a chance to compete and showed a diagram of

Montana products shipped to coastal ports. He said products are loaded onto a barge, sold at an artificially low price to island corporations, who immediately sell them to larger corporations, allowing profits to be taken by island corporations. He stated audits applied to a world-wide tax properly reflect the tax in Montana. Mr. Bucks advised that this method of shifting is called "transfer pricing", and if the water's-edge approach were approved, DOR would have to audit reams of transactions to get to market value. He said it is a huge process, and is used by the IRS, with a 3% audit success rate. He added the GAO suggested a comparable process similar to unitary accounting, and said the system won't work as it relates to dividends, keeping income in non-taxable status.

Mr. Bucks said the bill would create separate investment incentives in favor of multistate and multinational firms and would be discriminatory to Montana businesses via its proposed separate accounting procedures. He explained there are technical issues on how 80-20's are defined, and on spread sheets for domestic disclosure, as well as for after-tax income, which he would address during Executive Session.

Mr. Bucks explained the amendments would require a different approach in the bill, and that he believes the bill would give differential treatment between Montana firms and multistate and multinational firms. He said other states are repealing their unitary tax and have doubled their rates on other corporations. He stated the problem with a world-wide unitary tax is a perception problem.

Don Reed, Montana Alliance for Progressive Policy, read from a prepared statement in opposition to the bill (Exhibit #15).

QUESTIONS ON HOUSE BILL NO. 703: Rep. Raney asked if foreign parent companies versus domestic parent companies would compete for productivity versus taxes. Dan Bucks replied there is not significant enough presence of foreign parent companies in the state to be affected by what is represented in the proposed legislation.

Rep. Harrington asked what effect the shipping of ore to smelters outside the country would have on Montana business. Dan Bucks replied he could not be specific without a specific example, but there should be no effect from the bill on that type of corporation tax.

Rep. Raney asked for a response on foreign parent companies. Mr. Ferguson replied that DOR has its own bill to repeal the world-wide tax, and said the difference is in how deductions are treated. He explained that both bills begin with a U.S. consolidated return, but the Governor's bill would tax 15%

of foreign income and totally excludes island sales tax. He said foreign sales corporations and domestic sales corporations are not included in the Governor's proposal either, and stated he is not certain if these differences are intentional or accidental. George Anderson commented that the Governor's bill, HB 307, would drive away companies that HB 703 is attempting to attract.

CLOSING ON HOUSE BILL NO. 703: Rep. Gilbert advised that the \$86 million presence of multinational corporations has brought income to Montana, which means property tax and sales income, as well as jobs for Montana. He explained that, of the three remaining states without a unitary tax, five have no sales tax.

Rep. Gilbert asked why the majority is wrong and DOR is right, adding he believed the state had everything to gain and nothing to lose. He told the Committee they must remember large business creates small business, and said income tax is not the most important source of income to the state.

ADJOURNMENT: There being no further business before the Committee, the meeting was adjourned at 11:55 a.m.

Representative Jack Ramidrez,

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DAILY ROLL CALL

HOUSE	TAXATION	COMMITTEE
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50th LEGISLATIVE SESSION -- 1987

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NAME	PRESENT	ABSENT	EXCUSED
REP. RAMIREZ	\(\)		
REP. ASAY	J		
REP. ELLISON	✓		
REP. GILBERT	J		
REP. HANSON			
REP. HARP	✓		
REP. HARRINGTON	V		
REP. HOFFMAN	V		
REP. KEENAN	V		
REP. KOEHNKE	√		
REP. PATTERSON			
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REP. SANDS	√ ,		
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REP. WILLIAMS	J		

STANDING COMMITTEE REPORT

		~	February 20	19_87
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STANDING COMMITTEE REPORT

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Mr. Speaker: We, the co	ommittee on HOUSE TAXAPIO	N	
report	GER BILL NO. 652		
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PHONE (406) 755-8767

2307 HWY. 93 SOUTH

KALISPELL, MONTANA 59901 February 19, 1987

MR. Chairman and Members of the Committee:

We need boat titles. Boat Dealers sell a \$20,000.00 boat and a \$2,000.00 trailer. The customer can get a title for the trailer to prove legal ownership along with a registration slip showing he paid his taxes. The information on the title is accurate. The information on the registration slip, in most cases, is useless. I have a few here for you to look at. I have seen some slips with wrong boat names, either wrong or no serial number, wrong size and wrong year. There is no way that these could be used in a court hearing.

The customer has no protection of a title document, no record or notice of security interests in the vessel. Without proof of ownership or evidence of liens that federal documentation provides, private small boat buyers and marine dealers are at a great risk of unsuspectinly buying boats that can be taken away from them because they are stolen or have a lien against them for unpaid charges.

Titling is not another excuse for taxation. Titling is to provide the consumer with protection; he can title his boat but does not have to register it if he is not going to use it.

The Wallop-Breaux act in Section 13106 (B) (8) clearly makes boat numbering or titling programs eligible for federal funds. We can get this on computer and have some way to trace questionable boats.

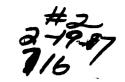
There are now 20 states that title boats and we would like Montana to be the 21st.

Thank You

Dave Seyfert

TE REGISTRAR'S BUREAU - MOTOR VEHICLE DIVISION DEER LODGE, MONTANA 59722 86-E3\$7541 OFFICIAL CERTIFICATE OF BOAT NUMBER BOAT NUMBER	SFER FILE COPY — KEEP FOR RE-REGISTRATION	Skip Jack 25' 25' Kalispell, MT 59901	1979 COUNTY TAX Pd \$ 86E15987 PL BOAT DECAL 1.00 TOTAL 1.00 NOT TRANSFERABLE	150 1039 SCHOOL DIST VALUED BY COUNTY TREASIDEP DATE OWNERS SIGNATURE TAXABLE VAL. 5 mb 9/30/86 X 311404	Les this in
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STATE AUDITOR STATE OF MONTANA



"Andrea "Andy" Bennett STATE AUDITOR



COMMISSIONER OF INSURANCE COMMISSIONER OF SECURITIES

January 5, 1987

Daniel L. Yazak, D.E.D. Administrator Shodair Children's Hospital 840 Helena, MT 59604

Dear Mr. Yazak:

We are able to provide you with the following information in answer to your recent inquiry concerning Genetics Program Charge collections.

This charge is imposed on private health insurers, health service corporations, and the state group health self-insurance plan at the rate of 45 cents per Montana resident insured under any individual or group policy. Our records indicate that we collected \$344,150 under this law for fiscal year 1986. This means that the Montana residents covered under the policies of the reporting insurance organizations totalled 764,778. However, due to the fact that some Montana residents are covered under the policies of more than one insurer, this does not mean that 764,778 Montanans had health insurance.

We have not yet made any collections for fiscal year 1987 because the charge is based on Montana residents covered as of February 1.

If we can provide additional assistance, please contact me.

Sincerely,

Russell Ehman

Insurance Examiner

ussell Ehnvan

RE/blm(758)

THE HIDDEN COSTS OF BOATING

Once upon a time, people saved their money to buy a boat with the idea of blissfully escaping the realities of modern day life. Unfortunately, buying or owning a boat today brings with it a reality all its own, in the form of state or county fees, taxes, licenses, permits, and titles—the price we pay for escape.

To find out what boat owners across the country pay to various levels of government for their recreation, BOAT/U.S. is conducting a comprehensive nationwide survey of boating taxes and fees, state by state.

We began with the Western states listed below and found a broad range of registration fees, gas taxes, sales taxes and some unusual personal property taxes.

In upcoming issues of BOAT/U.S. Reports we'll look at the other regions of the country and report the boating fees for those states as well.

Although some of the money collected from boat owners is used to support state

boating education and safety programs, much of the tax money generated by boating disappears into state general revenue coffers.

Not surprisingly, one of the least expensive of these 14 states for boating is Alaska where registration is only \$2 per year and the state gas tax is five cents per gallon. Alaska, alone among the states, does not have any formal state boating program. Ominously, it has the highest per capita rate of drownings in the U.S.

• The highest registration fee among these states is Colorado's at \$10 per year, along with Hawaii's at \$10 per year for a 20-foot or larger boat, followed by New Mexico's which ranges from \$28.50 to \$51 for three years. The highest sales tax was Washington's at 6.5 percent and that state's gas tax is a whopping 18 cents per gallon.

All of the Western states listed collect a fuel tax, and almost all return a portion of those revenues to the state's boating

program, except staska, which has no program, Colorado and Wyoming. Colorado is particularly stapped for boating funds, as the state constitution provides that are up to the first fund.

Hambe state yed impose a personal property tax on boats. Of the 11 states surveyed that collect a sales tax, apparently none return this money to boating. Montana and Utah tax personal property with "mil levies," which are tax rates that vary among cities.

Six of the Western states also issue a boat title which establishes boat ownership. Since many of the boat registration forms carry limited information and are easy to fake, the lack of uniform titling among the states makes it easier for a con artist to create a "paper" boat and apply that registration to a stolen vessel.

In addition to collecting registration fees, two states collect another yearly tax based on the size of the vessel. Arizona's "license tax" is 50 cents per foot each year for boats up to 18 feet or 75 cents per foot for boats over 18 feet. Idaho levies an annual "use permit," of \$5, plus \$2 per foot for each foot over 12 feet.

BOATING FEES & TAXES — WESTERN STATES

STATE	BOAT REGISTRATION FEE	BOAT TITLE ISSUED	STATE SALES TAX	STATE FUEL TAX	COUNTY FUEL TAX	PERSONAL PROPERTY TAX
ALASKA	\$6 for 3 yrs. to USCG	none	none	5¢ per gallon	none	some cities
ARIZONA	\$4 per yr.*	none	4%	13¢ per gallon*	none	Ficense tax: 50c per ft. up to 18 ft.; 75¢ per ft. over 18 ft.,
CALIFORNIA	\$9 orig., \$5 renewal per yr.*	yes (included in registration fee)	6%	9¢ per gallon*	none	none
COLORADO	\$10 per yr.	none	3%	12¢ per gailon	none	none
HAWAII	less than 20 ft., \$4 orig., \$3 renewal; over 20 ft., \$10 orig., \$8 renewal, per yr.*	none	4%	11.5¢ per gallon*	6-8¢ per gallon	none
IDAHO	\$6 for 3 yrs.	none	4%	14.5¢ per gallon°	none	annual use permit, \$5, plus \$2 per ft. for over 12 ft.
MONTANA	\$1 per yr.*	none	none	15¢ per gallon*	none	11% of market value plus local mil levy
NEVADA	\$7.50 per yr.*	yes, \$5 one-time fee	5.75%	12¢ per gallon*	varies*	by county and city
NEW MEXICO	up to 16 ft, \$28.50; 16-25 ft., \$36; 26-39 ft., \$43.50; 40-65 ft, \$51, for 3 years*	none	gross receipts tax, 3.75% plus cities add on	11¢ per gallon	none	none
OREGON	less than 12 ft, \$11; 12-15 ft., \$17; 16-19 ft., \$21, plus \$2 per ft. for each ft. over 20; for 2 yrs.*	\$7 one time fee	none	10¢ per gallon	2-4¢, plus some cities add on	none
TEXAS	less than 16 ft, \$6; 16-25 ft., \$9; 26-40 ft., \$12; over 40 ft., \$15, per yr.*	yes, mandatory for 12hp or 14'	4%%	10€ per gallon*	none	none
UTAH	\$5 per yr.*	yes, 1975 and newer boats, \$6 one-lime fee	5.75%	11¢ per gallon*	none	mil levies on market value
WASHINGTON	\$6 per yr.	yes, \$5 one-time fee	6.5, plus cities,. counties add on	18¢ per gallon	none	excise tax, 1/2 of 1% of market value
WYOMING	\$5 per yr.*	none	4%, plus 3% by county	S¢ per gallon	none	none

^{*} fees and taxes collected go back into state hoating safety, law enforcement or park facilities programs

2-19-87 658 or Madam Il. Chairman & Members of the committee My Name is Bruce Perry I Run Kin's Maring at carryon hake Helena, Mt. Jan sto the Resident of the CFBA. Testifing in favor of I.B. 658 secause Boat tax are too High Furthering the Economic Base of the boating industry and mit. Boaters Pay q Heavy 6as tax that is not - Refundable at Kins Marina abone hast year I pumped 19,998 gal of gas into Boats, at 174 pu gal Sahitstate Sahor taxer Collected 34000 Boat Oweners are escaping this Exerbental Boat tax by . I. Not Licensing their Boats. and Some not with their bouts on the water and others withing to pay the fire if they get cought. it's cheaper. I by moving their boats in neighboring States 3. by hicensing thier bout in Neighburn State and useims them on Mt. Wateri (Established to my the the the live with reason is the II teet the High Boat tax Hurt, my Burnes; I and their for Hurt, the state of Mt. for the following Reasons
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PHONE (406) 755-8767

2307 HWY. 93 SOUTH

KALISPELL, MONTANA 59901 February 19, 1987

Mr. Chairman and Members of this Committee:

My name is Dave Seyfert and I am owner of Flathead Sports in Kalispell.

I have been working on this issue for 6 years now and would like to see a system that is fair and equitable for boat registration based on a per foot system.

Recent legislation has removed from the tax rolls property that is difficult to assess and tax uniformly; such as, household goods, solvent credits, business inventory, light motor vehicles and motorcycles. In relation to this, we have over 800 boat manufactures in the U.S. and Canada. There is no book that lists all of them with all of the different models and a fair market value for each. We all have heared the stories of what market value is(and who is telling the story). The system we have today is not fair and equitable across the state.

In 1984 we had 34,400 boats registered. In 1985 we had 34,622. An increase of 222 boats. In 1986 only 30,116 boats were registered. A decrease of 4546 from 1985. I realize we lost 6000 people last year but I don't think that every man, woman, and child owned a boat.

What is happening? Under our present system boat registration costs are increasing every year. More and more people are opting to pay the fine rather than register their boats. The fine runs from \$10.00 to \$30.00.

Flathead County has about 20% of the registered boats in Montana. I would say that is only about 75% of the boats that should be registered for Flathead County, based on the number of boats that go through my business. I have been told that the unregistered boats is even higher in some other counties.

I have passed out a sheet showing what the other states around us are doing. As you can see the states bordering us have lower registration fees and are using the per foot system. Consequently, many people from Montana are registering their boats out of State.

The system we have now is not working. As you consider HB 658 please remember that it is a fair and equitable system we are concerned with. This bill will increase registration and revenue for the State.

Thank You.

We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power boats. Such a law would put boats on a flat rate, similar to the method in which automibiles and other recreational vehicles are taxed.

