

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

March 17, 1987

The meeting of the Taxation Committee was called to order by Chairman Ramirez on March 17, 1987, at 8 a.m. in Room 312B of the State Capitol.

ROLL CALL: All members of the Committee were present, except Reps. Hanson and Hoffman, who were excused. Also present was Greg Petesch, Director of Legal Services, Legislative Council.

DISPOSITION OF HOUSE BILL NO. 741: Rep. Harp advised the Committee he met with Blue Cross/Blue Shield and the State Auditor, to agree to disagree. He proposed that amendment #5 (Exhibit #1) pertaining to exclusions of coverage be approved in an effort to eliminate unfairness.

Rep. Harp made a motion that HB 741 DO PASS and that the proposed amendment be approved. The motion to amend CARRIED unanimously.

Rep. Williams made a motion to strike section 5 of the bill in its entirety. The motion CARRIED 8-7 on a roll call vote (attached).

Rep. Harp said eliminating the premium tax won't change costs, as evidenced by testimony from private insurers, and made a motion to put "freedom of choice" back in the bill. The motion FAILED 4-8 on a roll call vote (attached).

Rep. Harp made a motion that HB 741 be TABLED. The motion CARRIED with all members voting aye, except Reps. Ramirez, Ream, and Ellison.

DISPOSITION OF HOUSE BILL NO. 96: Rep. Ellison made a motion to TABLE HB 96. The motion CARRIED with all members voting aye except Reps. Raney and Patterson, who voted no.

DISPOSITION OF HOUSE BILL NO. 494: Rep. Williams made a motion that HB 494 be TABLED. The motion CARRIED, with all members voting aye except Reps. Gilbert, Ellison, Patterson, Schye, and Raney, who voted no.

DISPOSITION OF HOUSE BILL NO. 730: Rep. Ellison made a motion to take HB 730 FROM THE TABLE. The motion CARRIED unanimously.

Rep. Ellison made a motion that HB 730 DO PASS and made a motion that the proposed amendments (Exhibit #2), be approved. He commented that it is easy to steal a boat right now, and that if the Legislature does not address the situation soon, the Coast Guard will. The motion made by Rep. Ellison CARRIED unanimously.

Greg Petesch commented that any boat equipped with a motor could be titled, as well as any sail boat in excess of 12 feet.

Rep. Ellison made a motion that HB 730 DO PASS AS AMENDED. The motion CARRIED unanimously.

Rep. Raney made a motion to reconsider the Committee's action on HB 730. The motion CARRIED unanimously, and Rep. Raney made a motion to amend the effective date on page 10, lines 6-8, to July 1, 1988. The motion Carried unanimously.

Rep. Ellison made a motion that HB 730 DO PASS AS AMENDED. The motion CARRIED unanimously.

DISPOSITION OF HOUSE BILL NO. 658: Rep. Ellison explained that, right now, it is cheaper to pay a fine than it is to license a boat.

Rep. Raney made a motion that HB 658 DO PASS, and made a motion to amend the new section 9, on pages 15-16, from "14 feet" to "16 feet". The motion CARRIED unanimously.

Rep. Raney made a motion to amend the fine to "500%" instead of "50%". The motion CARRIED with all members voting aye, except Reps. Sands and Gilbert, who voted no.

Chairman Ramirez asked if "or taxable" was necessary on page 9, lines 23-24. Greg Petesch replied that all water craft are exempted on page 4 of the bill. Chairman Ramirez made a motion to strike "or taxable" on page 9, lines 23-24. The motion CARRIED unanimously.

Rep. Williams made a motion to insert "\$2" instead of "\$1" on page 10, line 1 of the bill. The motion CARRIED unanimously.

Rep. Raney made a motion to change the effective date of the bill to January 1, 1988. The motion CARRIED unanimously.

Rep. Raney made a motion that HB 658 DO PASS AS AMENDED. The motion CARRIED unanimously.

DISPOSITION OF HOUSE BILL NO. 813: Rep. Raney made a motion that HB 813 DO PASS, and made a motion to strike "3 or 4

wheel" on page 1, line 13 of the bill. The motion CARRIED unanimously.

Chairman Ramirez made a motion to amend the bill so that all three distribution clauses are the same. The motion CARRIED unanimously.

Rep. Raney made a motion to amend the penalty to "500%". The motion CARRIED unanimously.

Chairman Ramirez advised the administration of aircraft and boats should be made the same, which would mean a new section 2. Rep. Raney made a motion to that effect, which CARRIED unanimously, and Chairman Ramirez asked Greg Petesch to draft the language. The Committee passed for the day on taking final action on the bill.

DISPOSITION OF HOUSE BILL NO. 807: Rep. Harp made a motion that HB 807 be TABLED. The motion CARRIED unanimously.

DISPOSITION OF HOUSE BILL NO. 858: Rep. Williams said he had made an earlier notation to amend the bill to a minimum of 10 acres.

Chairman Ramirez advised that, in the essence of time, the bill would be taken up after bill hearings this date.

CONSIDERATION OF HOUSE BILL NO. 851: Rep. John Harp, House District #7, sponsor of HB 851, said the bill would transfer electrolytic reduction facilities machinery and equipment from class eight to class five property, and provide an immediate effective date and retroactive applicability date. He stated that the bill makes sense, and explained that in December, 1983, ARCO announced its intent to divest its metals division, as it feared it would lose the aluminum plant in Columbia Falls. He advised that ARCO decided to keep the plant open indefinitely, and in 1985, all employees agreed to a 20% reduction in benefits and a cut in holidays from 12 to 6, along with concessions from Burlington Northern on freight rates.

Rep. Harp said the one remaining issue is that the Columbia Falls Aluminum Corporation (CFAC) needs to be in competition with the world market, but its tax in Montana is \$2.4 million, while it pays an approximate total of \$750,000 in 7 other plants in the West. Rep. Harp commented that DOR recently assessed the plant at \$148 million, while it was assessed by that agency last year at \$120, and by an independent appraiser at \$30 million. He stressed this is the same plant for which ARCO could not find a buyer, and said the number of employees was reduced from 960 to 800.

Rep. Harp referred to the fiscal note wherein it is stated that the plant was assessed at 254 mills and not 300 mills. He said, speaking long term, Montana has not lost too many primary jobs at the plant, where employees average more than \$20,000 annually.

PROPOSERS OF HOUSE BILL NO. 851: Jerome Broussard, President and General Manager of CFAC, said aluminum is a very competitive commodity business. He stated labor costs were reduced by more than 40% and were made up for with profit sharing. Mr. Broussard advised that current taxes provide a higher break even point, but the plant can't operate with lower aluminum prices, when the state gets 6.7 cents for every \$100 the plant makes.

Mr. Broussard stated he believes the bill is fair and, although it reduces the tax to \$1 million, it is still twice that paid in other states. He told the Committee CFAC wants to remain competitive and a viable part of Montana's future.

Mayor Colleen Allison, Columbia Falls, told the Committee she was proud of the continuing support in her area for CFAC. She advised that Bonneville Power agreed to address the problem of high energy rates and the city of Columbia Falls passed a resolution in support of the bill. Mayor Allison stated it is unfair for CFAC to pay 10% of the taxes paid in the County which would lose 300 families in a city of 3,100 people, and about 450 families in school districts, if the plant were to close.

Ryan Taylor, District Superintendent of School District #6, Columbia Falls, asked to have the school board on record as not opposing this legislation.

Tom Payne, Columbia Falls Chamber of Commerce, stated that, in 1970, he graduated from Montana State University in Chemical Engineering. He advised that of the 480 students graduating in engineering in 1987, 385 must leave the state to find jobs, and that Montana per capita income has dropped 16% in 6 years. He requested that the Committee support the bill (Exhibit #3).

Dennis Corbett, Vice President, Aluminum Workers Trade Council, Columbia Falls, said he represented 700 workers. He told the Committee the plant is beating all records for efficiency and effectiveness, and needs the bill to continue those jobs.

Bob Beckly, Columbia Falls Chamber of Commerce, provided a written statement from the Chamber in support of the bill (Exhibit #4).

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Judy Berardi, Columbia Falls, said the people of Columbia Falls want to save CFAC and believe the bill is equitable. She asked the Committee to support the bill (Exhibit #5).

OPPONENTS OF HOUSE BILL NO. 851: Ken Kruger, Flathead County Commissioner, said he opposes the bill as the county would lose about \$351,000 in direct tax revenue. He added that Montana Association of Counties (MACO) opposes the bill as the Columbia Falls plant has failed to prove that a tax break is needed to keep the company in business.

Howard Gipi, Flathead County Commissioner, said he did not believe the concept of the bill to be appropriate.