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We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power boats. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

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February 19, 1987

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108-203

Testimony - George D. Anderson, CPA
Montana Chamber of Commerce

Unitary Method of Computing Corporation License Tax Income - Unitary Companies

"World Wide"

"Waters Edge"

* Under HB 703 15% of foreign dividends (as defined in bill) are included in US income.

"World Wide"

$$\frac{\$ 500,000}{\$5,000,000} + \frac{\$ 150,000}{\$3,000,000} + \frac{\$ 50,000}{\$750,000}$$

$$x \$300,000 x 6.75\% = Tax$$

$$\frac{10 + .05 + .07}{3} = .0733 x \$300,000 = \$22,000 x .0675 = \$1,485$$

"Waters Edge"

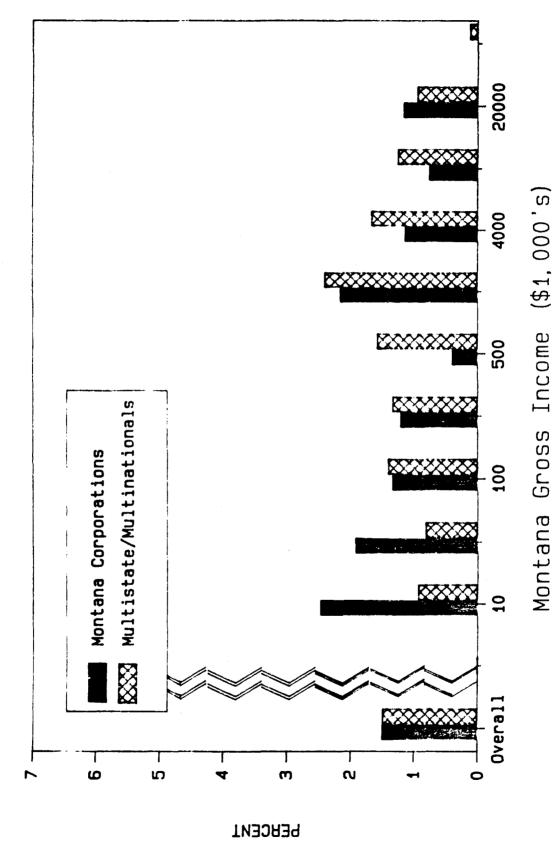
$$\frac{\$ 500,000 + \$ 150,000 + \$ 50,000}{\$2,000,000} \times \frac{\$1,000,000}{\$400,000} \times \$130,000 \times 6.75\% = Tax$$

$$\frac{.25 + .15 + .125}{3} = \frac{.25 \times 175}{3} \times 175 \times 130,000 = $22,750 \times .0675 = $1,535$$

9-12-12-18

EFFECTIVE CORPORATE TAX RATES

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TAX COMPARISON -- MULTINATIONAL FIRM AND MONTANA FIRMS

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The Montana Alliance for Progressive Policy

P.O. Box 961 Helena, MT 59624 (406) 443-7283

HB 703: Unitary Taxation

Mr. Chairman and members of the committee, for the record my name is Don Reed and I'm here on behalf of the Montana Alliance for Progressive Policy in opposition to HB 703.

The basic issue with HB 703 is one of fairness in a competitive business world and whether or not this legislation is fair to Montana businesses. In a sense, those businesses operating only in Montana are by nature subject to unitary tax methodology. All of their income is subject to taxation, easily identified, and declared to federal and state tax authorities. Do multinational businesses deserve better treatment than our own Montana businesses?

We supported the unitary taxation provision of the Governor's Tax Reform Package, SB 307, as a reasonable compromise. We opposed efforts to repeal the unitary method of taxation in the last general session of the legislature. There simply must be some fair middle ground in this debate.

In FY 1986, the unitary method was applied to 3,700 corporations or 18% of all corporations filing Montana returns. The revenue from these corporations accounted for \$28 million or 59% of total Montana corporate tax liability before audits. Of these, only 82 corporations used "worldwide combination" and paid approximately \$6 million or 12.7% of the total.

Several of the proponents here today appeared in opposition to the unitary provisions of SB 307. They argued that SB 307 would discriminate against U.S.-based multinational corporations in favor of foreign-based multinational corporations. The bill before you today treats U.S.-based and foreign-based multinational companies equally. The discrimination is left for those Montana-based businesses trying to compete with the multinationals.

Both foreign-based and U.S.-based multinationals will have a distinct economic advantage over Montana corporations. These multinationals will have an incentive to attribute little or none of their income to their Montana and U.S. operations. Some foreign countries such as the Bahamas have made a real business out of the international tax shelter game.

Education Senior Citizens Women Conservation Labor Agriculture

Overall, these multinationals are large and complex organizations. Corporate income earned in Montana could easily "disappear" somewhere in the web of different accounting procedures, currencies, and repatriation restrictions.

That is not to argue that these multinationals are dishonest. The point is that HB 703 gives these businesses an incentive to attribute income to foreign sources. The question is not the fairness of the players, but rather the fairness of the rules of the game.

This legislation would presumably give a \$9 million tax break to 50 of the largest businesses operating in Montana. Is this fair to the thousands of small businesses operating in Montana communities -- in some instances competing with the multinationals?

If you've followed the recent debate over economic development, you already know that small businesses are responsible for a vast majority of the new jobs created in our economy. And Montana is a small business state. Only Wyoming leads Montana in the number of small businesses per capita. This bill discriminates against these small businesses.

My final point is that Montana will underwrite the fiscal note for this bill one way or another. Montanans will make up the \$9 million over the coming biennium through higher taxes, new taxes, or decreased services.

Why make Montana businesses, wage earners, and consumers pay the cost. A better approach would be to reject HB 703 and keep the playing field level.

HOUSE BILL 703

Statement of Intent

The intent of this legislation is to clarify the present law relative to the computations and options available under the unitary method of computing Corporation License Tax for multistate and multinational corporations.

This legislation is intended to allow a three-year renewable election by both domestic and foreign corporations, to have their income and apportionment factors computed and applied on a waters edge basis. Only income and apportionment factors from certain specified domestic corporations are intended to be taken into account under the waters edge method. Dividends and income received from foreign sources are to be taxable only to the extent of 15% of those dividends received. This 15% would be included in income in lieu of any expenses necessary to collect the foreign income or dividends.

A new section is added allowing a taxpayer corporation that, in any one-year period, invests at least one million dollars in property or payroll within Montana, to place that corporation on a separate company basis. This election is to be for a period of five years. This provision is intended to attract new investment into Montana by new and existing corporations.



P.O. BOX 2127 926 CENTRAL AVENUE GREAT FALLS, MONTANA 59403 (406) 761-4434

March 2, 1987

TO: House Taxation Committee

Cascade County Legislative Delegation

FROM: Roger W. Young, President

SUBJECT: UNITARY TAX

The Great Falls Area Chamber of Commerce supports the passage of HB-703 (Gilbert) which will allow corporations to file Montana license or income tax returns on a water's edge unitary combination and to provide procedures for filing such returns. The proposed legislation requires certain information returns and conditions to be imposed by the Department of Revenue to assure that corporations properly attribute income to Montana for taxation purposes.

To be most accurate, "unitary tax" has come to mean the method of apportioning (dividing) a corporation's unitary income using world-wide income and world-wide profitability factors (profit, payroll and sales). The issue of unitary tax has become a very sensitive issue with corporations both foreign and domestic, the U.S. Government and foreign countries. While the courts have upheld the right of Montana to apply this unitary tax, that does not necessarily make it fair. In 1983, Montana was one of 12 states that applied a world-wide combination (unitary tax). Since then nine of the 12 states have passed legislation to repeal world-wide combination. Today, Montana remains only one of three states (Alaska, Montana and North Dakota) that continue to apply a world-wide combination. It is time for Montana to follow suit.

We prefer HB-703 to the waters edge formula incorporated in the Governor's tax reform proposal. HB-703 is a good bill. It has non-partisan support. It keeps Montana competitive with the states in this geographic region and removes a black mark on the taxation policy of this state. We join the Montana Chamber of Commerce in supporting its passage.

2-19-87

February 19, 1987

TESTIMONY BY GARY B CARLSON, CPA ON BEHALF OF

THE MONTANA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

SB307 - Sections 9-34, 86-91 and 113: Individual Income Tax

Simplification for filing individual income tax returns is a bold and agressive move.

On June 25, 1986, five CPAs and two Montana Society of CPAs' Executive staff members held a news conference on the Capitol steps during the Special Session. Our purpose was to announce our profession's suggestions to simplify the filing of individual tax returns. The result of the conference? No one showed up!

There is a message: CPAs aren't known for bold public moves. However the effort was noted.

An effort to condense the filing of individual returns from 3, 4 or 5 pages of forms to a single page is a tremendous step - not one without painful decisions. Taxpayers who prepare their own returns, as well as paid preparers - CPAs and others - welcome the effort and will appreciate it.

We urge additional simplification.

Important impacts result from the shift to beginning with Federal taxable income - many of the current adjustments are difficult to explain.

If the legislature can and will accept the Federal philosophy now in place, used to determine taxable income, return filing in Montana can achieve simplification.

We propose a further bold step: Utilize Federal tax

- o Income tax + alternative minimum tax + lump sum distributions + IRA tax
- o Determine the applicable % which should be taxable in Montana.

Federal taxable income + interest - non-taxable = %

Federal Taxable Income

If we used the North Dakota approach, we would have the following formula:

Federal tax x % x MT single rate = tax

Establishing the Montana tax rate is the important issue on which to focus.

Many Montanans will be forced into higher tax brackets by the Federal Tax Reform Act of 1986 and the elimination of Montana adjustments to income (such as retirement income exclusions) and the elimination of the common practice of filing separate returns by married couples on a single tax form. This change affects many two-wage-earner families - many state employees as well as many other taxpayers. The Department of Revenue can inform us of the number of filers on which this will have an impact.

To offset the increased taxable income, the rates must be dropped and the tax brackets widened to avoid a state windfall.

This revenue impact is a legislative choice.

The Montana Society of CPAs has offered a perspective and resources. We are a licensed profession; licensed for our independent prospective. We are in the final stages of reviewing a member-generated database, assembled from actual 1985 taxpayer returns, converted to 1988 taxable income and reflecting the impact of the 1986 Tax Reform Act on Montana taxpayers. The purpose of our work is to provide additional data to be used in your deliberations, showing:

- o the change in taxable income
- o the "Federal windfall"
- o the current tax, based on current Montana tax law
- o the effect of SB307 on Montana taxpayers

We hope to complete our report to the legislature next week, and review it with the chairmen of the Senate and House Taxation Committees to determine its usefulness and mode of dissemination to the Committees.

Our preliminary comments, regarding SB307 are as follows:

- o Section 9, page 17, line 11
- o Section 13, page 26, lines 17-22

consider defining net taxable income as a % of the

Federal

o Section 14, pages 28-29

consider change from Governor's proposed three rates to one (essentially a move from ten rates to one)

o Section 16, page 31 - Montana Alternative Minimum Tax
eliminate complexity - as written, it will require a

new state tax form, similar to form 6251. This is not
simplification; it is a revenue generator.

Two alternatives exist:

- 1. Adopt a provision like the present Montana tax of lump sum distributions from retirement plans (10% of Federal). A % of the Federal Alternative Minimum Tax which sets a minimum rate of tax at 21%. If you want to collect at a Montana rate of 7%, set Montana formula at 33 1/3 % of Federal tax an add-on amount to normally-calculated Montana income tax. A much simpler approach.
- 2. The second alternative is to set the Montana tax as a % of Federal tax which would be defined to include the Federal Alternative Minimum Tax.
- o Section 17, page 34, line 17 refunds of Federal tax received in 1987 taxable. Should cover later years as well as any Federal refund related to a return filed for a year beginning prior to 1/1/87: amended returns or audits could result in refunds past 1987.

- o Section 18, non-residents pages 39 43. We feel this section needs further consideration simplification needs to be accomplished alternatives should be reviewed to clarify the calculation of the amount of non-resident income taxable. Maybe it can be reviewed to determine if it parallels Section 19, covering part-year residents (pages 43 & 44).
- o Section 23, page 52, line 13 so called innocent spouse.

 We support the additions recommended; however we urge the

 DOR to exercise consistent discretion which is <u>fairly</u> and
 equitably applied.
- o Section 25, page 56, line 23 Extensions of time to file. Article 2 does not conform to Federal extension procedures. We urge revision to the Federal to conform: four months' automatic (8-15) and two months' additional under Article (4), page 57-58. We also support a procedure which would allow the preparer to file a copy of the Federal tax form with the state eliminates another state form. Another option: do not require preparer to file the copy with the state; just submit a copy of the Federal form with the state return.
- o Small Business Corporation. This needs special attention.

 We cannot locate a provision in the proposal tying Montana
 to Federal taxable income which would eliminate the
 double taxing of a Montana taxpayer if a corporation is

"S" for Federal purposes (income is taxable), and not "S" for Montana, therefore the income is not taxable.

In closing, we fully support simplification. It surprises many people that CPAs would propose and support simplification: tax return preparation is a revenue source for CPAs. Amendments to SB307 proposals are needed; caution is needed in some areas such as Alternative Minimum Tax. Please do not take a simplification idea and further complicate the filing of returns. DO NOT emulate the Federal Congress.

At one time, the 1986 act was going to be called the "Tax Simplification and Equity Act" - NOW! (show printed Act) . . . The Tax Reform Act of 1986.

The definition of a loophole will cause much controversy. A loophole is a loophole . . . capital gains . . . passive/active activities . . . meals and entertainment . . . retirement income exemptions . . . etc.

We urge simplification of Montana tax return filing.

WITNESS STATEMENT

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

House Taxation COMMITTEE 2-19-57
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BILL NO. HB658 DATE Feb 19, 1987

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

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VISITORS' REGISTER

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REGISTERED VOTERS IN THE STATE OF MONTANA

We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power boats. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

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attention Boot Owners:

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REGISTERED VOTERS IN THE STATE OF MONTANA

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REGISTERED	VOTERS	IN	THE	STATE	OF		
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We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power boats. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

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REGISTERED VOTERS IN THE STATE OF MONTANA

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REGISTERED VOTERS IN THE STATE OF MONTANA

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Helena Division 404 Fuller Avenue • P.O. Box 4309 Helena, Montana 59604 (406) 444-8200 2-19-87

Great Falls Division 3360 10th Ave. South • P.O. Box 5004 Great Falls, Montana 59403 (406) 761-7310

Reply to Helena Division

February 18, 1987

Representative Jan Brown Capitol Station Helena, MT 59620

Dear Jan:

As you know, we were approached by the Helena Legislative Delegation requesting our support for continuation of the special levy to fund the Genetics Program at Shodair Hospital.