QUESTIONS ON HOUSE BILL NO. 851: Rep. Raney asked if it were fair for all of Montana to help with CFAC and, if so, shouldn't the state help the sugar beet plant in Billings. Rep. Harp replied there is a minimal impact of \$200,000 and that he has another bill to raise revenue. He stated there is no question that CFAC is in good shape today, but the question is where it will be in three or four years. Rep. Harp reminded the Committee that School District #6 supports the bill.

Rep. Ream asked what portion of county millage goes to the school district. Rep. Harp replied it is roughly 65%. Ryan Taylor responded that he is attempting to look at what is best for the community and for the school district, and that he was hoping the foundation program would equalize the cost of education.

Rep. Ream asked what percentage of CFAC taxes goes to schools. Rep. Harp replied it is approximately 43% of the budget.

Rep. Ellison asked if CFAC would get a good reduction if it filed and won a tax protest suit. Rep. Harp said he believed the company doesn't want to go to that end.

Rep. Ellison asked if the protest would be dropped if taxes were reduced. Rep. Harp replied it would look very favorable. Jerome Broussard responded that the two are definitely interlinked and would probably result in a change.

Chairman Ramirez asked if the valuation would be out of balance later on, if it is being protested now, and how CFAC proposed to handle the situation. He commented that if property tax reduction is going to be addressed for everyone, a sales tax is necessary for overall reform. Chairman Ramirez advised that this is a very serious situation and if both the proponents and opponents agreed.

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Rep. Raney asked Rep. Harp if he would support a local option sales tax. Rep. Harp replied that he is asking for a point of direction, and believes this is the last issue at hand.

Rep. Ellison asked how the CFAC situation differs from that of the sugar beet plant in Billings. Rep. Harp replied the sugar beet plant has not made labor concessions or worked with Bonneville Power, to create a very strong sentiment in the area. He added he is willing to generate dollar for dollar replacement.

Chairman Ramirez commented that the university levy and foundation mills still won't solve the problem, and asked how much the Legislature has done to make up in foundation dollars for School District #6. Ryan Taylor replied it is very difficult to estimate, but the elementary budget is approximately \$250,000 alone. He stressed he is not comfortable going on record with that figure, and would need more time to check it out.

Rep. Williams asked if a new Montana corporation could be partially financed by the Build Montana program. Rep. Harp replied that the company turned down \$8 million from the Board of Investments and still showed a profit last year.

Chairman Ramirez advised that 7% would give the lowest tax percentage rate in the state, and asked if 5-6% would be low enough to keep the company in business. Jerome Broussard replied he is looking at getting a fixed tax burden which is competitive with that in other states.

CLOSING ON HOUSE BILL NO. 851: Rep. Harp explained that if the bill does not pass, the plant could shut down for 2-3 years, as the mines were in Butte, losing \$28 million in payroll, in addition to millions of dollars if pot lines are shut down. He advised he would work hard to get the bill out of Committee.

CONSIDERATION OF HOUSE BILLS NO. 544 AND 545: Rep. Hal Harper, House District #44, testified as co-sponsor of the bills, in the absence of Rep. Janet Moore, who was ill. The bills were originally scheduled for hearing on February 20, but only part of the testimony was heard that date, because of Rep. Moore's absence.

Rep. Harper explained that HB 545 would raise the tax on chewing tobacco to what it is for cigarettes, and is a select sales tax on the fourth largest source of revenue in the state. He said Rep. Moore believes the state should tax luxury items that cause harm, and that income from the tax

would cover salary increases for teachers at Pine Hills and Mountain View.

Rep. Bob Ream, House District #54, testified as co-sponsor of HB 544, which he said was a simple bill to raise the cigarette tax by 5 cents per package.

PROPOSERS OF HOUSE BILLS NO. 544 AND 545: Bill Leary, representing Priorities for People, said neither of the bills are health bills per se, and that he didn't believe a tax increase would result in a decrease in smoking.

Jim Smith, Human Resources Development Council and Montana Association for Rehabilitation, said the SRS budget is the largest and most complex of state agencies, but has no information on how many people receive Medicaid. He urged the Committee to support the bill.

David Lackman, American and Montana Public Health Associations, read from a prepared statement in support of the bill (Exhibit #6).

OPPONENTS OF HOUSE BILLS NO. 544 AND 545: Jerome Anderson, Tobacco Institute, told the Committee he has lobbied for tobacco issues since the 1970's and read from a prepared statement in opposition to the bill (Exhibit #7).

Ed Buckner, Livingston, told the Committee that, in 1986, he purchased two distributor warehouses and employs 16 persons to distribute candy, food, and tobacco products within a 90 mile radius. He read from a prepared statement in opposition to the bill.

Tom Stump, Pennington's, north-central hi-line, said there is a disparity in the fiscal note, comparing current law to a drop of 5.7% for FY88-89. He advised that under the proposed law the drop in consumption is anticipated to be 3.7%, and that the figures should be the same. Mr. Stump read from a prepared statement in opposition to the bill (Exhibit #8).

Kay Foster, Billings Area Chamber of Commerce, stated that she believes many other measures would provide broad-based property tax reform and relief.

Joe Markovich, Anaconda, stated his opposition to both bills.

Tom Maddox, owner of a Montana family-owned wholesale distributorship, said he opposed both bills and concurred with the testimony of other opponents of the bills. Mr. Maddox alluded to estimates for the tobacco tax on the

fiscal note, and said Montana ranks first per capita in non-taxed cigarette sales.

Rep. Bob Raney, House District #82, read from prepared testimony of Steve Buckner, Livingston, in opposition to the bill (Exhibit #9).

QUESTIONS ON HOUSE BILLS NO. 544 AND 545: Rep. Asay asked if any distributors made wholesale cigarette deliveries to reservations. Jerome Anderson replied that he believed about 15-20% of Montana cigarette sales are untaxed.

Rep. Gilbert asked Rep. Harper if, following the line of logic between chewing tobacco and cigarettes, premium gasoline were not taxed at a higher rate. There was no response.

Rep. Patterson asked what the tax is on chewing tobacco right now. Jerome Anderson replied that it is about \$1.15 per ten can roll and would increase to about \$2.31.

Rep. Williams asked Jerome Anderson if he objected to a general sales tax, and said he would like to know the views of the Tobacco Institute. There was no response.

CLOSING ON HOUSE BILLS NO. 544 AND 545: Rep. Harper stated the bill changes revenue from long running debt service to education, and said chewing tobacco is not sold in vending machines and probably won't be subject to a 5 cent increase as are cigarettes. He said the fiscal note shows consumption is not related to the tax, and that although HB 545 is a small bill, it is a budget building block.

Rep. Ream referred to Exhibit #8, provided by Jerome Anderson, which lists cigarette taxes over past years on the third to the last page, and said the cigarette tax is 21 cents now, versus 60 cents per pack in 1960.

DISPOSITION OF HOUSE BILL NO. 150: Rep. Raney made a motion that HB 150 DO PASS, and made a motion to amend page 2, line 5 to "effective tax years after 1987". The motion CARRIED unanimously.

Rep. Williams made a motion that HB 150 be TABLED. The motion CARRIED unanimously.

DISPOSITION OF HOUSE BILL NO. 515: Rep. Williams made a motion that HB 515 DO PASS.

Chairman Ramirez advised that the same philosophical arguments took place throughout the 1985 session, and that the bill should probably be tabled.

Rep. Gilbert made a motion that HB 515 be TABLED. The motion CARRIED 9-7, Republicans voting aye, and Democrats voting no.

DISPOSITION OF HOUSE BILL NO. 701: Rep. Gilbert made a motion that HB 701 be TABLED. The motion CARRIED, with all members voting aye, except Reps. Raney, Keenan, Schye, and Harp, who voted no.

DISPOSITION OF HOUSE BILL NO. 759: Rep. Harp made a motion to TABLE HB 759. The motion CARRIED with all members voting aye, except Rep. Asay, who voted no.

DISPOSITION OF HOUSE BILL NO. 776: Rep. Raney made a motion that HB 776 DO NOT PASS, in view of a letter he received from the Roosevelt County Commissioners, advising the greatest amount of production is during the first two years.

Rep. Gilbert commented it is not true that it takes another 30 years to match production of the first 2 years and, thus, the change is not that dramatic.

Chairman Ramirez proposed to amend the bill to decrease the tax to approximately 20%.

Rep. Raney asked about a dollar limit for when the price goes above \$20 per barrel. Chairman Ramirez replied that \$20 per barrel is too low.

Rep. Raney said he would request a price of \$20 for a new well, and prices of \$25, \$28, and \$30 for older wells.

Rep. Harp stated that SB 390 from the 1985 session was a major piece of legislation, and said he believes the current price is hurting the industry.

Chairman Ramirez advised the Committee they would address the bill on Wednesday, March 18, in the essence of time.

Rep. Asay made a motion to pass consideration of HB 776 for the day. The motion CARRIED unanimously.

Chairman Ramirez advised that the Property/Sales Tax Subcommittee would meet at 7:30 a.m. and the Local Option Tax Subcommittee, at 7 a.m., on Wednesday, March 18.

ADJOURNMENT: There being no further business before the Committee, the meeting was adjourned at 12 noon.


Representative Jack Ramirez,
Chairman

DAILY ROLL CALL

HOUSE TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date March 17, 1987

NAME	PRESENT	ABSENT	EXCUSED
REP. RAMIREZ	✓		
REP. ASAY			
REP. ELLISON	✓		
REP. GILBERT	✓		
REP. HANSON			✓
REP. HARP	✓		
REP. HARRINGTON			
REP. HOFFMAN			✓
REP. KEENAN	✓		
REP. KOEHNKE	✓		
REP. PATTERSON	✓		
REP. RANEY	✓		
REP. REAM	✓		
REP. SANDS	✓		
REP. SCHYE	✓		
REP. WILLIAMS	✓		

STANDING COMMITTEE REPORT

EXHIBIT _____
DATE 3-17-82
HB 84
19 87

Page 1 of 6

MARCH 17

Mr. Speaker: We, the committee on HOUSE TAXATION

report HOUSE BILL NO. 84

☒ do pass
☐ do not pass

☐ be concurred in
☐ be not concurred in

☒ as amended
☐ statement of intent attached

Representative Jack Ramirez, Chairman

Be amended as follows:

1. Title, line 6.

Following: "ACCOMMODATIONS"

Insert: "AND SIMILAR FACILITIES"

2. Title, line 10.

Following: "LOCATION"

Insert: ", TO THE MONTANA HISTORICAL SOCIETY FOR ROADSIDE
HISTORICAL SIGNS AND HISTORIC SITES, AND TO THE UNIVER-
SITY SYSTEM FOR A MONTANA TRAVEL RESEARCH PROGRAM"

3. Title, line 11.

Following: "COUNCIL;"

Insert: "PROVIDING FOR APPROPRIATIONS;"

4. Page 1, line 18.

Following: line 17

Insert: "(1) "Accommodation charge" means the fee charged
by the owner or operator of a facility for use of the
facility for lodging, including bath house facilities,
but excluding charges for meals, transportation,
entertainment, or any other similar charges."

Renumber: subsequent subsections

5. Page 1, line 19.

~~Following: "[section]"~~

Strike: "7"

Insert: "9"

6. Page 1, line 20.

~~Following: "(2)"~~

Strike: "'Hotel" or "motel"

Insert: "'Facility"

7. Page 1, line 24.

Following: "motel,"

Insert: "campground,"


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8. Page 2, lines 2 and 3.

Following: "include" on line 2

Strike: "a roominghouse, retirement home, hospital,"

Insert: "any health care facility, as defined in 50-5-101,
any facility owned by a corporation organized under
Title 35, chapter 2 or 3, that is used primarily by
persons under the age of 18 years for camping
purposes,"

9. Page 2, line 3.

Following: "or"

Insert: "any"

10. Page 2, lines 3 and 4.

Following: "rented"

Strike: "on other than a daily or weekly basis"

Insert: "solely on a monthly basis or for a period of 30
days or more"

11. Page 2, lines 23 and 24.

Following: "user of a" on line 23

Strike: "hotel, motel, or tourist campground"

Insert: "facility"

12. Pages 2 and 3.

Following: "by the" on line 25 of page 2

Strike: "hotel, motel, or campground"

Insert: "facility"

13. Page 3, lines 2 through 7.

Strike: subsection (2) in its entirety

Renumber: subsequent subsection

14. Page 3, line 11.

~~Following: "of a"~~

Strike: "hotel, motel, or campground"

Insert: "facility"

15. Page 3, line 17

~~Following: line 16~~

Strike: "hotel, motel, or campground"

Insert: "facility"

16. Page 3.

Following: line 20

Insert: "NEW SECTION. Section 4. Audits -- records.

(1) The department of revenue may audit the books and records of any owner or operator to ensure that the proper amount of tax imposed by [section 2] has been collected. An audit may be done on the premises of the owner or operator of a facility or at any other convenient location.

JM-J

(2) The department may request the owner or operator of a facility to provide the department with books, ledgers, registers, or other documents necessary to verify the correct amount of tax.

(3) The owner or operator of a facility shall maintain and have available for inspection by the department books, ledgers, registers, or other documents showing the collection of accommodation charges for the preceding 5 years.

NEW SECTION. Section 5. Registration number -- application to department. (1) The owner or operator of a facility shall apply to the department of revenue for a registration number.

(2) The application must be made on a form provided by the department.

(3) Upon completion of the application and delivery of the application to the department, the department must assign a registration number to the owner, operator, or facility, as appropriate."

Renumber: subsequent sections

17. Page 3, lines 22 and 23.

Following: "of a"

Strike: "hotel, motel, or campground"

Insert: "facility"

18. Page 4, line 12.

~~Following: line 11~~

Strike: "estimate"

Insert: "determine"

19. Page 4, line 15.

Strike: "5/6 of"

Following: "a month"

Insert: "or part thereof"

20. Page 4, line 21.

~~Following: "department"~~

Strike: "may spend from"

Insert: "is statutorily appropriated, as provided
in 17-7-502, 24 of"

21. Page 4, line 22.

~~Following: "account"~~

Strike: "in accordance with an expenditure appropriation
by"

~~22. Page 4, line 23:~~

~~Following: line 22~~

Strike: "the legislature based on an estimate of"

Insert: "each reporting period for"

SP

March 17, 1987

HB 94

23. Page 5, line 1.
Following: "the"
Strike: "expenditure"
Insert: "statutory"
Following: "appropriation"
Insert: "for collection and disbursement"

24. Page 5, line 2.
Strike: "are"
Insert: "is"

25. Page 5, line 9.
Strike: "25%"
Insert: "~~21 1/2%~~" "21.5%"

26. Page 5, line 13.
Strike: "25%"
Insert: "~~21 1/2%~~" "21.5%"

27. Page 5, line 15.
~~Following: "\$35,000,"~~
Strike: "80%"
Insert: "50%"

28. Page 5, line 19.
Following: "city-county"
Insert: "; (d) 1% to the Montana historical society to be used for the installation or maintenance of roadside historical signs and historic sites; and
2.5% (e) ~~2 1/2%~~ to the university system for the establishment and maintenance of a Montana travel research program"

29. Page 5, line 24.
~~Following: "[section]"~~
Strike: "6"
Insert: "8"

30. Page 6, line 4.
~~Following: "[section]"~~
Strike: "6"
Insert: "8"

31. Page 6, line 17.
~~Following: "[section]"~~
Strike: "5"
Insert: "7"

MS

32. Page 10, line 13.

~~Following: "[section]"~~

Strike: "5"

Insert: "7"

33. Pages 10 and 11, *line 25.*

Strike: section 9 in its entirety

Insert: "NEW SECTION. Section 11. Rulemaking authority.

The department of revenue shall adopt such rules as may be necessary to implement and administer [this act].

NEW SECTION. Section 12. Rulemaking authority.

The department of commerce shall adopt such rules as may be necessary to implement and administer [this act]."

Renumber: subsequent sections

34. Page 11, line 5.

~~Following: "through"~~

Strike: "6"

Insert: "8 and 11"

35. Page 11, line 7.

~~Following: "through"~~

Strike: "6"

Insert: "8 and 11"

36. Page 11, line 8.

~~Following: "(2)"~~

Strike: "Section 7 is"

Insert: "Sections 9 and 12 are"

37. Page 11, line 10.

~~Following: "to"~~

Strike: "section 7"

Insert: "sections 9 and 12"

38. Page 11, line 11.

Following: line 10

Insert: "NEW SECTION. Section 14. Coordination

instruction. If either Senate Bill No. 55 or a bill authorizing a local option sales tax of 3% or more is passed and approved, the percentage rate of tax in section 2 is amended to be reduced from 4% to 3%.

NEW SECTION. Section 15. Appropriation. (1) The department of revenue is authorized, as provided in 17-2-107(2) to obtain a general fund loan in fiscal year 1987 and repay such loan in fiscal year 1988 for startup *up* costs associated with the administration of this act. The loan may not exceed \$120,000.

(2) There is hereby appropriated from the state special revenue fund to the credit of the department of revenue up to \$120,000 in fiscal year 1988 to repay the amount of any general fund loan obtained by the department of revenue in fiscal year 1987."