We appreciated the opportunity to discuss this issue with you and we have taken the position that we will not oppose continuation of the Genetics Tax at the reduced level proposed in your legislation with the two-year Sunset Provision, so that it can be considered again at that time.

Feel free to share with the House Taxation Committee the position of Blue Cross and Blue Shield of Montana on this program.

Sincerely,

TERRY SCRENAR

Executive Vice President

TS:dlt

cc: Helena Legislative Delegation

MONTANA

MEDICAL ASSOCIATION

2021 Eleventh Avenue • Suite 12 • Helena, Montana 59601

February 17, 1987 Tuesday

MEMBERS OF THE HOUSE COMMITTEE ON TAXATION JACK RAMIREZ, CHAIRMAN:

RE: HB716

I am writing this letter on behalf of the Montana Medical Genetics Program, administered through John M. Opitz, M.D., and Shodair Childrens Hospital in Helena, Montana.

This letter is written wearing two hats, one as President of the Montana Medical Association, but the other as a practicing obstetrician in Kalispell, Montana.

The presence of a Genetics Program in Montana has been invaluable to the physicians in Montana who have the responsibility of maintaining Montana's reputation for being one of the safest states in these United States to have a successful pregnancy with a good fetal outcome. The presence of Doctor Opitz and The Medical Genetics Program at Shodair have in part made this possible.

I have seen the neonatal death rate in Montana drop from 14-15 deaths per thousand to 8.8 deaths per thousand, and here in Kalispell to 4-5 per thousand, where the national average is still 11-12 deaths per thousand. I believe the article in the Kalispell News is illuminating and very worthwhile reading, along with the xerox copies from HHS.

It has to be very obvious that genetics is very important for providing for a good outcome. Healthy babies cost the State of Montana much less than do those of pregnancies where there is a recognized genetic imbalance and counselling and avoidance of pregnancy can be given.

Please do not deny Montana physicians of the availability of this excellent service or those medical consumers in the State of Montana who need this service.

Thank you very much.

Cordially,
Was Mise Melon

Van Kirke Nelson, M.D.

President

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KALSPALL

MONTANA'S LEADING WEEKLY NEWSPAPER GNLLY FILE

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Friday, February 13, 1987

Kalispell, Montana 59901

 (35°)

Montana medicine: top notch care at bargain prices

by James C. Ryan

If a woman is going to have a child, she couldn't pick a much safer state than Montana or a safer area than Kalispell to give birth. As of 1983, the Infant Mortality Rate in Montana was 8.8 deaths per 1,000 births. . . one of the lowest rates in the nation. At the same time, Kalispell's IMR was 4-5 deaths per thousand. These figures further stand out when compared to the national average of 11-12 deaths per 1,000.

While the quality of health care in Montana and the Flathead Valley is first-rate, the basic cost of health care in Montana is a bargain. According to figures from the Montana Department of Health and Environmental Sciences, the cost of health care in Montana is far less expensive than the national average. In 1985, the Department reported that Montana residents paid \$350 less per capita than the average U.S. citizen. "Additionally, individuals in this state, on the

average pay 29.1% less for hospital costs in a year; physician costs for Montanans is an even better deal and we spend less than half as much in this category as our national counterparts," the HES report continues.

report continues.

With Montana's excellent health care record, low infant mortality rates, and low health care costs, state physicians are being hit with some of the highest malpractice insurance premiums in the nation, with Kalispell doctors absorbing some of the highest premiums.

Van Kirke Nelson, M.D., a

Van Kirke Nelson, M.D., a Kalispell obstetrician and president of the Montana Medical Association, is one such physician who has seen a massive jump in his annual malpractice premiums.

"On April 1 we will write out a

"On April 1 we will write out a check to cover the malpractice premums for the three doctors in our office," Dr. Nelson relates.

Continued on page 3

Medicine

continued from page 1

"That check will be in the amount of \$99,514.26. And that will be with the 20 percent discount we received for being members of the Montana Medical Association."

This year's total represents a 36 percent hike in his premium rates compared to 1986.

"We are told many reasons for our high premiums: greedy insurance companies, greedy attorneys, and bad doctors," he continues. "If obstetrical care is so bad, why is Montana one of the safest places to have a baby? In addition, 'bad care' usually generates increased costs through complications and longer hospital stays, yet the per capita costs in Montana are less than half of the rest of the nation."

Dr. Nelson sees the filing of an extreme number of malpractice lawsuits, most of them lacking in merit, as a prime reason for the growing premiums. "A few months back a woman sued our office claiming we had inserted an IUD after the birth of her child. We hadn't. But to defend ourselves our insurance company had to hire a lawyer, another physician had to hire a lawyer, and the Montana Medical Legal Panel in Helena had to provide materials to the plaintiff's attorney. We had proof that we were innocent of the charges, but she would not let us off the hook. Finally it was determined that the IUD had been inserted six years after her last visit to our office. When the suit was finally dropped and the figures were totaled up, the cost of the lawsuit to all the defendant parties was almost \$9,000. The insurance companies had to pay the legal fees, we in-turn are assessed higher malpractice premiums, and the consumer receives the brunt of the impact through higher medical costs."

Dr. Nelson does see times when

Dr. Neison does see times when malpractice can and does occur. "Perhaps it is caused by a mistake in judgment or for whatever reason, and it is at such times when a patient should be compensated for their suffering. No physician would deny that. However, they should be compensated ... not enriched at the expense of the physician's liability carrier and ultimately the consumer."

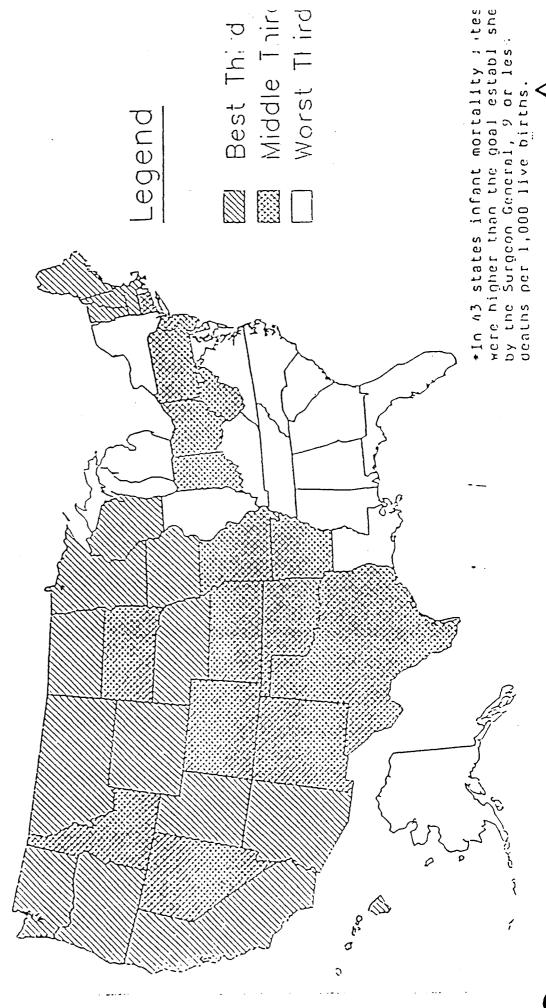
Dr. Nelson points out that the practice of medicine in Montana does not generate the type of revenues necessary to meet the high premiums doctors are being forced to pay. He notes that Montana physicians earn considerably less than the national average.

"Very few doctors are going to want to set up in Montana where the income is less than the national average and the malpractice rates are some of the worst in the nation," Dr. Nelson remarks. "It is the same set of circumstances that are driving out doctors who are presently practicing here."

In future weeks: Tort legislation

In future weeks: Tort legislation and the Montana legislature.

Infant Mortality Rates 1983



Infant Mortality Rates 1983

Àlabama	12.9	Montana	ω.
Alaska	12.4	Nebraska	9.6
Arizona	9.5	Nevada	10.
Arkansas	10.7	New Hampshire	10.
California	2.6	New Jersey	11.
Colorado	10.2	New Mexico	10.(
Connecticut	10.3	New York	10.
Delaware		No. Carolina	12.
Dist. of Columbia	19.3	No. Dakota	 æ
Florida	10.8	Ohio	10.
Georgia	13.4	Oklahoma	10.
Hawaii	9.4	Oregon	<u>.</u> ص
Idaho	7.6	Pennsylvania	10.
Illinois	12.0	g	9.
Indiana	11.4	So. Carolina	14.
Iowa	. 6.8	So. Dakota	10.
Kansas	8.6	Tennessee	11.
Kentucky	11.6	Texas	10.
Louisiana	12.0	Utah	æ
Maine	8.7	Vermont	ස
Maryland	11.1	Virginia	12.
Massachusetts	8.9	Washington	10.
Michigan	11.8	West Virginia	10.
Minnesota	8.6	Wisconsin	o.
Mississippi	14.4	Wyoming	11.
Missouri	10.3		

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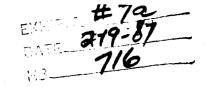
Percentage of Pregnant Women Recieving Early Prenatal Care 1983

7

Alabama	73.6	Montana	79.1
Alaska	75.2	Nebraska	80.6
Arizona	72.6	Nevada	4.
Arkansas		New Hampshire	4.
California	.77.1	New Jersey	80.7
Colorado	9	O	۲,
Connecticut		New York	
Delaware	9	No. Carolina	ස
Dist. of Columbia	ь О	No. Dakota	
Florida		Ohio	
Georgia '	ა.	Oklahoma	67.4
Hawaii	5.	Oregon	7
Idaho	ري	ennsylvani	σ
Illinois	7.	hode Is	4
Indiana	7	o. Ca	9
Iowa	ა.	So. Dakota	<u>.</u>
Kansas	ä	Tennessee	س
Kentucky	ა.	Texas	ω
Louisiana		Utah	?
Maine	Ψ.	rmon	2.
Maryland		Virginia	80.6
Massachusetts		ing	ω
Michigan		West Virginia	2
Minnesota		Wisconsin	4.
Mississippi		Wyoming	0
	79.9	d.	

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Worst Thira Middle hir Early prenatal care (during the irst trimester) is critical in mproving infant and child halt 'In 34 states 1 in 5 women cin't Best Third -egend Percentage of Pregnant Women Receiving Early Prenatal Care 1983



TESTIMONY GIVEN BY DR. JOHN M. OPITZ OF HELENA, CONCERNING HB716: "AN ACT TO FUND THE VOLUNTARY STATEWIDE GENETICS PROGRAM BY IMPOSING A FEE ON HEALTH INSURERS OF 40¢ FOR EACH MONTANA RESIDENT INSURED; APPROPRIATING MONEY FOR THE PROGRAM AND PROVIDING AN EFFECTIVE DATE AND A TERMINATION DATE."

INTRODUCTION:

My name is John M. Opitz. I am a physician, licensed to practice medicine and surgery in the State of Montana and I am Chairman of the Department of Medical Genetics at Shodair Children's Specialty Hospital. I am Board certified in the specialties of pediatrics and medical genetics. I am here to testify in favor of House Bill 716, introduced by Representative Jan Brown of Helena.

PROVISIONS:

- 1.) 40¢ are to be paid to the Insurance Commissioner on each health insurance policy issued in Montana, in order
- 2.) to support the Montana Medical Genetics Program which was established by HB430 in the 49th Legislature, with an appropriation of \$520,000 for the biennium (\$260,000 per year).

HISTORY:

3.) We regret coming to you for this purpose, because it was the intention of the 49th Legislature that HB430 would be a one-time measure, with the budget item for the Montana Medical Genetics Program thereafter

becoming a regular part of the budget of the Department of Health and Environmental Sciences.

- 4.) As you know, at the Governor's urging, <u>all</u> "new" programs funded through a special appropriation were removed from the budget he proposed to you.
- 5.) Hence, our need to come before you with a request similar to that proposed two years ago, a request formulated at the recommendation of the Helena-area legislative delegation who also discussed their proposal with the distinguished President of Blue Cross/Blue Shield of Montana, Mr. Alan F. Cain, who voiced no objections, and with Representative Dorothy Bradley, sponsor of HB430, who is co-sponsor on HB716.

WHAT IS THE MONTANA MEDICAL GENETICS PROGRAM?

6.) The Montana Medical Genetics Program is a service, <u>not</u> a research program, funded by the Department of Health and Environmental Sciences (DHES) at \$260,000 per year, after a competitive application process awarded the grant to the Department of Medical Genetics at Shodair Children's Specialty Hospital in Helena. The Montana Medical Genetics Program provides the people of Montana with the services they need in order to diagnose, treat, and prevent birth defects and genetic and hereditary conditions. The Montana Medical Genetics Program also relies on a very extensive network of consultants throughout the United States and in several other countries in the world, in order to

provide the latest information on diagnosis, treatment and prevention to the patients and their families.

WHAT HAVE YOU GOTTEN FOR YOUR MONEY?

- 7.) During the year and a half since the beginning of the HB430 sponsored Montana Medical Genetics Program, we have performed
 - 786 genetic consultations at Shodair and on field clinics in Kalispell, Missoula, Great Falls, Billings, Miles City, and Sidney, Montana.
 - 156 fetal genetic pathology studies with 62 cases referred to the University of Wisconsin-Madison Department of Pediatric Pathology for further gross and microscopic studies.
 - 1,658 tests on 800 samples in the cytogenetics laboratory.
 - Have filled 3,863 requests for service for 2,284 patrons in the library and information resources center.
 - In addition, we have published 4.5 volumes (i.e., 20 issues) of the American Journal of Medical Genetics, with a total of 4,412 pages and 487 articles, 34 of which were authored by Shodair staff.
 - In addition, Shodair has published, or is in the process of publishing, 6 major books in the field of medical genetics,

including important summaries in human cytogenetics, X-linked mental retardation, the Rett syndrome, etc.

- We have initiated the statewide Maternal Serum Alphafetoprotein Screening program; and
- We are working with Dr. Bill Peters of Bozeman to establish a chorionic villus sampling program at 9-10 weeks as an attractive alternative to amniocentesis at 16 weeks.

ALLIANCES:

8.) Out of our work has come a very strong alliance between the program and the health care providers in Helena and Montana, and state, county, municipal, university and numerous voluntary agencies to provide the best possible medical genetic care program for the people of Montana in order to prevent and to alleviate the pain and suffering associated with birth defects and genetic disorders of humans.