Renumber: subsequent section

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STANDING COMMITTEE REPORT

EXHIBIT
DATE 3-18-87
HB 658

MARCH 17

19 87

Mr. Speaker: We, the committee on HOUSE TAXATIONreport HOUSE BILL NO. 658☒ do pass
☐ do not pass☐ be concurred in
☐ be not concurred in☒ as amended
☐ statement of intent attachedRepresentative Jack Ramirez, Chairman

AMENDMENTS TO HB 658

1) Title, line 10

~~Following: "AND"~~

Strike: "A RETROACTIVE"

Insert: "AN"

2) Page 9, lines 23 and 24

Following: "owned" on line 23

Strike: "or taxable"

3) Page 10, line 1

~~Following: "for or"~~

Strike: "\$1"

Insert: "\$2"

4) Page 15, line 24

Following: "motorboat"

Insert: "at least"

Following: "length"

Strike: "to 13"

5) Page 15, line 25

Following: line 24

Strike: "least 11 inches"

Insert: "but less than 14 feet"

Following: "sailboat"

Insert: "at least"

Following: "12 feet"

Strike: remainder of line 25 in its entirety

6) Page 16, line 1

Following: Page 15

Strike: "inches"

Insert: "in length but less than 14 feet"

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7) Page 16, line 2
Following: "sailboat"
Insert: "at least"
Following: "feet"
Strike: "to 15"

8) Page 16, line 3
Following: line 2
Strike: "feet 11 inches"
Insert: "in length but less than 16 feet"

9) Page 16, line 4
Following: "sailboat"
Insert: "at least"
Following: "feet"
Strike: "to 16"

10) Page 16, line 5
Following: line 4
Strike: "feet 11 inches"
Insert: "in length but less than 17 feet"

11) Page 16, line 6
Following: "sailboat"
Insert: "at least"
Following: "feet"
Strike: "to 18"

12) Page 16, line 7
Following: line 6
Strike: "feet 11 inches"
Insert: "in length but less than 19"

13) Page 16, line 21
~~Following: line 20~~
Strike: "500 of"
Insert: "5 times"

14) Page 17, line 18
Following: "1,"
Strike: "1987"
Insert: "1988"



STANDING COMMITTEE REPORT

MARCH 17

3-17-81

730
19-87Mr. Speaker: We, the committee on HOUSE TAXATIONreport HOUSE BILL NO. 730☒ do pass
☐ do not pass☐ be concurred in
☐ be not concurred in☒ as amended
☐ statement of intent attached

Be amended as follows:

Representative Jack Ramirez, Chairman

1. Title, line 5.

Following: "AND"

Strike: "VESSELS"

Insert: "CERTAIN SAILBOATS"

2. Page 1, line 11.

Following: "subsection"

Strike: "(7)"

Insert: "(9)"

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

3. Page 1, line 16.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

4. Page 1, line 17.

Following: "ownership"

Insert: "and a certificate of number"

5. Page 2, line 3.

Following: "number;"

Strike: "and"

6. Page 2, line 5.

Following: "acquired"

Strike: "."

Insert: ", if known; and

(j) such other information as the department of justice may require.

(3) The application is to be accompanied by documentation of ownership such as an invoice, bill of sale, foreign title, official certificate of boat number, tax receipt, certification from the department of revenue that the motorboat or sailboat 12 feet in length or longer is listed with the applicant's taxable property, or a certificate of ownership of a trailer purchased with the motorboat or sailboat. An applicant who fails to provide

FIRST

reading copy (WHITE)
color

such proof of ownership shall provide a certified statement describing how the motorboat or sailboat 12 feet in length or longer was acquired, from whom acquired if known, and other information requested by the department of justice. "

Renumber: subsequent subsection

7. Page 2, line 10.

Following: "motorboats or"

Strike: "vessels"

Insert: "sailboats 12 feet in length or longer"

8. Page 2, following line 12.

Insert: "(5) Any motorboat or sailboat 12 feet in length or longer that does not have a manufacturer's or other identifying number thereon must be assigned an identification number by the department of fish, wildlife, and parks. A fee of \$1 must be paid to the department for an assignment of number."

Renumber: subsequent subsections

9. Page 2, following line 14.

Insert: "certificate of number"

10. Page 2, line 17.

Following: "application"

Insert: "for a certificate of ownership"

11. Page 2, line 22.

Following: "permanent"

Strike: "ownership"

Insert: "boat"

12. Page 3, line 10.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

13. Page 3, line 13.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

14. Page 3, line 14.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

15. Page 3, line 15.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

16. Page 4, line 1.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
17. Page 4, line 4.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
18. Page 4, line 12.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
19. Page 4, line 23.
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
20. Page 5, line 1.
Following: page 4
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
21. Page 5, line 5.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
22. Page 5, line 9.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
23. Page 5, line 10.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
24. Page 5, line 12
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
25. Page 5, line 13.
Strike: "hull identification number"
26. Page 5, line 17.
Following: line 16
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"

27. Page 5, line 21.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

28. Page 5, line 22.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

29. Page 6, line 18.

Following: "the"

Strike: "county treasurer, with a copy forwarded to the"

30. Page 6, line 20.

Following: "or"

Strike: "vessel"

Insert: "or sailboat 12 feet in length or longer"

7069a/C:JEANNE\WP:jj

JJ
Representative Jack Ramirez, Chairman

ROLL CALL VOTE

HOUSE TAXATION

COMMITTEE

DATE

3-17

BILL NO.

HB 741

NAME	ABSTAIN	AYE	NAY
RAMIREZ, REP. JACK			✓
ASAY, REP. TOM	✓		
ELLISON, REP. ORVAL		✓	
GILBERT, REP. BOB		✓	
HANSON, REP. MARION	✓		
HARP, REP. JOHN		✓	
HARRINGTON, REP. DAN	✓		
HOFFMAN, REP. ROBERT	✓		
KENNAN, REP. NANCY			✓
KOEHNKE, REP. FRANCIS			✓
PATTERSON, REP. JOHN			✓
RANEY, REP. BOB			✓
REAM, REP. BOB		✓	
SANDS, REP. JACK			✓
SCHYE, REP. TED			✓
WILLIAMS, REP. MEL			✓
TALLY	4	4	8

Joann Banschbach
Secretary

Rep. Jack Ramirez
Chairman

Motion:

Harp - freedom of choice

ROLL CALL VOTE

3-17-17
741

HOUSE TAXATION

COMMITTEE

DATE 3-17 BILL NO. HB 741

NAME	ABSTAIN	AYE	NAY
RAMIREZ, REP. JACK			✓
ASAY, REP. TOM	✓		
ELLISON, REP. ORVAL			✓
GILBERT, REP. BOB			✓
HANSON, REP. MARION		✓	
HARP, REP. JOHN			✓
HARRINGTON, REP. DAN		✓	
HOFFMAN, REP. ROBERT			✓
KENNAN, REP. NANCY		✓	
KOEHNKE, REP. FRANCIS		✓	
PATTERSON, REP. JOHN		✓	
RANEY, REP. BOB		✓	
REAM, REP. BOB			✓
SANDS, REP. JACK			✓
SCHYE, REP. TED		✓	
WILLIAMS, REP. MEL		✓	
TALLY	1	8	7

Joann Banschbach
Secretary

Rep. Jack Ramirez
Chairman

Motion:

Wms - strike sec 5
premier

#1
3-17-87
HB 741

AMENDMENTS TO HOUSE BILL 741

1. Page 2, line 3.

Following: "corporations"

Insert: "as prescribed in 33-30-102"

2. Page 3, lines 5 through 6.

Strike: "referred to in 33-1-102"

Insert: "in the provisions listed in 33-30-102"

3. Page 4, line 8.

Strike: "title."

Insert: "chapter. In addition to the provisions contained in this chapter, other chapters and provisions of this title apply to health service corporations as follows: 33-2-705, 33-17-212, 33-17-213, and 33-17-214; and chapters 1, 15, 18, 19, and 22."

4. Page 10, line 18.

Strike: "chapter 17"

Insert: "33-17-212, 33-17-213, and 33-17-214"

5. Page 13, line 2 through line 4, page 14.

Strike: section 12 in its entirety

Renumber: subsequent subsections

6. Page 14, lines 17 through 19.

Following: "Section" on line 17

Strike: remainder of line 17 through "1988." on line 19

Insert: "9 applies to individuals appointed as enrollment representatives on or after the effective date of this act."

1a
3-17-87
HB741

M E M O R A N D U M

TO: Representative John Harp

FROM: Kathy Irigoin, Staff Attorney
Montana Insurance Department

SUBJECT: Information on premium tax and freedom of choice
issues in House Bill 741

DATE: March 13, 1987

I. Premium Tax vs. Corporate Tax

A corporation may not be organized in Montana (or any other state) for banking or insurance. Corporation laws (including a corporate license tax), therefore, do not apply to banks or insurance companies. Historically, insurance companies have paid only a tax upon the net premiums received during the preceding calendar year. An insurance company pays the premium tax in lieu of all other state, county, city, district, municipal, and school taxes, licenses, fees, and excises.

A nonprofit corporation organized as a health service corporation does not pay a premium tax or a corporate license tax. A health service corporation is exempt from the corporate license tax in Montana as a "civic league or organization not organized for profit but operated exclusively for the promotion of social welfare".

The Federal Government determined, in 1986, that health service corporations should no longer be exempt from federal income tax because they are not "operated exclusively for the promotion of social welfare". Instead, they act and operate much like all other insurance companies. Health service corporations in Montana do not operate exclusively for the promotion of social welfare either and, therefore, should not be exempt from state taxation. (Twenty-two states already require health service corporations to pay a premium tax.)

II. Problems With Taxing Administrative Services Only (ASO)

A health service corporation collects a fee for administering ASO business like the State Employees' Health Plan. ASO business generates income to the health service corporation, separate from any premium income. Historically, neither insurance companies or health service corporations have paid an income tax. Presently, health service corporations do not

report their ASO business separately, making it difficult to determine how their ASO business relates to their regular "at-risk" business. Beginning in 1987, health service corporations will be required to report ASO business separately from their "at-risk" business.

III. Freedom of Choice

Section 12 of House Bill 741 (page 13, line 2 through line 4, page 14) requires health service corporation membership contracts to provide for freedom of choice of practitioners. Basically, this allows a member may choose any licensed physician, dentist, osteopath, chiropractor, optometrist, chiropodist, psychologist, licensed social worker, or nurse specialist to treat any illness or injury. All insurance companies are already required to let their policyholders choose anyone from that list to treat them. Presently, health service corporations exclude coverage of services provided by chiropractors or optometrists, neither of whom is a medical doctor, unless coverage of chiropractors or optometrists is specifically requested by a group in negotiating a group policy or an individual in purchasing an individual policy.

House Bill 741 does not interfere with health service corporation provider agreements through which providers agree not to charge more for a service than the health service corporation has established to be a reasonable charge, e.g., \$500 for an appendectomy. If a member goes to a participating provider, he or she can be assured that the provider will not charge more than \$500 for an appendectomy. The member will pay 20% of the \$500 charge, and the health service corporation will pay the remaining 80%. If, however, a member goes to a non-participating provider, the non-participating provider may charge \$600 for the appendectomy. The member then pays \$100 (the difference between the amount the non-participating provider charged and the health service corporation thinks is a reasonable charge) PLUS 20% of the \$500 that the health service corporation thinks is a reasonable charge. In any event, the health service corporation pays only 80% of \$500 for a appendectomy. If provider agreements achieve cost containment for anyone, it's the health service corporation, not the member. (Please note that I made up the charges. I don't know what Blue Cross/Blue Shield thinks is a reasonable charge for an appendectomy).

Section 12 does not prevent a health service corporation from contracting with health care providers to achieve health care cost containment. It simply says that, if I choose a chiropractor to treat my back, the health service corporation cannot refuse to pay whether or not the chiropractor has a provider agreement with the health service corporation.

#2
3-17-87
730

PROPOSED AMENDMENTS TO HOUSE BILL 730
(Second Reading)

1. Title, line 5.
Following: "AND"
Strike: "VESSELS"
Insert: "CERTAIN SAILBOATS"
 2. Page 1, line 11.
Following: "subsection"
Strike: "(7)"
Insert: "(9)"
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
 3. Page 1, line 16.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
 4. Page 1, line 17.
Following: "ownership"
Insert: "and a certificate of number"
 5. Page 2, line 3.
Following: "number;"
Strike: "and"
 6. Page 2, line 5.
Following: "acquired"
Strike: "."
Insert: ", if known; and
(j) such other information as the department of justice may require.
(3) The application is to be accompanied by documentation of ownership such as an invoice, bill of sale, foreign title, official certificate of boat number, tax receipt, certification from the department of revenue that the motorboat or sailboat 12 feet in length or longer is listed with the applicant's taxable property, or a certificate of ownership of a trailer purchased with the motorboat or sailboat. An applicant who fails to provide such proof of ownership shall provide a certified statement describing how the motorboat or sailboat 12 feet in length or longer was acquired, from whom acquired if known, and other information requested by the department of justice."
- Renumber: subsequent subsection

7. Page 2, line 10.

Following: "motorboats or"

Strike: "vessels"

Insert: "sailboats 12 feet in length or longer"

8. Page 2, following line 12.

Insert: "(5) Any motorboat or sailboat 12 feet in length or longer that does not have a manufacturer's or other identifying number thereon must be assigned an identification number by the department of fish, wildlife, and parks. A fee of \$1 must be paid to the department for an assignment of number."

Renumber: subsequent subsections

9. Page 2, following line 14.

Insert: "certificate of number"

10. Page 2, line 17.

Following: "application"

Insert: "for a certificate of ownership"

11. Page 2, line 22.

Following: "permanent"

Strike: "ownership"

Insert: "boat"

12. Page 3, line 10.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

13. Page 3, line 13.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

14. Page 3, line 14.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

15. Page 3, line 15.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

16. Page 4, line 1.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

17. Page 4, line 4.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
18. Page 4, line 12.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
19. Page 4, line 23.
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
20. Page 5, line 1.
Following: page 4
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
21. Page 5, line 5.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
22. Page 5, line 9.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
23. Page 5, line 10.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
24. Page 5, line 12
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
25. Page 5, line 13.
Strike: "hull identification number"
26. Page 5, line 17.
Following: line 16
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"
27. Page 5, line 21.
Following: "motorboat or"
Strike: "vessel"
Insert: "sailboat 12 feet in length or longer"

28. Page 5, line 22.

Following: "motorboat or"

Strike: "vessel"

Insert: "sailboat 12 feet in length or longer"

29. Page 6, line 18.

Following: "the"

Strike: "county treasurer, with a copy forwarded to the"

30. Page 6, line 20.

Following: "or"

Strike: "vessel"

Insert: "or sailboat 12 feet in length or longer"

X
3-17-87
HB 851

WITNESS STATEMENT

EXHIBIT #3
DATE 3-17-87
HB 851

NAME Thomas F. Payne BILL NO. HB 851
ADDRESS Box 491 Columbia Falls MT DATE 3/17/87
WHOM DO YOU REPRESENT? Col. Falls Chamber of Commerce
SUPPORT X OPPOSE _____ AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

Business climate in the state of Montana is deteriorating at an alarming rate:

- * Since 1970, 14 major businesses have left the state, taking over 20,000 high-paying jobs ①
- * There will be 480 engineering graduates in 1987 in Montana. 385, or 80% will leave the state because there are no jobs. ①
- * Montana's per capita income has dropped from 34th in 1980 to 42nd in 1985, compared to all states. That's a drop of 16% in only six years! ②

To turn this tide, Montana must take immediate action to support existing business and encourage new business.

(CFAC)
Columbia Falls Aluminum Co. is an important business for the State of Montana - an existing business. It provides 800 high-paying jobs

CFAC competes in a very competitive national and world market. CFAC is faced with a non-competitive property tax which will seriously hamper CFAC when the aluminum market heads down. (Aluminum is very cyclical in nature)

Representative Harp's Bill, No 851, will help CFAC be more competitive, which is good for the State of Montana.

I support the Bill for that reason, as does the Columbia Falls Chamber of Commerce which I represent.

Thomas D. Payne

① Source: Dept of Chemical Engineering
Montana State University, Dr Lloyd Berg

② Source: Montax Tax Bulletin

March 12, 1987

EXHIBIT

DATE

HB.

#4

3-17-87

851

To Whom it may concern:

I support H. B. #851, even though it will have an instant effect upon Flathead County budgeting. I could also not support H. B. #851 if I used the reasoning that all industries and citizens were or should get a tax break.

These things are probably true, but please, realize with me what supporting H. B. #851 does for Flathead County, such as:

- 1) It will stabilize an industry so sorely needed in Flathead County as it employs 770 people.
- 2) The bill will reduce C. F. A. C.'s taxes by one million dollars but if they were to close, we would lose over two million dollars in a very short time. Plus, those 770 people would be looking elsewhere for jobs, thus, losing the amount of taxes they would be paying.
- 3) Of these 770 people, approximately 600 will own homes. Of these, maybe one hundred will try to stay in the Flathead, leaving five hundred homes placed upon the market. This influx of realty will destroy the prices on all homes for sale in the County.
- 4) The loss of these 770 payrolls will have a tremendous impact upon all business in Flathead County. Many will be forced to close. In this present period of hard dollars, our people cannot afford this to happen.

I would like to point out that other businesses are having a tough time but some have had tax breaks contrary to some public opinion. I am a farmer and rancher besides being a County Commissioner. Therefore, I am a businessman feeling the "crunch". I would like to also point out, that farm land has not been re-evaluated since 1978, except for a few parcels done by request. In other words, their taxing level has remained the same. Taxes on our cattle use the inventory averaging method and stock under nine months old are not taxed at all.

The timber industry has had their lands re-appraised and their percentage of taxable evaluation was dropped from 30% to 3.84%.

I would also like to add that I am very actively in support of economic development. Statistics have proven that it is much cheaper and surer to enhance the stability of our already founded and proven businesses, than it it to procure new businesses that may be in doubt.