PROGRAM SUPPORT:

- 9.) The Montana Medical Genetics program has the strong support of the
 - Department of Health and Environmental Sciences; indeed,
 Dr. John Drynan, secretary of the Montana DHES, went back
 to plead with Governor Schwinden to reinstate the funds for
 the Montana Medical Genetics Program in his budget.
 - The Montana Chapters of the American College of Obstetrics and Gynecology, the American Academy of Pediatrics, the

American Academy of Family Practice, the American Hospital Association, the American Nurses Association, the American Public Health Association;

- The Montana Perinatal Association,
- The March of Dimes Birth Defects Foundation,
- The Healthy Mothers, Healthy Babies: The Montana Coalition,
- The Developmental Disabilities Council of Montana.

MATCHED BY SHODAIR AND OTHER AGENCIES:

10.) The total Fiscal Year 1987 budget of the Department of Medical
Genetics of Shodair Children's Specialty Hospital is \$505,200. Due
to the 5% cut imposed by the Governor on all agency budgets, we are
receiving only \$247,000 during this fiscal year (rather than the
\$260,000 stipulated for in HB430). Thus, Shodair provides \$258,000
of its funds to finance the Montana Medical Genetics Program, to which
must be added an approximately \$30,000 stipend granted by the Alberta
Heritage Foundation for Medical Research to Dr. Susan O. Lewin, who
is working with us as a Senior Postdoctoral Fellow at no cost to
Shodair or the Montana Medical Genetics Program. In addition, the
University of Wisconsin provides a minimum of \$70,000 worth of
services per year for its evaluation of some 50-70 fetuses studied
in the fetal genetic pathology program at Shodair. Thus, in
direct and indirect support, the grant from the State of Montana
is matched in a 1.4:1 ratio by Shodair in direct and indirect support.

EXCESS GENERATED FOR GENERAL FUNDS UNDER HB430:

11.) A letter of 1/5/87 by Russell Ehman, the Insurance Examiner working in the State Auditor's Office in the State of Montana, states that with a surcharge of 45¢ per health insurance policy, \$344,150 were collected under HB430 for FY-1986. This is \$84,150 more than the bill appropriated, or a total of \$168,300 for the biennium.

To this must be added the "savings" from the 5% cut imposed in our budget during the second year of the biennium, or \$13,000; thus, HB430 provided an excess of \$181,300 to the State of Montana. With a total of 764,778 Montana policies, some 35¢/policy would provide slightly more than the \$520,000 required for the biennium.

WHY INVOLVEMENT OF THE HEALTH INSURANCE CARRIERS?

12.) The reason why this funding mechanism was proposed to begin with was that after the immediate benefit to the patients, the insurance carriers will benefit most substantially by having to make fewer and smaller payments for the health expense claims of chronically and multiply handicapped individuals, and those whose health is genetically impaired. Ultimately, the greatest beneficiary of a statewide voluntary genetics program is the State of Montana itself whose savings in the future will, without question, amount to hundreds-of-millions-of-dollars. Avoiding the admission of only 4 patients per year to Boulder alone will pay for the program. Hence, we should like to submit that an alliance between the State and health insurance carriers in this respect can only be of the greatest mutual benefit.

WHAT NUMBERS OF POTENTIAL CLIENTS ARE INVOLVED?

13.) Throughout the nation it is estimated that conservatively some 15-20 percent of the population needs one genetic service or another. In Montana this means anywhere between 120-160,000 citizens, including 40,000 alone who are carriers of cystic fibrosis.

WHAT MAGNITUDE OF HEALTH COSTS ARE WE TALKING ABOUT?

14.) The recent article in Newsweek documented that in 1985 health care in the United States cost \$425 billion, exceeding considerably the Defense budget, thus, the total Montana health bill for 1985 was 1.4 billion dollars. It is very conservatively estimated that 54% of that bill, or \$756 million dollars in Montana, is spent for genetically caused or predisposed disorders. This amounts to some \$945 to \$1,000 per person per year. In comparison to that, 45¢ per health-insured person (or per policy) is a trivial sum.

PRO-LIFE ASSURANCE:

15.) Since we are also involved in prenatal diagnosis, are we thereby engaged in a fetal "search and destroy mission", to use the words of the Surgeon General. The facts are, that out of the 105 dead embryos and fetuses we held (very reverently) in our hands during the past year for fetal genetic pathology studies, none was killed by man, but all represented acts of God, i.e., natural causes of

death. The provisional Montana birthrate for 1986 was 12,201, and 3,301 therapeutic abortions were performed in Montana during that year. To our knowledge, only one of these cases involved a genetic indication.

Over the years we have also seen many women who, after seeing us, had been able to cancel a termination which had been scheduled because of fear that they might have a defective baby.

It is fact that in over 95% of cases of prenatal diagnosis we are able to offer reassurance on the normality of the fetus for the trait it was being studied; many of the other 5% of women who are found to have an abnormal fetus decide not to terminate their pregnancy. Thus, our activities are in fact strongly pro-life not only in reducing the number of therapeutic abortions being performed for genetic reasons, but by actively encouraging conceptions in couples fearing to conceive for genetic reasons.

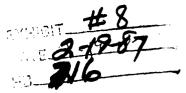
Ladies and Gentlemen of the Taxation Committee, we, therefore, hope that you will be able to give HB716 favorable consideration.

Respectfully submitted,

John M. Opitz, M.D., D.Sci.(h.c.), M.D.(h.c.) Chairman, Department of Medical Genetics

TESTIMONY

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My name is Joan FitzGerald. I am the genetic counselor and clinical coordinator for the Shodair Department of Medical Genetics. I would like to address the specifics of our genetics services to, hopefully, demonstrate 1) the need in the State filled by our presence 2) the impact of the service on the financial, temporal and psychologic cost of genetic conditions and 3) the value of a local, by that I mean, available in the State, genetics service.

There is no question that easy access to a genetics service is foremost in reducing cost. For individuals needing a genetic service, travel out of state to large universities involves enormous expense in actual travel costs like gasoline, airline tickets, motel room, etc as well as requiring work absences, arrangements for daycare for other family members, and other loss of valuable time. Many individuals needing services will not travel great distances because of financial considerations and will not, therefore, receive the genetic information they need. Also, a number of families we serve depend on public assistance and will ask for State travel money to finance their trips out of State for required medical genetic care. Traditionally, cases seen in a large university setting are subjected to many "routine" tests and see numerous doctors due to the teaching requirement of university based programs. Many families will not seek services from these large institutions because of this "quinea pig" reputation. We currently hold 27 clinics per year in 6 locations around the State: Missoula, Kalispell, Great Falls, Billings, Miles City and Sidney. The map shows the geographic distribution of clients we have seen for an initial visit. Each blue pin represents 10 new cases and each red - 1 initial contact. This does not account for additional family members seen or follow-up visits. The geographic distribution of our clinic sites and Helena's centralized location allows driving access from anywhere in the State. We have seen families, your voting constituents, from every county represented on this committee within the last 12 months.

If access and availability are considered, the fetal pathology service would not exist if genetic services were moved out of the state. This would mean that in 1986 numbers 107 families, 2 per week, would suffer the tragic loss of a desired child with no one available to answer their questions of why. These same 107 families in addition to the other 300 currently served per year would be forced to seek answers from experts outside of the state who are already struggling from overburdened caseloads.

Since the passage of HB 430, we have begun offering screening in early pregnancy to rule out a common birth defect, namely spina bifida and anencephaly. The condition results in multiple handicaps and an average of 10-12 surgeries by the age of 6 years. Through a blood test affected fetuses can be identified so that delivery in a center capable of immediate neurosurgery can be arranged thus helping to minimize the subsequent physical handicaps aggravated by traditional delivery. Since screening began in September of 1986, 378 pregnancies have been screened and current volume dictates an anticipated 1200 in 1987. These specimens come from all areas of the state with follow up provided by myself.

FOLLOW-UP

The availability of follow-up is vital for effective genetic services. If

Montana families did not have this service available in the State, they would receive
diagnosis, counseling, etc. in another State and would then be lost to follow-up.

After an initial evaluation, many families have additional questions and concerns
and contact us routinely for more information. Because of our permanent residence
in the State, we can offer ongoing support for families in crisis after the death
of a child, provide follow-up for critically ill newborns transported out of State
and subsequently returned to their local community, provide consultation and counseling in cases of prenatal diagnosis where an abnormality is identified, continue to
reassure expectant parents of the normality of their babies, and facilitate adjustment and acceptance of a genetic condition in an individual or family. We have
extensive written information for lay and professional people and can involve our

clients with local and national support and information organizations. Much genetic information is not heard by individuals in crisis and follow-up is vital to their understanding. Additionally, other family members, unaware of their risk, must be contacted and couseled. We also continue to follow undiagnosed cases as knowledge is gained in the field and to learn more about the effects of a particular condition.

In summary, we are able to provide exemplary genetic services for the people of Montana because the services are available and accessible to all of the Montana population, our program provides information not available through the local physician community, and, because of our residence within the State, we can rountinely provide the quality follow-up required. The service prevents unnecessary travel for services, long delays in obtaining results, wasted time and finances on unproven treatments, and allows money spent for genetic health care to remain in Montana. I am hopeful the benefits of this program for the people of Montana will convince you to retain the established genetic services in this State.

Staff

M. Opitz, M.D., D.Sci.h.c., M.D.h.c., F.A.A.P.
Chairman, Department of Medical Genetics,
Diplomate-American Board of Medical Genetics and
American Board of Pediatrics

James F. Reynolds, M.D., F.A.A.P.

Associate Chairman, Department of Medical Genetics, Diplomate-American Board of Medical Genetics and American Board of Pediatrics

Joan FitzGerald, M.S.

Genetic Counseling Associate, Clinic Coordinator, Diplomate-American Board of Medical Genetics

Suzy Holt, M.A.

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Arthur Daniel, B.Sci., Ph.D.

Director, Cytogenetics and Molecular Cell Biology Laboratory,

Diplomate American Board of Medical Genetics

Linda Ekblom, B.A., C.L.Sp.(CG)

Cytogenetics Technologist

Sandra Phillips, B.S., C.L.Sp. (CG) Cytogenetics Technologist The Department of Medical Genetics is affiliated with the WAMI Program of Montana State University, the University of Washington/Seattle, and the University of Wisconsin/Madison; it also serves as the editorial office of the American Journal of Medical Genetics.

Shodair Children's
Specialty Hospital
Department of
Medical Genetics
and the Montana
Medical Genetics



1987 Services and Visiting Genetics

Shodair Children's Specialty Hospital Box 5539, 840 Helena Ave. Helena, MT 59604 Telephone (406) 442-1980

Century Lithographers

SERVICES

Shodair Children's Specialty Hospital, Helena MT, provides the following genetic services:

Clinical Genetics

In addition to Helena 27 clinics are tentatively scheduled for 1987 (See clinic schedule). Clinical genetics services include:

- Diagnosis and genetic counseling in hereditary and congenital disorders
- Evaluation of birth defects, intersexuality and other disorders of gonadal/genital structure and function, skeletal dysplasias, mental retardation and other developmental disabilities.
- Prenatal diagnosis and amniocentesis.
- Genetic anatomic studies on products of conception including embryos and fetuses, stillborn infants, and infants dying perinatally.
- Teratogen counseling in cases of prenatal exposure, including fetal alcohol syndrome.
- Maternal serum alphafetoprotein screening for neural tube defects.

Resources Center Information

comprehensive collection of books and journals in the areas of human, medical, clinical genetics and cytogenetics, birth defects, prenatal diagnosis, genetic counseling, and related subjects for both professionals and laypersons. Services The information resources center acquires and maintains a include:

- Computer literature searches of MEDLINE, 15 other National Library of Medicine databases, and 200+ DIALOG databases.
- Photocopying of articles from journals and other materials in the collection upon request.
- Access to major state and regional library collections through the regional medical library network and Western Library Network (WLN).

Molecular Cell Biology Cytogenetics and

The cytogenetic and molecular cell biology laboratory offers comprehensive services including:

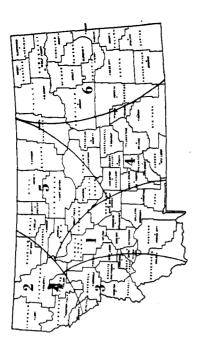
- metabolism are etablished and sent to enzyme/DNA Prenatal diagnosis with amniotic fluid alpha-fetoprotein determination. Cell cultures for inborn errors of reference laboratories for further analysis.
- Chromosome studies in cases of mental retardation, absence of secondary sexual characteristics, intersexuality, fragile (X) mental retardation. leukemias, lymphomas, and chromosome breakage infertility. congenital abnormalities/birth defects, syndromes.
- fluid cells, testicular biopsy (Meiotic cells), with comprehensive banding and other methods where applicable: Q, G, C, R, AgNOR, fragile (X) determination, Cd, H-sister chromatid exchange, lateral asymmetry, X and Y chromatin, BrdU late Chromosome analysis of amniotic fluid cells, ymphocytes, fibroblasts, bone marrow cells, ascitic abelling, and high resolution techniques.



Cytogenetic Fees*

Visiting Genetic Clinics

Supported by a Grant (HB430) from the Montana Department of Health and Environmental Sciences, 27 visiting Genetics Clinics will be held in 6 Montana communities. There are 6 regional cities: Missoula, Kalispell, Sillings, Great Falls, Miles City, and Sidney.



Tentative 1987 Schedule

Jan. 9, Feb. 13, March 13, April 10, May 15, June 12, July 17, Sept. 11, Oct. 16, Nov. 13, Dec. 18

Miles City:

May 14

Missoula:

Jan. 16, March 20, May 22, July 24, Sept. 18, Nov. 20 Great Falls:

Feb. 3, June 2, Aug. 11, Oct. 6

Kalispell:

March 19, July 23, Sept. 17

Sidney: May 12, May 13

Clinic Fees

For appointments and cost information, please call the Department of Medical Genetics, Shodair Hospital (406)

TESTIMONY

9.87

House Bill 716
Submitted by Tanya Ask
Montana Insurance Department
February 18, 1987

This bill is a funding mechanism for a specific program. Assessment of fees is frequently a mechanism used to raise revenue for a specific project, unlike a tax which is used for the general support of, in this instance, the state. This is not an insurance or health service corporation taxing mechanism, and was never intended to be.

We feel one amendment to this bill is necessary. Some blanket group disability policies are written in the state where the charge per individual insured is actually less than the amount of the assessment. Therefore, we propose adding a section three which allows the fee to be assessed on policies generating a charge per insured of under \$10.00 per year on the basis of the group policyholder as opposed to the individual coverage.

HB 716
PROPOSED AMENDMENTS OF THE STATE AUDITOR 7/6

1. Title, line 7.

Following: "PROGRAM;"

Insert: "ALLOWING CERTAIN EXEMPTIONS AS LISTED;"

2. Page 2.

Following: Line 1

Insert: <u>NEW SECTION</u>. Section 3. The fee required in Section 1 shall not apply to blanket group disability insurance as defined in Title 33, chapter 22, part 6 where the total premium charged per person is less than \$10.00 per person per year. In those instances, the fee will be assessed on the basis of the number of blanket group policyholders in Montana.

Renumber: subsequent sections

Health Insurance Associately 716

HB 716

The bill funds the Genetics Program at Shodair Hospital by continuing to impose a tax on every health insurance policy in the state.

The funding source was first used by the 1985 legislature. The program was funded at a level of \$260,000 per year. The tax was set at 45 cents per policy.

In the June, 1986 Special Session, the funding level for the program was reduced to \$253,500 per year. There was no reduction in the amount of the tax.

The Insurance Commissioner collected \$344,150 during the first year the tax was in place and that amount was placed in the general fund. This means that during the first year of this tax, \$90,650 was used for general fund purposes, not for Genetics Research.

The Insurance Commissioner called this:

"Another instance where state government is stealing from insurance companies and the industry is not benefiting."

The situation is compounded by the fact that when this funding source was first tapped in the 1985 session, it was sold as lasting only for the present biennium. HB 716 frustrates this promise.

Simple mathematics shows there are currently 764,777 policies being taxed. (344,150/.45 = 764,777). To fund the program at \$260,000 per year, the tax should be 34 cents, per policy, not 40 cents. (260,000/764,777 = .34). To fund the program at the reduced level of \$253,500, the tax should be 33 cents (253,500/764,777 = .33).

Of the \$344,150 collected by the Insurance Commissioner during the first year of the tax, \$237,580 (or 69%) came from commercial carriers and \$94,765 (or 28%) came from health service corporations. The remainder came from the state self-insured fund. (11,804 or 3%).

This figure becomes striking when premium dollars are examined. The commercial carriers had \$131 million (or 52%) and the health service corporations had \$120 million (or 48%).

The figure becomes even more striking when all the taxes and fees paid by commercial carriers and health service corporations are compared. In addition to the genetics head tax, the commercial carriers paid a premium tax of \$3,602,500 while the health

service corporations paid .50 cents per individual or family unit covered, for a total of \$52,460.

	COMMERCIAL CARRIERS	HEALTH SERVICE CORPORATIONS
Premium Tax	\$3,602,500	\$ 0
50 cent fee	0	52,460
Genetics fee	237,580	94,765
	\$3,840,080	\$147,225

Comparing these figures, the commercial carriers paid 96% of the total taxes and fees while the health service corporations paid only 4%.

It thus seems more fair, if the program is to continue, that it be supported by the health service corporations who pay virtually no taxes rather than by the commercial carriers who are heavily taxed already.

There are 210,389 (94,765/.45 = 210,389) insureds of health service corporations. To fund the program at its present level of \$260,000 per year, the tax would be \$1.10 per insured. (260,000/236,822 = \$1.24). To fund the program at its reduced level of \$253,500, the tax would be \$1.20 (253,500/210,389 = 1.20).

The result is that total taxes and fees paid would be:

	COMMERCIAL CARRIERS	HEALTH SERVICE CORPORATIONS
Premium Tax 50 cent fee Genetics fee	\$3,602,000 0 0 \$3,602,000	\$ 0 52,460 260,000 \$312,460

Commercial carriers would thus pay 92% and the health service corporations would pay 8%.

Another alternative is that health service corporations be subjected to the premium tax (HB 741) and that both health service corporations and commercial carriers receive a credit on those taxes for amounts contributed to the genetics program.

	COMMERCIAL CARRIERS	HEALTH SERVICE CORPORATIONS
Premium Tax 50 cent fee	\$3,602,000	\$3,300,000 52,460
Genetics fee	237,580	94.675
Less Credit	(237,580)	(94,675)
	\$3,840,080	\$3,352,460

The commercial carriers pay 53% and the health service corporations pay 47%. This corresponds with premium totals of 52% for the commercial carriers and 48% for the health service corporations.

The advantages of this alternative are:

- 1. The Genetics Research Program is funded.
- The State general fund is increased.
- 3. Health service corporations and commercial carriers compete for the same market under the same circumstances; i.e. they both pay a premium tax.

716

To The House Taxation Committee Testimony in Support of HB716 February 19, 1987

Mr. Chairman and members of the Committee - I am Donald E. Espelin, M.D., Bureau Chief of the Preventive Health Services Bureau, Department of Health and Environmental Sciences. The Genetics Program is in my Bureau, and I have direct access to the workings of this Program. I strongly support a Genetics Program for the state of Montana. I have reviewed the written documents submitted by the Program for progress reports, and they are impeccable. I have reviewed the physical plant and witnessed patient exams and parent counseling, and again, these are of the highest order.

The Genetics Program accomplishes their work through a variety of projects.

- -- Genetic patient and physician consultation with medical genetic field clinics.
- -- Medical genetic library.
- -- Fetal pathology laboratory.
- -- Cytogenetics laboratory.
- -- Alpha fetoprotein analysis and consultation service.
- -- Genetic publications.

Genetic disorders are very common - one out of five in general population.

Again, I strongly support our Genetics Program.

Donald E. Espelin, M.D., FAAP

Bureau Chief

Preventive Health Services Bureau Department of Health & Environmental Sciences

ell Espeli UD

Academy of Pediatrics



7/37/15

Montana Chapter

airman frey H. Strickler, M.D. 1300 N. Montana Helena, MT 59601 (176) 443-5563

iernate Chairman James Feist, M.D. 7 East Beall Pozeman, MT 59715 (2) 587-5123

#4 Third Avenue W. Ison, MT 59860

2/19/87

2-15-17

From J. H. Strickler MU Chairman, Mr Chapter AAA

To House Taxation Committee

Re: H.B. 716 Shodair Genetics Funding

The Montana pediatricians, at heir recent aunual meeting voted their unancineous support of the Shodair Gentics program.

The value of the program to the physicians and children is in extended to provide full funding to keep this a viable program in Montana

Lank Jan Sughw

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17 February 1987

To: Senators Paul Boylan and Dorothy Eck and to Representatives Jack Ramirez, Jan Brown, Kelly Addy, Bob Brown, Gary Spaeth, John Vincent, Dorothy Bradley, Richard Corne and Norm Wallin.

From: Pierce C. and Margaret Mullan, Bozeman

Regarding House Bill 716, which deals with genetic work at Shodair Hospital.

Dear Legislators and Senators:

We are writing to support this hill, which we think is so important for our state. Healthjexpenditures in Montana last year were well over the billion dollar mark. Over half of that amount was spent to deal with genetically predisposed or genetically caused illnesses. HB 716 requests \$260,000. This is a proven program and there is no doubt that it has sharply reduced expenditures for health care in Montana. The Shodair approach is internationally known and respected. Dr. John Opitz and his staff enjoy a fine reputation. Their work on things like fetal alcohol syndrome are very important to all of us.

Another aspect of their work is in genetic counseling. Couples who were terrified of having a baby with genetic anomolies are now in a position to seek expert guidance. Recent figures indicate that 96% of conceptions can be carried safely to term. That seems to us to be the ultimate pro-family and pro-life approach.

The suggested funding mechanism is a 35c curcharge on each health policy sold in the state. This is probably not the best route, but given the situation, far better than none. However it is funded, this program helps to prevent great suffering and monetary loss to our people. We urge you to take time to evaluate this fine program and to support it when it comes before you. Thank you for your effort and time. You have our wholehearted support in this very difficult session and we appreciate your commitment and work.

Sincerely,

Pierce C. and Margaret M. Mullen Mue

11 Hill Street Bozeman, 59715

587-3455

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SUPPORTERS OF APPROPRIATION FOR GENETICS PROGRAM

We, the undersigned, physicians of Lewis and Clark County, support passage of an appropriation bill by the 1987 Montana Legislative Assembly to finance operation of the voluntary statewide genetics program provided by Section 50-19-211, Montana Codes Annotated for the 1987-1989 biennium.

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The Gentle Touch:

shodair children's hospital

December 15, 1986

MONTANA MEDICAL GENETICS PROGRAM ENDANGERED; SUPPORT REQUIRED FOR LEGISLATIVE ACTION

To All Members and Friends of Healthy Mothers, Healthy Babies: The Montana Coalition:

In preparing his budget proposal for the 1987 Montana Biennial Legislature, Governor Schwinden and his staff decided to eliminate all "new money" programs from the budget including the funds appropriated under House Bill 430 to support the Montana Medical Genetics Program. Thus, The Department of Medical Genetics at Shodair Children's Specialty Hospital faces the prospect of closing its doors after July 1, 1987. Your help is needed to support either re-introduction of House Bill 430 or its equivalent or inclusion of a request for \$260,000 per year to support the Montana Medical Genetics Program from House Bill 500, the general appropriations bill of the State of Montana.

BACKGROUND

House Bill 430 was passed by the 1985 Biennial Legislature based on the following rationale:

- 1) Genetic disorders and birth defects are very common. They are the commonest cause of death before birth; they are second commonest cause of death in infancy and they are the commonest cause of death of adults. Some 20% of the general population need a genetic service, i.e. over 160,000 Montanans.
- 2) Genetic disorders and birth defects impose a great burden of suffering on the population. They not only kill, but frequently produce chronic disabling, handicapping and painful disorders.
- 3) Genetic disorders and birth defects impose an enormous burden of cost on society. For 1983, it was estimated that 180 billion dollars were spent nationwide on the care of individuals with congenital chronic genetic handicapping disorders and for those with hereditary and genetically predisposed diseases. During the 1985

Biennial Legislature, it was estimated that it cost \$67,000 per year to maintain one patient at Boulder.

- 4) Genetic disorders and birth defects can be prevented. Prevention can be effected through a statewide service program provided by a team of experts offering counseling, carrier detection, genetic laboratory, prenatal diagnosis, fetal pathology and information-educational services.
- Genetic medicine is, without question, the most cost-effective form of preventive medicine: Several benefit-to-cost ratios have been published: PKU detection and management, 9:1; prenatal diagnosis services in a muscular dystrophy prevention program, 14:1 - 21:1. Calculations for Montana: Prenatal diagnosis program for women over 35 years, 4.3:1. This was calculated for amniocentesis; however with the introduction of earlier and more economical tests such as maternal serum alpha fetoprotein screening and chorionic villus biopsy, this ratio will probably increase. A prenatal diagnosis and counseling program concerning eight potentially affected men with mental retardation residing each for 20 years at Boulder was calculated at 354.6:1 without inflationary correction. (i.e., \$10,720,000 cost prevented versus \$30,233 cost for services; with inflationary correction, the benefit to cost ratio is almost 400:1). In other words, \$260,000 invested now will ultimately save the state hundreds of millions of dollars and the population untold suffering.
- 6) Genetic services are a strong pro-life activity. This is so since they strongly encourage conception and birth of <u>normal</u> individuals and, in over 96% of time, reassure pregnant women after amniocentesis that they are carrying a normal child.
- is a necessary adjunct to the statewide perinatal program. Since it has been estimated that almost two thirds of all potential human beings die prenatally, mostly of gross genetic disorders with accompanying malformations, it is vitally necessary that fetal genetic pathology services be available to the families of Montana to determine the cause and the risk of recurrence of any genetic defect or birth defect found in their fetus. The advances in knowledge in this field are so rapid and so voluminous that not even experts can keep up without first class services including access to a large number of complex and excellent data bases such as Medline and computerized syndrome diagnosis programs so as to maximize the chance of making a correct diagnosis in the given case of an apparently unknown syndrome.
- A statewide Medical Genetics Program is operating at Shodair Children's

 Specialty Hospital. During the last 2 fiscal years it has been operating on a balanced budget for the first time since its formation 10 years ago due to appropriations from House Bill 430 which constitute half of its operating budget. This is the only such program operating in Montana and it provides a necessary core of services through its cytogenetic laboratory facilities, clinical

activities at Shodair and on field clinics in Missoula, Kalispell, Great Falls, Billings, Miles City and Sidney, in its fetal genetic pathology laboratory, and its superb Library and Information Resources Center. The director of the cytogenetics laboratory and all clinical staff are board certified and the physicians are licensed to practice in Montana and are providing full-time services as salaried employees of Shodair, without needing to supplement their salaries through income from private practice. As a service unit, the Montana Medical Genetics Program has a worldwide reputation on the basis of its scholarly work and the publication of the American Journal of Medical Genetics.

- 9) No clinical genetic services program anywhere can break even on the basis of clinical income alone. Because of the fact that a minimum staff of about 10 people is required to run a very busy lab, a clinical service with two field clinic teams, several clinical programs, and a very busy Library and Information Resources Center in a state with a relatively small population spread over a huge area means a minimal budget of \$500,000 to provide services which generate only half of that cost in clinical revenue and laboratory fees. Some clinical genetics programs in the United States do break even or even make a profit if they also perform expensive clinical procedures such as amniocentesis and/or chorion villus biopsy and perform expensive laboratory tests in addition to chromosome analyses. Since these are not done at Shodair, but in collaboration with the physicians of Montana and University consultants elsewhere, the Montana Medical Genetics Program will probably never be in a position of breaking even.
- Unless funds are found to replace the \$260,000 from the appropriation under House Bill 430, the Department of Medical Genetics at Shodair Children's Specialty Hospital may close on July 1, 1987. During the last legislative session, it was argued that funding the program through the mechanism proposed in House Bill 430 (namely a 45¢ surcharge on every health insurance issued in the state of Montana) made good sense since prevention of birth defects and early treatment would ultimately greatly reduce the number of claims insurance companies have to pay, especially since by law no Montana child born with a birth defect may be excluded from insurance coverage. It was also hoped that this act might serve as an incentive to the insurance "industry" to increase coverage for preventive genetic services; at the moment, less than 80% of plans nationally cover out-patient genetic services.
- 11) Endorsements. House Bill 430 was strongly endorsed by the Montana
 Department of Health and Environmental Sciences, the Montana
 Chapters of the American Academy of Pediatrics, the Academy of
 Obstetrics and Gynecology, and the Academy of Family Practice; the
 American Hospital Association, the American Nursing Association,
 the American Public Health Association, the Montana Perinatal
 Association, and the March of Dimes Birth-Defects Association.

PROGRESS REPORT

Since implementation of House Bill 430, the Montana Medical Genetics Program has moved forward vigorously, continuing to provide and strengthen the services in genetics to the people of Montana. In addition, a statewide maternal serum alpha fetoprotein screening program has been implemented to aid early detection of neural tube defects and other birth defects leading to an increase and, in rare cases, an unusual decrease of circulating levels of alpha fetoprotein.