In closing, I apologize for not speaking to you in person, but I must be in Washington D. C., representing Montana on the Western Interstate Regional Board for the National Association of Counties at the time H. B. #851 is to be heard.

Sincerely,

A handwritten signature in cursive script that reads "Allen A. Jacobson".

Allen A. Jacobson, Commissioner
Flathead County, Montana

Give CFAC its tax reduction

This week, House Bill 851 will be aired before the House Taxation Committee. The bill, with a simple bookkeeping change, would give the fledgling Columbia Falls Aluminum Co. a tax cut worth about \$900,000.

It's a tough call, but despite the added pressure that tax cut will place on schools and local governments, the bill deserves the committee's OK.

HB851 is not the kind of bill that's easy to support. It is special-interest legislation in that it benefits only one taxpayer, possibly at the expense of other taxpayers.

Special-interest legislation won't solve Montana's problems. What Montana needs is sweeping tax reform to broaden the tax base and equalize the load.

But what we need and what we'll get, unfortunately, are apt to be much different. And what we do NOT need is to make it tougher for a major employer to continue doing business in the state.

CFAC says its plant is worth \$30 million; the state says \$140 million. A figure somewhere in between seems reasonable. While tax bills are hard to compare directly from state to state, CFAC is at a decided disadvantage compared to other Northwest aluminum plants. CFAC's annual tax bill is about \$2.4 million; Washington and Oregon plants average less than \$1 million.

One thing is certain: The plant's worth nothing if it's shut down.

A year and a half ago when CFAC sought — and got — wage, power, and freight rate concessions, company officials said they would also seek property tax concessions to make the Columbia Falls plant more competitive in the world market. Back then, to most taxing jurisdictions, a reduced tax payment from the aluminum plant seemed a small price to pay to save hundreds of jobs and the plant.

It still does.

With lower costs and greater efficiency, the plant prospered last year. It is not in

immediate danger of closing. As long as it remains competitive, it will thrive, and that's what HB851 is all about — reducing the cost of doing business in Montana so a major employer can prosper and provide jobs for Montana workers.

When the Washington Corps. reopened metals operations in Butte, the Montana Department of Revenue negotiated a lower tax rate to give the new operators a leg up.

But CFAC has had little luck negotiating a similar break from the Department of Revenue. So the company turned to the Legislature for relief. Frankly, a negotiated settlement with the Department of Revenue is preferable to HB851, but no one can — or will — compel the DOR to negotiate.

Eventually, when the state decides it wants a measure of prosperity we do not now have, the Legislature will enact sweeping tax reforms and adjust spending priorities. Until then, we will have to be satisfied with short-term measures to protect the jobs we have.

#5
8-17-87
851

CFAC joins many to protest its taxes

Tax protests over appraised property values in Flathead County were numerous this year.

Flathead County Treasurer Idella Smithers received more than 2,000 protests over 1986 taxes. Columbia Falls Aluminum Co., the county's largest taxpayer, is among that number. Plant officials seek tax relief for what they believe is an unfair appraisal.

The CFAC plant was appraised for tax purposes at \$148 million, but a private firm recently estimated its market value at \$30 million.

As insurance for their protest, the company is actively supporting a bill at the state legislature that would reduce the plant's taxable percentage from 11 percent to 3 percent, thus saving the plant an estimated \$900,000 a year in property taxes.

For years Flathead County was lucky to have such a solid tax base provided by the aluminum plant. Now with major changes at this plant and the decline of the aluminum industry regionally, the situation has changed.

Aluminum plants in the Northwest aren't worth as much as they once were. Some have closed. The Columbia Falls facility nearly shut down before it was purchased in 1985. Then it adopted a new business philosophy in order to survive. So far, the 770-worker plant is succeeding.

But unrealistic property appraisals won't help the plant's future. Plant officials' complaints over taxes are for the same reason that the 2,000 Flathead County property owners also are protesting.

As with every other property owner, Flathead County valuations shouldn't be based on outdated or unrealistic appraisals. Ranking on the tax rolls shouldn't affect the outcome of any tax protest.

—Brian Kennedy

SCHOOL DISTRICT NUMBER SIX

COLUMBIA FALLS, MONTANA 599121259

MONTANA'S LARGEST SCHOOL DISTRICT STRETCHING FROM
CANADIAN BOUNDARY INTO BOB MARSHALL WILDERNESS,
AND INCLUDING HALF OF GLACIER NATIONAL PARK AND THE
NORTHEAST PORTION OF FLATHEAD VALLEY

OFFICE OF THE SUPERINTENDENT
TELEPHONE (406) 892-4321

February 19, 1987


Columbia Falls Aluminum Company
Columbia Falls, Montana 59912

Dear Jack,

School District #6 supports the legislation to be introduced by Representative John Harp, that would transfer electrolytic facilities' machinery and equipment from Class 8 to Class 5 property.

Despite the obvious impact by any adjustments or tax appeals, we support Columbia Falls Aluminum Company in their continued efforts to remain a viable industry.

Sincerely,


Ryan D. Taylor
Superintendent

RDt:ca

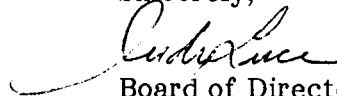
February 20, 1987

Columbia Falls Aluminum Company
Columbia Falls
Montana 59912

Dear Sir/Madam:

The Columbia Falls Chamber of Commerce supports the legislation to be introduced by Representative John Harp that would transfer electrolytic facilities' machinery and equipment from Class 8 to Class 5 property, amending Section 15-6-135, MCA, and providing an immediate effective date and a retroactive applicability date.

Sincerely,

A handwritten signature in cursive script, appearing to read "Judy Luce", with a long horizontal flourish extending to the left.

Board of Directors
Columbia Falls Chamber of Commerce
Judy Luce, President

CITY OF COLUMBIA FALLS

DRAWER G

COLUMBIA FALLS, MONTANA 59912

892-4391

February 19, 1987

Columbia Falls Aluminum Company
Columbia Falls, Montana 59912

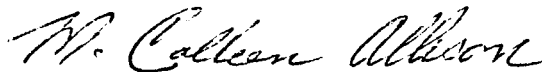
Dear Jack,

The City of Columbia Falls supports the legislation to be introduced by Representative John Harp, that would transfer electrolytic facilities' machinery and equipment from Class 8 to Class 5 property.

A Resolution supporting same will come before and be approved by Mayor and Council March 2, 1987.

Anything more we can do to facilitate the process please advise.

Sincerely,

A handwritten signature in cursive script, reading "M. Colleen Allison".

M. Colleen Allison
Mayor

3-17-87
Lackman
HB 544
545

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

NAME: DAVID LACKMAN DATE: 3/17/87

ADDRESS: 1400 Winne Avenue, Helena 59601 443-3494

PHONE: (406) 443-3494

EXHIBIT #6
DATE 3-17-87
HB 544 545

REPRESENTING WHOM? American Public Health Assoc./ Montana Public Health Assn

APPEARING ON WHICH PROPOSAL: HB 544 (Janet Moore) Raising Cigarette Sales Tax
for General Fund House Taxation Room 312B 9:00 A.M. Tuesday 3/17/87

DO YOU: SUPPORT? XXXXX AMEND? OPPOSE?

COMMENT: Our associations support this bill. Here are my instructions:

*WHEREAS cigarette smoking accounts for some 350,000 deaths each year; and debilitates
another ten million people; and studies have shown that the price of cigarettes may
have a significant effect on cigarette sales to teenagers and young adults -- therefore
we urge you to increase the taxes on cigarettes. A question of constitutionality
has been raised. I don't see a problem as precedence exists for selective sales
taxes on tobacco products, alcohol and motor fuel. In previous testimony, the
point was also made by a dealer that as you increase taxes, consumption decreases;
and that sometime in the future sales of cigarettes might disappear-- hence also
taxes. If this occurred, it would be one of the greater achievements of the
century in preventive medicine. Our associations are among those with the goal of
a non-smoking society in the U.S. by the year 2000.

Most recently Surgeon General Koop has come out with evidence that breathing
ambient air contaminated with smoke from tobacco, causes untoward symptoms in (next page)

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

in non-smokers. I have served under four surgeon generals. It was Surgeon General Luther Terry who promulgated the original report on smoking and health. I knew him well; he was a physician of unquestionable integrity. Every Surgeon General since Dr. Terry has added to the evidence of dangers inherent in smoke from tobacco. As a medical scientist with a minor in pathology, I too have seen the effects of the use of tobacco. I know that there are those who claim to have evidence to the contrary; but I am more comfortable with studies of the National Academy of Sciences, and the U.S. Public Health Service; and numerous others, ^{that} demonstrating ^{the} ^{bad effects} results of the use of tobacco. THINK YOU DBL

Here are comments I received from Dr. Herbert G. Stoenner, Past President, Montana Division, American Cancer Society. on 1/28/87

Comments:

In 1986, about 300,000 Americans died from the effects of long-term cigarette smoking - chiefly from lung cancer, emphysema, stroke and heart attacks. Many studies have conclusively shown that cigarette smoking causes 80 to 90% of lung cancer and 30% of all kinds of cancer. The latest to be associated with smoking is pancreatic cancer, which has nearly a 100% fatality rate. Deaths from lung cancer in women now exceed those from breast cancer.