In addition, we have been collaborating with Dr. Bill Peters of Bozeman in developing a chorionic villus biopsy program as an attractive alternative to amniocentesis. In compliance with FDA rules, Dr. Peters' work is still in a preliminary investigational stage while methods are being perfected and the federal government is engaged in its slow appraisal of the advantages and disadvantages of this method.

We are planning to expand the fetal genetic pathology services into all 39 hospitals in Montana in which babies are being delivered. We are fortunate in that the University of Wisconsin, Department of Pathology, Division of Pediatric Pathology, under the direction of Dr. Enid F. Gilbert, is still willing to provide free services for as many as 50 to 70 cases per year.

During the year and a half since the beginning of the House Bill 430 program, we have performed about 786 genetic consultations at Shodair and on field clinics, have done 156 fetal genetic pathology studies (with 62 cases referred to Madison), have performed 1658 tests (on 800 samples) in the cytogenetics laboratory, and have filled 3863 requests for service for 2284 patrons in the Library and Information Resources Center. In addition, we have published 4.5 volumes (i.e. 20 issues) of the American Journal of Medical Genetics with a total of 4412 pages and 487 articles, 34 of which were authored by the staff of the Department of Medical Genetics at Shodair. In addition, Shodair Genetics staff has edited or is producing 6 major books including an important summary of human cytogenetics, two books on fetal genetic and developmental pathology, one on X-linked mental retardation, and one on the Rett syndrome.

However most important, we feel, has been the alliance forged between the Shodair Genetics Program and health officials of the State of Montana, the numerous healthcare givers throughout the state, the many voluntary and lay organizations involved with our patients, the March of Dimes, the Healthy Mothers, Healthy Babies Montana Coalition, and above all the people of Montana who have required and received our services. This is a bond of trust and ongoing responsibility which we would hate to see interrupted or discontinued.

WE NEED YOUR SUPPORT

The interests of the people of Montana need to be represented by a strong coalition of lay persons, families, professionals and legislators in order to insure continuation of the Montana Medical Genetics Program through appropriation of sufficient funds. We would be most grateful to you for vigorous representation of this matter to your area representatives and

senators now and throughout the session until passage of appropriate funding appropriation as been accomplished.

And for your support, all of us involved in the Montana Medical Genetics Program should like to express our deep gratitude.

John M. Opitz, MD

Chairman, Department of Medical Genetics

gan M. FitzGerald, MS

Genetic Counselor

Donald E. Espelin, MD Preventive Health Services Bureau

JMO/JF/DEE:am

SUPPORT NEEDED FOR MONTANA MEDICALIA 2.19.87

GENETICS PROGRAM

1.) COST EFFECTIVENESS OF SERVICES:

In industrialized countries, over 1/2 of all human morbidity and mortality is due to genetic disorders, imposing an enormous economic cost on the population. Congenital malformations remain the second commonest cause of infant mortality, and survivors still face a life-long risk of handicap, suffering, and maladjustment as well as transmission of their condition to offspring. Genetic medicine is the most costeffective form of preventive medicine since a judicious investment of a few hundredthousand dollars for counseling, carrier detection, screening and other genetic services in Montana will lead to the saving of millions of dollars now expended for therapies needed later in life. Comprehensive genetic counseling will prevent unnecessary abortion of normal babies perceived to be at high risk by ill-informed parents and will allow confident reproduction by those previously fearful of having further affected children.

2.) NEEDS OF THE MONTANA POPULATION:

Montanans need genetic services. Fifteen to 20% of the population, approximately 112,000 to 150,000 Montanans, are affected by or at risk of transmitting a genetic condition, with over 40,000 being carriers of cystic fibrosis alone. Many of these Montanans are unaware of their needs and, because of lack of adequate funding, only a small fraction of them can be served. The people of Montana deserve a Clinical Genetic Services Program supported at least as well as its livestock and crop genetics programs.

3.) INSURANCE DOES NOT PAY ALL THE BILL:

Shodair Hospital provides 60% of the revenue necessary to pay the costs of the statewide genetic services.

4.) MONTANA ALREADY IS INVOLVED:

When it mandated and funded biochemical/genetical screening of every newborn infant, Montana embarked on a statewide genetic services program. During the 1985 legislative session, HB430 was passed by substantial margins in both the House and Senate. During the last two years the Montana Clinical Genetics Program has continued to serve the entire state with effective, high-quality services.

5.) A UNIQUE SERVICE SHOULD NOT BE LOST:

The Shodair Department of Medical Genetics is the only clinical genetics program in the Northern Rocky Mountain Region (Montana, Idaho). The quality of clinical and laboratory services, information resources center (library), and scholarly work rivals that of far more expensive and more distant University-based centers in Salt Lake City, Denver, Seattle, and Rochester, MN. It is affiliated with MSU and the Medical Schools of Washington and Wisconsin who provide no financial support for its programs. Thus, this program is able to combine, as a secondary care center, the advantage of University affiliation with a primary care approach without the costs of a University center. This Department has made a commitment to the people of Montana to provide the highest quality services in Helena and in its outreach clinics (Missoula, Great Falls, Kalispell, Billings, Miles City, and Havre) and would like to continue to do so.

O Smitte + g. Brown

HOUSE BILL NO. 716

2-19-87 -7/6

Introduced Copy

Amend as follows:

7. Page 1, line 16

Following "pay" strike "40" and substitute in lieu thereof

"35" Strike: "40" Insart: "35"

Following: "OF"

Strike: "40"

Insert: "35"

REPORT TO



FIFTIETH STATE LEGISLATURE OF MONTANA

HB 703

BACK GROUND ON UNITARY

IT IS VERY EASY FOR A MONTANA CORPORATION THAT DOES ALL OF ITS BUSINESS IN MONTANA TO DETERMINE HOW MUCH OF ITS INCOME IS TAXABLE IN MONTANA (100%). WHEN A CORPORATION - INCORPORATED IN MONTANA OR ANOTHER STATE - DOES BUSINESS ACROSS STATE BOUNDARIES, IT BECOMES MORE DIFFICULT TO DETERMINE THE AMOUNT OF INCOME EARNED IN MONTANA AND TAXABLE IN THIS STATE; AND WHEN THESE SAME CORPORATIONS DO BUSINESS ALL OVER THE WORLD AND ARE PART OF MUCH LARGER CORPORATIONS, IT PRESENTS AN ALMOST IMPOSSIBLE TASK FOR BUSINESS TO DETERMINE AND FOR OUR TAX COMMISSION TO EXACTLY AUDIT WHAT IS MONTANA TAXABLE INCOME.

MONTANA LIKE ALL STATES MAY ONLY TAX INCOME EARNED WITHIN ITS

STATE BOUNDARIES (INCOME ATTRIBUTABLE TO MONTANA). IT IS IMPOSSIBLE

FOR ONE OF THESE LARGE CORPORATIONS TO CALCULATE TO THE DOLLAR MONTANA

TAXABLE INCOME. TO DETERMINE HOW MUCH OF A CORPORATIONS INCOME WAS

EARNED IN MONTANA (INCOME ATTRIBUTABLE TO MONTANA), THE MONTANA CODE

(MCA) USES A METHOD OF DIVIDING INCOME AMONG STATES (APPORTIONMENT)

WHICH ESTIMATES INCOME EARNED IN MONTANA USING THREE FACTORS OF

PROFITABILITY: PROPERTY, PAYROLL AND SALES. USING THESE THREE

FACTORS. A CORPORATION CAN CALCULATE AND THE TAX COMMISSION CAN AUDIT

THE EXACT PERCENTAGE OF PROPERTY, PAYROLL AND SALES IN MONTANA
COMPARED TO THE BALANCE OF THE LOCATIONS WHERE THE CORPORATION DOES
BUSINESS AND APPLY THIS PERCENTAGE TO TOTAL INCOME TO ESTIMATE INCOME
TAXABLE IN MONTANA. THE COURTS HAVE UPHELD THIS SYSTEM OF
APPORTIONMENT (DIVIDING) TO BE ACCURATE AND FAIR.

THE PROCESS OF ATTRIBUTING INCOME TO MONTANA OR ANY STATE IS MADE MORE DIFFICULT WHEN A CORPORATION HAS COMPONENTS THAT SELL TO ONE ANOTHER AND ARE SUPPORTED BY A LARGER CORPORATION - IN OTHER WORDS, IT IS DIFFICULT TO SEPARATE THESE COMPANIES AND THEIR RESPECTIVE INCOME EARNED. MONTANA WHEN CALCULATING A CORPORATIONS INCOME ATTRIBUTABLE TO THIS STATE USES A PRACTICE, COMMON AMONG SIMILAR STATES THAT HAVE A TAX BASED ON INCOME, THAT LOOKS AT THE WHOLE CORPORATION AS A UNIT. THIS CONCEPT OF TAKING INTO ACCOUNT THE WHOLE OF A CORPORATION - ALL THE UNITS OF A RELATED BUSINESS - IS CALLED THE UNITARY CONCEPT OF BUSINESS. THUS THE METHOD OF APPORTIONING (DIVIDING) A CORPORATION'S INCOME ATTRIBUTABLE TO A STATE USING A UNITARY BUSINESS GROUP HAS BEEN DUBBED 'UNITARY TAX'. TO BE MOST ACCURATE, 'UNITARY TAX' HAS COME TO MEAN THE METHOD OF APPORTIONING (DIVIDING) A CORPORATION'S UNITARY INCOME USING WORLDWIDE INCOME AND WORLDWIDE PROFITABILITY FACTORS (PROPERTY, PAYROLL AND SALES).

THE ISSUE OF 'UNITARY TAX' (MORE ACCURATELY REFERRED TO AS WORLDWIDE UNITARY APPORTIONMENT OR WORLDWIDE COMBINATION) HAS BECOME A VERY SENSITIVE ISSUE WITH CORPORATIONS (BOTH FOREIGN AND DOMESTIC), THE U.S. GOVERNMENT AND FOREIGN COUNTRIES. WHILE THE COURTS HAVE UPHELD THE RIGHT OF MONTANA TO APPLY THIS 'UNITARY TAX', THAT DOES NOT NECESSARILY MAKE IT FAIR. IN 1983 MONTANA WAS ONE OF TWELVE STATES

THAT APPLIED A WORLDWIDE COMBINATION (UNITARY TAX) AND WAS THE SUBJECT OF A PRESIDENTIAL WORKING GROUP CHAIRED BY THEN SECRETARY OF THE TREASURY DONALD REGAN. THIS WORKING GROUP RECOMMENDED THAT STATES REPEAL WORLDWIDE COMBINATION (UNITARY TAX) IN FAVOR OF A MORE ACCEPTABLE WATER'S EDGE COMBINATION THAT ONLY TAKES INTO ACCOUNT INCOME AND PROFIT FACTORS WITHIN THE UNITED STATES. NINE STATES OF THE TWELVE STATES (CALIFORNIA, COLORADO, FLORIDA, IDAHO, INDIANA, MASSACHUSETTS, NEW HAMPSHIRE, OREGON, AND UTAH) HAVE ALREADY PASSED LEGISLATION TO REPEAL WORLDWIDE COMBINATION. TODAY, MONTANA REMAINS ONLY ONE OF THREE STATES (ALASKA, MONTANA AND NORTH DAKOTA) THAT CONTINUE TO APPLY A WORLDWIDE COMBINATION (UNITARY TAX) AND OUR NEIGHBOR TO THE EAST NORTH DAKOTA ALREADY HAS LEGISLATION, RECOMMENDED BY AN INTERIM STUDY COMMITTEE (HB 1064), THAT HAS BEEN HEARD BY THE HOUSE FINANCE COMMITTEE.

IN 1986 THE U.S. CONGRESS CONSIDERED LEGISLATION (S. 1974 AND H.R. 3890) THAT WOULD LIMIT THE STATES ABILITY TO TAX ON A WORLDWIDE COMBINATION (UNITARY TAX) BASIS. AT THE REQUEST OF THE TREASURY, ACTION ON THIS LEGISLATION WAS POSTPONED TO GIVE THE STATES THAT REMAIN A CHANCE TO TAKE LEGISLATIVE ACTION. IT IS THE FEELING OF MANY THAT THE TIME HAS COME FOR THE LEGISLATURE TO REPEAL THE MANDATORY USE OF THE UNITARY TAX AND REPLACE IT WITH SOMETHING THAT IS REASONABLE AND FAIR FOR MONTANA. HB 703 ADOPTS PROVISIONS ALLOWING CORPORATIONS TO FILE MONTANA RETURNS ON A WATER'S EDGE COMBINATION BASIS AS RECOMMENDED BY THE WORKING GROUP. HB 703 IS DRAFTED BASED ON LEGISLATION ADOPTED BY IDAHO IN 1986 (ID CH. 342, L. 1986) AND LEGISLATION PREPARED AND ADOPTED BY THE NORTH DAKOTA INTERIM STUDY COMMITTEE (ND HB 1064 87) AS WELL AS SOME OF THE PROVISIONS ADOPTED BY

CALIFORNIA IN 1986 (CH. 660, L. 1986). THE RECOMMENDED LEGISLATION HAS BEEN BASED ON THE PREVIOUS WORK OF OTHER LEGISLATIVE BODIES BUT INCLUDES SOME UNIQUE FEATURES SUITED TO MONTANA.

WHAT DOES THE BILL DO

THE PURPOSE OF HB 703 IS TO ALLOW CORPORATIONS TO FILE MONTANA LICENSE OR INCOME TAX RETURNS ON A WATER'S EDGE UNITARY COMBINATION AND TO PROVIDE PROCEDURES FOR THE FILING OF SUCH RETURNS. THE PROPOSED LEGISLATION REQUIRES CERTAIN INFORMATION RETURNS AND CONDITIONS TO BE IMPOSED BY THE DEPARTMENT OF REVENUE TO ASSURE CORPORATIONS PROPERLY ATTRIBUTE INCOME TO MONTANA FOR TAXATION PURPOSES.

SECTION 1. DEFINITIONS.

SECTION 2. WATER'S EDGE ELECTION.

A TAXPAYER SUBJECT TO MONTANA INCOME TAX IS ALLOWED TO FILE A RETURN

OF A WATER'S EDGE COMBINED GROUP WHICH MUST INCLUDE THE INCOME AND

APPORTIONMENT FACTORS OF ONLY THE FOLLOWING AFFILIATED CORPORATIONS:

- 1. U.S. CORPORATIONS (MORE THAN FIFTY PERCENT OWNED) UNITARY WITH TAXPAYER AND ELIGIBLE TO BE INCLUDED IN A FEDERAL CONSOLIDATED RETURN UNLESS THE CORPORATION MEETS DEFINITIONAL REQUIREMENTS TO BE CONSIDERED AS A U.S. CORPORATION OPERATING OUTSIDE THE U.S. FOR FEDERAL TAX PURPOSES.
- 2. DOMESTIC INTERNATIONAL SALES CORPORATIONS AND FOREIGN SALES CORPORATIONS.

- 3. EXPORT TRADE CORPORATIONS.
- 4. CERTAIN FOREIGN CORPORATIONS DERIVING GAIN OR LOSS FROM DISPOSITION OF A U.S. REAL PROPERTY INTEREST.
- 5. CERTAIN FOREIGN CORPORATIONS THAT MEET A THRESHOLD LEVEL OF BUSINESS ACTIVITY IN THE U.S.

SECTION 3. APPORTIONMENT@FACTORS.

INDIVIDUAL STATE'S LAW AND REGULATIONS THAT DEFINE THE LOCATIONS OF PROPERTY AND PAYROLL SHALL BE USED UNLESS A STATE DOES NOT IMPOSE AN INCOME TAX THEN MONTANA APPORTIONMENT LAWS WILL APPLY.

SECTION 4. ELECTION PERIOD.

WATER'S EDGE ELECTION IS FOR RENEWABLE 3 YEARS PERIODS AND CAN ONLY BE CHANGED DURING ELECTION PERIODS WITH THE PERMISSION OF THE DEPARTMENT OF REVENUE.

SECTION 5. TREATMENT OF DIVIDENDS.

DIVIDENDS AND INCOME RECEIVED FROM FOREIGN CORPORATIONS INCLUDING INCOME FROM U.S. CORPORATIONS OPERATING OUTSIDE THE U.S. (80/20 COMPANIES) AND U.S. POSSESSIONS COMPANIES ARE EIGHTY FIVE PERCENT EXCLUDED FROM TAXATION. DIVIDENDS TAXABLE ARE IN LIEU OF ANY EXPENSES ATTRIBUTABLE TO EXCLUDED DIVIDENDS. DIVIDENDS RECEIVED FROM MEMBERS OF THE WATER'S EDGE GROUP ARE ELIMINATED AS PREVIOUSLY TAXED INCOME.

SECTION 6. DOMESTIC DISCLOSURE SPREADSHEET.

THE DEPARTMENT IS GRANTED AUTHORITY TO REQUIRE THE FILING OF A DOMESTIC DISCLOSURE SPREADSHEET TO PROVIDE FULL DISCLOSURE OF HOW CORPORATIONS FILE INCOME TAX RETURNS IN ALL OTHER STATES.

SECTION 7. NEW INVESTMENT TAXPAYER ELECTION.

IF A TAXPAYER ADDS \$1 MILLION TO ITS MONTANA PROPERTY OR PAYROLL OVER

ITS PREVIOUS TAX YEAR THE TAXPAYER MAY ELECT TO FILE ITS MONTANA TAXES

ON A SEPARATE COMPANY BASIS FOR A PERIOD OF FIVE YEARS.

SECTION 8. CODIFICATION INSTRUCTIONS.

SECTION 9. EXTENSION OF RULE MAKING AUTHORITY.

SECTION 10. SEVERABILITY CLAUSE.

SECTION 11. APPLICABILITY.

ACT APPLIES TO TAXABLE YEARS BEGINNING AFTER DECEMBER 31. 1987.

CONCLUSION

HB 703 IS A GOOD BILL. IT HAS NON PARTISAN SUPPORT. IT KEEPS MONTANA COMPETITIVE WITH THE STATES IN THIS GEOGRAPHIC REGION AND REMOVES A BLACK MARK ON THE TAXATION POLICY OF THIS STATE.

STATE OF MONTA., - FISCAL NOTE

Form BD-15

n compliance with a written request, there is hereby submitted a Fiscal Note for HB703, as introduced

21 / Let DESCRIPTION OF PROPOSED LEGISLATION:

election, or continue to file under current law as provided in Title 15, Chapter 31, MCA; and providing an applic-An act to clarify the corporate license or income tax and to allow taxpayers to apportion income for corporate license or income tax purposes under the water's-edge unitary combination method, the new investment taxpayer

ASSUMPTIONS:

- The Revenue Estimating Advisory Council's estimates of corporate license tax collections provide the basis
 - Corporate license tax collections will be \$53,063,000 in FY88 and \$58,995,000 in FY89. 3
- The proposal will have no Financial institutions will pay 11.57 percent of the total tax under current law. effect on the payment of these corporations.
- Based on a detailed examination of returns filed by multistate/multinational taxpayers in 1986, it is estimated the proposal would reduce their taxes by \$3,848,000 when in effect for a full year less than 50 corporations would receive the bulk of the savings. The applicability date of the proposal in proposal in the proposal of percent of FY89 collections.

 It is assumed that corporations that would be affected by the proposal do not change the timing or amount of
 - their dividend payments in response to the delayed applicability date of the proposal. These reactions would increase the revenue impact of the proposal over the estimated amount. 2
- The estimated impact does not include the potential impact of the new investment taxpayer election, since it depends on the amount of future investment by certain taxpayers and the income generated from the specific 9

FISCAL IMPACT:

Revenue Impact:

		FY88		,	FY89
,	Current Law	Proposed Law	Difference	_	Proposed
Corporate License Tax	N/A	N/A	N/A	\$58,995,000	\$56,686,2

Difference (\$2,308,800)*

*The loss represents 60 percent of a full year's impact as a result of the applicability date of the proposal.

Cand Chunte DATEZ

DAVID L. HUNTER, BUCKET DIRECTOR Office of Budget and Program Planning

BOB GILBERT, PRIMARY SPONSOR

Fiscal Note for HB703, as introduced.

DATE

Fiscal Note Request, HB703, as introduced. Form BD-15

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		FY89	
	Current Law	Proposed Law	Difference
Seneral Fund	\$34,261,760	\$32,784,128	(\$1,477,632)
Coundation Program	13,383,500	12,806,300	(577,200)
Debt Service Fund	5,888,740	5,634,772	(253,968)
ocal Governments	5,461,000	5,461,000	0

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The impact in FY90 is estimated to decrease revenues by \$3,848,000, since the proposal will apply to a full year of returns.

TECHNICAL OR MECHANICAL DEFECTS OR CONFLICTS WITH EXISTING LEGISLATION:

The proposal includes domestic international sales corporations (DISC's) in the definition of an affiliated group. Wet, these corporations are exempt from taxation by other sections of Title 15. HONDS EX Anderson

REPORT TO

EXHIBIT #12 DATE 2-19-87 HB 703

FIFTIETH STATE LEGISLATURE OF MONTANA

HB 703

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PROFITABILITY: PROPERTY, PAYROLL AND SALES. USING THESE THREE

FACTORS. A CORPORATION CAN CALCULATE AND THE TAX COMMISSION CAN AUDIT

THE EXACT PERCENTAGE OF PROPERTY, PAYROLL AND SALES IN MONTANA
COMPARED TO THE BALANCE OF THE LOCATIONS WHERE THE CORPORATION DOES
BUSINESS AND APPLY THIS PERCENTAGE TO TOTAL INCOME TO ESTIMATE INCOME
TAXABLE IN MONTANA. THE COURTS HAVE UPHELD THIS SYSTEM OF
APPORTIONMENT (DIVIDING) TO BE ACCURATE AND FAIR.

THE PROCESS OF ATTRIBUTING INCOME TO MONTANA OR ANY STATE IS MADE MORE DIFFICULT WHEN A CORPORATION HAS COMPONENTS THAT SELL TO ONE ANOTHER AND ARE SUPPORTED BY A LARGER CORPORATION - IN OTHER WORDS, IT IS DIFFICULT TO SEPARATE THESE COMPANIES AND THEIR RESPECTIVE INCOME EARNED. MONTANA WHEN CALCULATING A CORPORATIONS INCOME ATTRIBUTABLE TO THIS STATE USES A PRACTICE, COMMON AMONG SIMILAR STATES THAT HAVE A TAX BASED ON INCOME, THAT LOOKS AT THE WHOLE CORPORATION AS A UNIT. THIS CONCEPT OF TAKING INTO ACCOUNT THE WHOLE OF A CORPORATION - ALL THE UNITS OF A RELATED BUSINESS - IS CALLED THE UNITARY CONCEPT OF BUSINESS. THUS THE METHOD OF APPORTIONING (DIVIDING) A CORPORATION'S INCOME ATTRIBUTABLE TO A STATE USING A UNITARY BUSINESS GROUP HAS BEEN DUBBED 'UNITARY TAX'. TO BE MOST ACCURATE, 'UNITARY TAX' HAS COME TO MEAN THE METHOD OF APPORTIONING (DIVIDING) A CORPORATION'S UNITARY INCOME USING WORLDWIDE INCOME AND WORLDWIDE PROFITABILITY FACTORS (PROPERTY, PAYROLL AND SALES).

THE ISSUE OF 'UNITARY TAX' (MORE ACCURATELY REFERRED TO AS WORLDWIDE UNITARY APPORTIONMENT OR WORLDWIDE COMBINATION) HAS BECOME A VERY SENSITIVE ISSUE WITH CORPORATIONS (BOTH FOREIGN AND DOMESTIC), THE U.S. GOVERNMENT AND FOREIGN COUNTRIES. WHILE THE COURTS HAVE UPHELD THE RIGHT OF MONTANA TO APPLY THIS 'UNITARY TAX', THAT DOES NOT NECESSARILY MAKE IT FAIR. IN 1983 MONTANA WAS ONE OF TWELVE STATES

THAT APPLIED A WORLDWIDE COMBINATION (UNITARY TAX) AND WAS THE SUBJECT OF A PRESIDENTIAL WORKING GROUP CHAIRED BY THEN SECRETARY OF THE TREASURY DONALD REGAN. THIS WORKING GROUP RECOMMENDED THAT STATES REPEAL WORLDWIDE COMBINATION (UNITARY TAX) IN FAVOR OF A MORE ACCEPTABLE WATER'S EDGE COMBINATION THAT ONLY TAKES INTO ACCOUNT INCOME AND PROFIT FACTORS WITHIN THE UNITED STATES. NINE STATES OF THE TWELVE STATES (CALIFORNIA, COLORADO, FLORIDA, IDAHO, INDIANA, MASSACHUSETTS, NEW HAMPSHIRE, OREGON, AND UTAH) HAVE ALREADY PASSED LEGISLATION TO REPEAL WORLDWIDE COMBINATION. TODAY, MONTANA REMAINS ONLY ONE OF THREE STATES (ALASKA, MONTANA AND NORTH DAKOTA) THAT CONTINUE TO APPLY A WORLDWIDE COMBINATION (UNITARY TAX) AND OUR NEIGHBOR TO THE EAST NORTH DAKOTA ALREADY HAS LEGISLATION, RECOMMENDED BY AN INTERIM STUDY COMMITTEE (HB 1064), THAT HAS BEEN HEARD BY THE HOUSE FINANCE COMMITTEE.

IN 1986 THE U.S. CONGRESS CONSIDERED LEGISLATION (S. 1974 AND H.R. 3890) THAT WOULD LIMIT THE STATES ABILITY TO TAX ON A WORLDWIDE COMBINATION (UNITARY TAX) BASIS. AT THE REQUEST OF THE TREASURY, ACTION ON THIS LEGISLATION WAS POSTPONED TO GIVE THE STATES THAT REMAIN A CHANCE TO TAKE LEGISLATIVE ACTION. IT IS THE FEELING OF MANY THAT THE TIME HAS COME FOR THE LEGISLATURE TO REPEAL THE MANDATORY USE OF THE UNITARY TAX AND REPLACE IT WITH SOMETHING THAT IS REASONABLE AND FAIR FOR MONTANA. HB 703 ADOPTS PROVISIONS ALLOWING CORPORATIONS TO FILE MONTANA RETURNS ON A WATER'S EDGE COMBINATION BASIS AS RECOMMENDED BY THE WORKING GROUP. HB 703 IS DRAFTED BASED ON LEGISLATION ADOPTED BY IDAHO IN 1986 (ID Ch. 342, L. 1986) AND LEGISLATION PREPARED AND ADOPTED BY THE NORTH DAKOTA INTERIM STUDY COMMITTEE (ND HB 1064 87) AS WELL AS SOME OF THE PROVISIONS ADOPTED BY

CALIFORNIA IN 1986 (CH. 660, L. 1986). THE RECOMMENDED LEGISLATION HAS BEEN BASED ON THE PREVIOUS WORK OF OTHER LEGISLATIVE BODIES BUT INCLUDES SOME UNIQUE FEATURES SUITED TO MONTANA.

WHAT DOES THE BILL DO

THE PURPOSE OF HB 703 IS TO ALLOW CORPORATIONS TO FILE MONTANA LICENSE OR INCOME TAX RETURNS ON A WATER'S EDGE UNITARY COMBINATION AND TO PROVIDE PROCEDURES FOR THE FILING OF SUCH RETURNS. THE PROPOSED LEGISLATION REQUIRES CERTAIN INFORMATION RETURNS AND CONDITIONS TO BE IMPOSED BY THE DEPARTMENT OF REVENUE TO ASSURE CORPORATIONS PROPERLY ATTRIBUTE INCOME TO MONTANA FOR TAXATION PURPOSES.

SECTION 1. DEFINITIONS.

SECTION 2. WATER'S EDGE ELECTION.

A TAXPAYER SUBJECT TO MONTANA INCOME TAX IS ALLOWED TO FILE A RETURN OF A WATER'S EDGE COMBINED GROUP WHICH MUST INCLUDE THE INCOME AND APPORTIONMENT FACTORS OF ONLY THE FOLLOWING AFFILIATED CORPORATIONS:

- 1. U.S. CORPORATIONS (MORE THAN FIFTY PERCENT OWNED) UNITARY WITH TAXPAYER AND ELIGIBLE TO BE INCLUDED IN A FEDERAL CONSOLIDATED RETURN UNLESS THE CORPORATION MEETS DEFINITIONAL REQUIREMENTS TO BE CONSIDERED AS A U.S. CORPORATION OPERATING OUTSIDE THE U.S. FOR FEDERAL TAX PURPOSES.
- 2. DOMESTIC INTERNATIONAL SALES CORPORATIONS AND FOREIGN SALES CORPORATIONS.

- 3. EXPORT TRADE CORPORATIONS.
- 4. CERTAIN FOREIGN CORPORATIONS DERIVING GAIN OR LOSS FROM DISPOSITION OF A U.S. REAL PROPERTY INTEREST.
- 5. CERTAIN FOREIGN CORPORATIONS THAT MEET A THRESHOLD LEVEL OF BUSINESS ACTIVITY IN THE U.S.