Last year the Surgeon General of the Public Health Service warned the public that cigarette smoking is the chief industrial health hazard in this country. Twenty-five percent of lung cancer among non-smokers has been shown to be caused by inhalation of sidestream smoke. Many persons allergic to tobacco toxins develop acute asthmatic attacks from a very brief exposure to tobacco smoke. Clearly, sidestream tobacco smoke is a health hazard to non-smokers.

The combined number of non-smokers and ex-smokers has steadily increased, and in 1985 only 33% of men and 28% of women still smoked. Hence a smoking minority should not have the right to impose a health hazard on a non-smoking majority. Smoking in public buildings should be banned or so controlled that non-smokers have access to an area free of tobacco smoke.

For Committee

June 10, 1986 ✓

To: Revenue-Taxation ✓
University System Units
Public Education

From: David Lackman, Legislative Lobbyist, Montana Public Health Association *David Lackman*

Subject: Legislative Concerns related to the budget crisis

1. Revenue-Taxation: On Sunday, May 25, 1986, I visited with Bill Groff of the Farmers' State Bank in Victor. Bill is a former Director of the Department of Revenue, and a former state senator concerned with financial affairs. His first recommendation for solving the current fiscal impasse is to re-institute a ten-percent surtax on income. An advantage of this is that it can easily be repealed when no longer needed.

I consider that the only tax exceeding the ability of citizens to pay is the property tax. Other sources of revenue which I would suggest are:

a. A limitation of \$6,000. on the amount of Federal income tax which can be used to offset the state tax. (This would catch me.)

b. Repeal the \$3,600. deduction from state taxation currently granted to Federal retirees. (This would also catch me.)

c. Those additional taxes recommended by Governor Schwinden. However, I am disappointed that he appears not to favor the 10% surtax.

d. Increase the cigarette tax by four cents per pack. ✓

e. Add 20 cents per liter to the wine tax; and three dollars per barrel to the beer tax.

f. Sales Tax + + + + +

2. Education: One of my duties while a member of the school board in Hamilton was to interpret the Peabody Report (Public Education); and the Durham Report (Post-secondary Education) to the public in Ravalli County. Both of these reports were sound and well presented; but were dismissed as being politically unfeasible. However, it is in the area of education where the property-tax payer takes a "beating." One recommendation in the Peabody Report was that high-school districts in Ravalli County should be reduced from six to three. This would combine Corvallis with Hamilton; Victor with Stevensville- leaving Darby, Hamilton, and Stevensville. We had several meetings with the Corvallis Board urging consolidation- even suggesting a site in Woodside. The project never got off the ground. All our board was able to do was to bring the Grantsdale District into Hamilton.

The situation in the University System is even more ironic financially. The Durham Report cost \$6,000; and was excellent. It recommended closures and consolidations. Presently the units in the system represent a by-gone era when transportation was a consideration, and mining was a mainstay of the economy. Once, at a meeting of University Presidents, I suggested qualifications other than a high-school diploma for entry into the universities. One president "shot me down" because Montana didn't have a community college system. Hence, all comers were entitled to go

to the Universities; and it would be undemocratic to upgrade entry requirements. Perhaps Dillon, Havre, and Butte could be converted to community colleges. At least Dillon should be made a unit of UM in Missoula; and Montana Tech a unit of MSU in Bozeman. Havre should be made a part of the Vo-Tech system. The ultimate solution would be to sell or to close Dillon, Havre, and Butte.

Duplication within the system still hasn't been adequately dealt with. For example, all pre-medical and pre-veterinary programs should be at Bozeman- especially so since the establishment of WAMI there; and the presence of Veterinary Research Unit. Many other examples could be found.

Throughout my 45-year professional career, I have had associations with post-secondary education; first in Connecticut, then in Pennsylvania, then Montana. Everywhere financial problems keep everything "on edge." Ours is nothing new!

One way to bring about changes such as suggested in the above is through the budget process.

Football as it is now "used" and played should be abolished throughout both systems. This would result in quite a saving in dollars; and, pain and suffering. Much more could be said in favor of such a move.

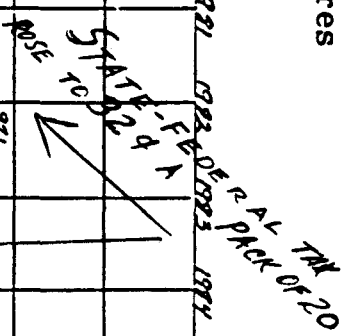
As long as politics is uppermost in our minds, solutions to financial woes in government may be long delayed.

#7

3-17-81

544-505

Notes:			
Figures in millions of packages			



Witnessed by
Frederic Anderson

1473544

Kr. me. Andersson

CIGARETTE EXCISE TAX FACTSHEET

MONTANA

JANUARY 1987

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POTENTIAL TAX REVENUES AND THE STATE OF MONTANA

In Fiscal Year 1986, Montana collected \$21.29 in cigarette excise taxes for every person aged 18 or over in the state. This excise tax revenue of \$12.9 million represented the sale of the equivalent of 80.86 million packs of 20 cigarettes. Since Fiscal Year 1983, the state excise has increased 33 percent, from 12 to 16 cents. Since the tax increase, sales from this significant tax resource have fallen 16.7 percent. Any further increase in the cigarette excise tax would be an unconscionable action against the state's smokers.

An additional increase of ⁵ ~~10~~ cents in the state cigarette tax would have negative impacts on sales, state income tax revenues, and on income in the trade sectors. It would erode the tax base still further by reducing sales. For Montana, a specific state econometric demand model indicates a possible sales decline of ^{2.608} ~~4.44~~ million packs if the cigarette tax is increased by ⁵ ~~10~~ cents. This decline would probably consist of an actual cutback combined with increased illegal purchases and interstate smuggling. Any additional tax increase would also cause a significant loss of income totalling ^{625,900} ~~\$7,256,000~~ annually to proprietors, clerks, wholesalers and retailers who trade cigarettes. The state's income tax revenue could be expected to fall ~~\$2,400,000~~ ^{70,170} annually.

MONTANA AND THE CIGARETTE TAX

Montana has been taxing cigarettes since 1947. Since 1950, the tax rate has climbed from 2 cents to 16 cents a pack. To date, this tax has generated more than \$284 million in gross revenues for the state.

In the fiscal year ending June 30, 1986, gross revenue from the cigarette tax in the state amounted to nearly \$13 million, an increase in annual revenue of about 800 percent since 1950.

EARMARKING OF TOBACCO TAXES

To increase a tax specifically to fund a particular program artificially patches a funding problem from one place in the budget to another without solving it. Cigarette excise taxes under the present system contributed nearly \$13 million in gross revenue in Fiscal Year 1986 in Montana. To increase the tax and earmark the unknown additional revenue would add further rigidity to the state fiscal system. This could eventually restrict the ability of government to meet pressing operational needs outside the designated field. In addition, earmarking tax revenue from one source for a program to which it has absolutely no connection is unwise fiscal policy.

Earmarking of revenue removes from the legislature one more segment of control over state budgeting and expenditures. The further the principle of earmarking revenue sources for specific programs is carried, the less government can do to achieve fiscal discipline and establish rational budgetary priorities.

Earmarking of taxes, for whatever purpose, has become an increasingly questionable practice. Clearly, a system of taxation where every program will have to raise its own support presents numerous concerns. Such a system would necessitate the creation of another level of government bureaucracy to handle the administrative, management and accounting functions that would be required.

Experience has shown that such bureaucracies have a strong tendency to perpetuate themselves indefinitely without regard to their usefulness. The same holds true for those programs being earmarked. When not competing with other interests for funding, such programs often escape public and legislative scrutiny. The continuance of unnecessary programs will likely entail increased costs that will be passed on to consumers through additional tax levies.

Dedicating funds is not only questionable as a matter of government fiscal policy; almost invariably it represents an additional cost to be borne by taxpayers. With regard to cigarette excise taxes, the cost is borne disproportionately by lower income individuals.

In these days of budget crunches, it makes more sense to not start unnecessary new programs and to cut back on outdated programs. Lawmakers, frustrated by a revenue-short general fund that prohibits their launching many new programs which they deem worthy persist in dedicating special taxes to these causes. This is a desperate and dangerous trend that must be reversed. When cigarette taxes go into the general revenue fund, the competition for these dollars assures appropriate legislative examination and wise use of tax dollars.