SECTION 3. APPORTIONMENT@FACTORS.

INDIVIDUAL STATE'S LAW AND REGULATIONS THAT DEFINE THE LOCATIONS OF PROPERTY AND PAYROLL SHALL BE USED UNLESS A STATE DOES NOT IMPOSE AN INCOME TAX THEN MONTANA APPORTIONMENT LAWS WILL APPLY.

SECTION 4. ELECTION PERIOD.

WATER'S EDGE ELECTION IS FOR RENEWABLE 3 YEARS PERIODS AND CAN ONLY BE CHANGED DURING ELECTION PERIODS WITH THE PERMISSION OF THE DEPARTMENT OF REVENUE.

SECTION 5. TREATMENT OF DIVIDENDS.

DIVIDENDS AND INCOME RECEIVED FROM FOREIGN CORPORATIONS INCLUDING
INCOME FROM U.S. CORPORATIONS OPERATING OUTSIDE THE U.S. (80/20
COMPANIES) AND U.S. POSSESSIONS COMPANIES ARE EIGHTY FIVE PERCENT
EXCLUDED FROM TAXATION. DIVIDENDS TAXABLE ARE IN LIEU OF ANY EXPENSES
ATTRIBUTABLE TO EXCLUDED DIVIDENDS. DIVIDENDS RECEIVED FROM MEMBERS
OF THE WATER'S EDGE GROUP ARE ELIMINATED AS PREVIOUSLY TAXED INCOME.

SECTION 6. DOMESTIC DISCLOSURE SPREADSHEET.

THE DEPARTMENT IS GRANTED AUTHORITY TO REQUIRE THE FILING OF A DOMESTIC DISCLOSURE SPREADSHEET TO PROVIDE FULL DISCLOSURE OF HOW CORPORATIONS FILE INCOME TAX RETURNS IN ALL OTHER STATES.

SECTION 7. NEW INVESTMENT TAXPAYER ELECTION.

IF A TAXPAYER ADDS \$1 MILLION TO ITS MONTANA PROPERTY OR PAYROLL OVER

ITS PREVIOUS TAX YEAR THE TAXPAYER MAY ELECT TO FILE ITS MONTANA TAXES

ON A SEPARATE COMPANY BASIS FOR A PERIOD OF FIVE YEARS.

SECTION 8. CODIFICATION INSTRUCTIONS.

SECTION 9. EXTENSION OF RULE MAKING AUTHORITY.

SECTION 10. SEVERABILITY CLAUSE.

SECTION 11. APPLICABILITY.

ACT APPLIES TO TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1987.

CONCLUSION

HB 703 IS A GOOD BILL. IT HAS NON PARTISAN SUPPORT. IT KEEPS MONTANA COMPETITIVE WITH THE STATES IN THIS GEOGRAPHIC REGION AND REMOVES A BLACK MARK ON THE TAXATION POLICY OF THIS STATE.

(G)

DVIE 3-18-10

We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power hoats. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

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Tim Slitt	Forest Park Eslation	Clany, MT 59674
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Jim Wilson	5150 N. MONT H	65 HOLOWA MT
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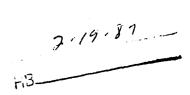


We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power boats. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

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Name	Address	<u>City</u>	
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Hail J. Krapp	9440 Miller Creek	Mola	59803
Guil F. Knapp	9440 Miller Creek	Mek	59803
Hered J. Knage	9440 Millar Good	Msla	59803
HOROCO G. KNAPP		•	
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Nicholas L. Preliation	1701 MAURILE	Missoulu.	54E01 -
Hasle & morrison	27,76,16=et	Missoula	- 59202
HANIE R. MORRISON	9117 - 17 - 17		
Joen Dulal	P.O BOX 2071	Missoul	4 59806
NORM DUVAL			
. Elisabeth Denly	> 3614 Huy 200	e Misso	Je 59302
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LARRY L. LARSON		1005-17	18200
Jungy L. LAKON			
Ruby Fairbank 1	^	^	· · ·
Ruge Frishand	1390 Pethy	CR. Ka. A	Checter, MT. 5.
Steven Licononbush	100 Short St.	Mise M	H. 54801
75 11V + 1 8 6	700 1901	4250	13 44 1117

Box 114 Mill Town

FREDRICKSON



We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power bonts. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

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REGISTERED VOTERS IN THE STATE OF MONTANA

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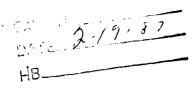
We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power boats. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

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We the undersigned, petition the 1937 Montana State. Legislature to pass a law which would make fair the method of assessing and taxing power bonts. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

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Almout a K. Lyunt	1527 Leshieleve	. Habra	MI.
John K Bugherty	_		
Joseph W. Strand	812 Soddle Drin	ie Holona	Mont.
James Lemen	8933 Douglas	Cour Hele	un pro
galmer Carlso	622 & Sanden		
Duarel Hanson	Bux 708 WK	itehall, MT.	4
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Bud Haley	173 Cottonwood Rt	Town	wend MT:
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DATE 2-19-87
HB

We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power boats. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

Name Addres	SS City
Tom D. Harry 5571	YORK KO. HECENA,
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The Netters 1819	•
Paula J. Grasman	

We the undersigned, petition the 197 Montana State Legislature to pass a law which rould make fair the method of assessing and taxing power beats. Such a law would put boats on a flat rate, similar to the method in which automobiles and other reconsticual vehicles are taxed.

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Clark Hoderson	Box 513	Bonner,	MT 59823
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John Uly	13021 VOIMWOO		(V1)
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attention Book Owners

REGISTERED VOTERS IN THE STATE OF MONTANA

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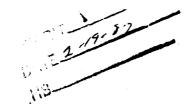
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Name	Address	City
Barb Calkbill	1115 W Silvor	2.11
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Bitty Krohne	1500 E Callende	1 of Livingston
Steve Mirch	711 North C	Livingston
taliand tools	1131 Ave. D	RILLINGS
Walley Camelon	1811. Bank	Butto
Judy Campbelly	157 Calhaus	
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We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power boats. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

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Maryan axtman	3390 8. Shine N	n. Helen mt	
Jeff mundt	804 Getcheil		
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Howard K Jeen	3534 12th ar		
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William Royals	2230 Lockey		CP 58601
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Margaret L. Poor	3756 8 Shore Dr.		17 59601
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We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power boats. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

Name

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 $\underline{\mathtt{City}}$

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attention Boat Duners!

REGISTERED VOTERS IN THE STATE OF MONTANA

We the undersigned, petition the 1987 Montana State Legislature to pass a law which would make fair the method of assessing and taxing power boats. Such a law would put boats on a flat rate, similar to the method in which automobiles and other recreational vehicles are taxed.

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	BOB J. BUTIL	1 914 N. NOOL)	WAN BYTTE	11. 59701
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	Culled Minhat	Box 253	Classes	59634
-	Cym - W / WWW			M. L. Company

MEMO TO: Janelle Fallan, Executive Director, MPA

FROM: John J. Tonnsen

RE: ROYALTY HOLIDAY ON STATE LANDS

DATE: January 22, 1987

ECONOMIC ANALYSIS

1) Potential Increases in State Acres Under Lease.

Based upon data available comparing FY 1985 with FY 1986, certain assumptions can be made regarding the probable effect of incentive legislation promoting the leasing of state lands for oil and gas purposes.

There were 600,000 fewer state acres under lease in FY 1986 vs. FY 1985 (3,161,019 vs. 3,782,052 in FY 1985). Also, 233,000 more state acres were terminated or expired in FY 1986 than in FY 1985 (880,000 vs. 643,000 in FY 1985).

The numbers for FY 1987 are anticipated to exceed the losses suffered in FY 1986. Based upon the FY 1986 data, however, it can be assumed that the lost lease traffic on state lands will be well over 250,000 acres for FY 1987.

Therefore, it is assumed here that incentive legislation might stimulate an increase in leasing of approximately 250,000 acres per year.

2) Assumption Regarding Potential Discoveries.

A model oil well and model gas well are profiled on the attached sheets. The oil well is assumed to have 100 BOPD initial production and to have cumulative production of approximately 180,000 BO over an 18-year well life. The initial price of \$15 is held flat for 2 years and then escalated 5% to a cap of \$33 after the 18 years.

The gas well is assumed to yield 500 MCFGPD initial production and a cumulative production of .8 Bcf over 20 years. The initial price is \$1.25 MCF and it, too, is held flat for 2 years and then escalated at 5% to a cap of \$3 MCF after 20 years. The decline is held higher (20%, then 10%) for the gas well in order to allow for interruption in gas purchases through the years. The difference is then made up in the remainder to achieve the .8 Bcf cumulative.

- 3) Probable Increase in Income from Incentive Legislation.
 - Year 1 250,000 additional acres x \$2.00 bonus = \$500,000 (assumed bonus)
 - Year 2 250,000 additional acres x \$2.00 bonus = 500,000 + Batch A rentals due (x \$1.50) 375,000
 - Year 3 Batch A + Batch B rentals (x \$1.50) = $\frac{750,000}{$2,125,000}$

Assuming the drilling on <u>all</u> state leases is successful and production of the quality described on the attached sheets is obtained, then the state would waive between \$25,000 to \$100,000 in royalty per successful well in order to achieve the \$2.1 MM minimum income increase. The information suggests that the state <u>can waive the first 2 years royalty on at least 20 successful oil or gas wells.</u>

In addition, the state would receive the following income not tabulated herein:

- a. All bonus amounts over the \$2.00 bonus assumed above.
- b. All rental and delay drilling income after the three-year period shown above.
- c. The royalty for all years after the initial two-year holiday.
- d. Possible further income if more than 250,000 acres are leased.

JJT:jh

MODEL GAS WELL

- 500 MCFPD initial production
 \$1.25 initial price, held flat two years, then escalated 5%
 (maximum gas price \$3.00/MCF after 20 years)

	_	_		_		
Year	Decline	MCF x	Price	= §Gross	x <u>%</u> =	State Royalty
ļ	20	120,000	1.25	150,000	.125	18,750
2	20	96,000	1.25	120,000		15,000
3	20	76,800	1.31	100,608		12,576
4	20	61,440	1.38	84,787		10,598
5	20	49,152	1.48	72,745		9,093
6	10	44,236	1, 52	67,238		8,405
7	10	39,813	1.60	63,701		7,963
8	10	35,832	1.68	60,198		7,525
9	10	32,249	1.76	56,758		7,095
10	10	29,024	1.85	53,694		6,712
11	10	26,121	1.94	50,674		6,334
12	10	23,509	2.04	47,958		5,995
13	10	21,158	2.14	45,278		5,660
14	10	19,042	2.24	42,654		5,332
15	10	17,138	2.36	40,446		5,056
16	10	15,424	2.47	38,097		4,762
17	10	13,881	2.60	36,091	•	4,511
18	10.	12,494	2.73	34,109		4,264
19	10	11,244	2.87	32,270		4,034
20	10	10,120	3.01	30,461		3,808
Remai	nder	100,000	3.01	301,000		37,625
Total		854,677 MG (.8 Bcf)	CF	1,528,767		191,098
Note:				less holid	ay	<u>- 33,750</u>
	assumed	of 20% and 10% is assumed in order to make up for occasional				157,348
	inablit over 20	y to sell to years. It de up in the	the gas t is	.17		

MODEL OIL WELL

 ¹⁰⁰ BOPD initial production
 \$15,00 initial price, held flat 2 years then escalated 5% (maximum oil price is less than \$33/bbl after 18 years).

Year	Decline	ВО	x	Price	=	\$Gross	×	8_	=	State Royalty
1	.25	24,375	x	15.00	=	365,625	x	.13	=	47,531
2	.20	19,500		15.00		292,500				38,025
3	.15	16,575		15.75		261,056				33,937
4	.15	14,089		16.54		233,032				30,294
5	.15	11,975		17.36		207,886	•			27,025
6	.15	10,179		18.23		185,563				24,123
7	.10	9,161		19.14		175,342				22,794
8	.10	8,245		20.10		165,725				21,544
9	.10	7,420		21.10		156,562				20,353
10	.10	6,678	•	22.16		147,984				19,238
11	.10	6,011		23.27		139,876				18,184
12	.05	5,710		24.43		139,495				18,134
13	.05	5,425		25.66		139,206			•	18,097
14	.05	5,153		26.94		138,822				18,047
15	.05	4,896		28.28		138,459				17,800
16	.05	4,651		29,.69		138,088				17,951
17	.05	4,418		31.18		137,753				17,908
18	.05	4,197		32.74		137,410				17,863
Remai	nder	10,000		32.74		327,400				42,562
		178,658			3	,627,784				471,590

less two-year holiday - 85,556 royalty paid to state 386,034

OIL AND GAS REVENUE COMPARISON, FY85 TO FY86

ITEM	FY 85	FY 86	CHANGE	% CHANGE
Acres under lease	3,782,051.59	3,161,019.87	-621,032	- 16.4%
Acres terminated or expired	643,726	880,264	233,538	36.3%
Oll royalties	\$5,110,268	\$4,193,476	-\$916,792	- 17.9%
Gas royalties	\$1,364,853	\$1,248,139	- 116,714	- 8.5%
Oil and gas rentals	\$5,165,457	\$4,179,649	-\$985,808	- 19.0%
Bonuses	\$1,193,789	\$ 771,130	-\$422,659	- 35.4%
Non-drilling penalty	\$3,351,509	\$3,238,254	-\$113,255	- 3.4%

(information supplied by Department of State Lands, Sept., 1986)

Oll and gas lease sale summary
Department of State Lands
March, 1984-December, 1986

	TRACTS	ACRES	TOTAL PRICE	RATIO
March 6, 1984	94	36,626.98	579,208.05	15.81
June 5, 1984	217	85,017.39	2,065,369.68	24.29
Sept. 11, 1984	1 2 2	47,215.96	506,222.59	10.72
Dec. 4, 1984	194	72,303.79	462,654.87	6.39
March 5, 1985	162	71,861.34	413,003.64	5.74
June 4, 1985	168	66,889.81	190,449.79	2.84
Sept. 10, 1985	118	52,546.43	395,353.27	7.52
Dec. 3, 1985	201	84,406.63	397,434.67	4.70
March 4, 1986	243	96,775.20	243,532.81	2.51
June 3, 1986	80	25,504.49	144,271.83	5.65
Sept. 9, 1986	80	26,262.45	48,525.21	1.84
Dec. 2, 1986	82	30,410.86	143,863.75	4.73

information provided by Dept. of State Lands January, 1987

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