BOOTLEGGING

One indirect but important measure of both organized and individual (i.e., casual) smuggling is the difference between a state's per capita cigarette sales and those of a neighboring state or the U.S. average. States into which individuals or organized crime smuggle a substantial amount of cigarettes would be expected to have a markedly lower per capita consumption. Conversely, states in which substantial sales are made for out-of-state consumption will likely exhibit relatively higher per capita cigarette consumption figures. Data for 1986 show that overall per capita consumption in Montana was 97.8 packs. The unweighted average per capita for all states was 119.5 packs. The low per capita sales for Montana implies that sizable amounts of cigarettes are purchased on Indian reservations or from states with lower tax rates than Montana.

According to a report produced by the Advisory Commission on Intergovernmental Relations (ACIR) in 1975, and updated by the Federal Bureau of Alcohol, Tobacco and Firearms, Montana loses a higher proportionate share of its cigarette tax revenue than any other state to bootlegging activity.

Any tax increase would depress legal sales in Montana still further and would lead to increases in bootlegging and further losses in expected revenue. In other states where high cigarette taxes exist, the criminal element has become involved. If Montana were to raise its tax on cigarettes, the bootlegging problem will likely grow in proportion to the tax increase.

A COMPARISON OF STATE RATES AND TAX REVENUES

From 1983 to 1985, cigarette excise tax revenue increased in Montana to \$13.7 million. This amount represents 2.14 percent of the state's 1985 total tax revenue, and an impressive 9.8 percent of the state's total selective sales and gross receipts tax revenue.

Cigarette taxes generate more revenue for Montana than taxes on beer, liquor and wine, and public utilities. (Data from U.S. Bureau of the Census, State Government Tax Collections in 1985. Cigarette excise figures from Miscellaneous Tax Division, Montana Department of Revenue.)

IMPACTS OF AN INCREASE IN THE MONTANA CIGARETTE EXCISE TAX

Higher cigarette taxes will affect revenues and work weeks in sectors both directly and indirectly involved in the tobacco industry in Montana. Most of these effects will be in the form of tax revenue and wholesalers/retailers impacts.

Higher cigarette taxes and the resulting decline in the purchase of tax-paid cigarettes will also reduce state revenue from other sources, such as corporate income tax, and the individual income tax. For example, cigarettes are traffic-builders for the state's hundreds of retail establishments which sell cigarettes. When people reduce purchases of cigarettes, or turn to bootlegged cigarettes, the revenue derived from the sales and profits of other products suffers as in-store traffic declines. In addition to retailers, Montana has several primary tobacco wholesalers, other large grocers, drug and miscellaneous wholesalers who handle cigarettes across the state.

Decreased consumption due to a higher cigarette tax rate will affect supermarkets and convenience stores as well.

According to the September 1985 issue of Supermarket Business, tobacco products account for about 15 percent of all non-food sales in the United States. About 45 percent of the cigarettes sold for domestic consumption are sold in supermarkets. Those cigarettes and other tobacco products account for 3.5 percent of all supermarket sales. In convenience stores, excluding gasoline sales, cigarettes are the number one product sold. Tobacco products comprise 16 percent of gross profits in convenience stores, according to Convenience Store Merchandiser (October 1985).

THE BURDEN OF EXISTING TAXES

The Montana cigarette tax is already a regressive and inequitable tax. The cigarette tax discriminates against the estimated 200,000 residents of the state who smoke, but the tax falls most heavily on those least able to afford it. Because the percentage of income devoted to buying cigarettes falls as income rises, Montana cigarette taxes are already levied at higher effective rates on the disadvantaged and those on fixed incomes than on the more affluent. Any increase in the current tax rate will add to the tax burden on the lower income groups and will contribute further to the overall regressivity of the state tax structure. An increase of 5 cents would mean a 9 cent or 112.5 percent increase in the tax in less than four years. To this one must add the 100 percent increase in Federal Tax which occurred in 1983. Current State and Federal tax on cigarettes totals 32 cents.

In 1986, more than 30 percent of what Montana smokers paid for a pack of cigarettes went to the Federal and state governments in the form of taxes. For a family with two average smokers, the following chart illustrates the burden of cigarette taxes in Montana as they fall on different income levels at the current and potential future rates. (See Table I).

More than 100,000 families, or nearly 20 percent, have an effective buying income of less than \$10,000 per year. All told, more than one-third of the total households have incomes less than \$15,000. It is these families who will suffer the most from an increase in the cigarette tax rate. A family with an income

of \$10,000 with two average smokers pays two and one-half times as much of its income for the pleasure of smoking as does a more affluent family making \$25,000 a year.

In addition, more than 11 percent of Montana residents are aged 65 or over. For these elderly persons, many of whom are living on a fixed income, any increase in the cigarette tax rate could threaten this affordable pleasure.

Under the current tax, a household in Montana with two average smokers pays \$350.00 in state and federal taxes on cigarettes a year for the pleasure of smoking. If the state were to increase its tax another five cents - an additional 31 percent increase - that tax figure would rise to \$405.00 annually.

TABLE I

PERCENTAGE OF INCOME PAID IN ALL TAXES ON CIGARETTES AT CURRENT
AND POTENTIAL FUTURE RATES

FOR A FAMILY WITH TWO AVERAGE SMOKERS IN MONTANA

<u>Income</u>	Percentage of Income	Percentage of Income
	Paid in Taxes on Cigarettes	Paid in Taxes on Cigarettes
	<u>(current rate)</u>	<u>(with proposed 10 cent hike)</u>
\$ 5,000	7.0%	8.1%
8,000	4.4	5.1
10,000	3.5	4.0
15,000	2.3	2.7
21,500 *	1.7	1.9
25,000	1.4	1.6

* approximate state median household income

Montana
Historical Cigarette Tax Data for the State of Montana Since 1950
First Cigarette Tax Enacted in 1947

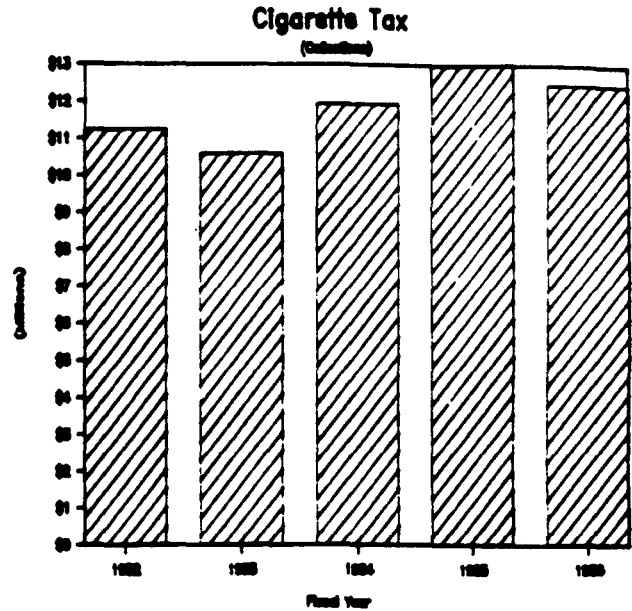
Year	Rate (cents)	Date changed	Gross state cigarette taxes (in thousands of dollars)	Net state cigarette tax collections (in thousands of dollars)	State tax-paid cigarette sales (millions of packs)	Per capita sales (packs)	Average retail price	State & Federal cigarette taxes as a percentage of retail price
1950	2		1,490	1,341	74.5	133.5	NA	NA
1951	4	12/7/50	2,168	2,029	69.9	117.5	NA	NA
1952	4		2,910	2,765	72.8	123.6	NA	NA
1953	4		3,077	2,923	76.9	129.7	NA	NA
1954	4		2,938	2,791	73.4	121.1	NA	NA
1955	4		2,907	2,762	72.7	118.6	22.7	52.9
1956	4		2,089	2,933	77.2	123.9	24.2	49.59
1957	5	2/25/57	3,286	3,132	77.1	119.3	23.7	50.63
1958	8	7/1/57	5,410	5,190	66.6	100.6	30.1	53.16
1959	8		6,036	5,735	75.5	113.7	30.2	52.98
1960	8		6,149	5,900	77.2	115.7	30.7	52.12
1961	8		6,462	6,139	80.8	119.1	30.2	53.0
1962	8		6,535	6,208	81.7	119.8	30.7	52.1
1963	8		6,742	6,405	84.3	118.9	30.5	52.5
1964	8		6,378	6,059	79.7	112.8	30.8	51.9
1965	8		6,654	6,321	83.2	118.0	31.0	51.6
1966	8		6,488	6,164	81.1	114.9	30.9	51.8
1967	8		6,623	6,292	82.8	118.0	31.3	51.1
1968	8		6,514	6,188	81.4	116.1	32.4	49.4
1969	8		6,511	6,186	81.4	117.4	32.6	49.1
1970	8		6,167	5,856	77.2	111.2	34.0	47.1
1971	12	3/5/71	6,996	6,679	80.6	115.6	34.7	46.1
1972	12		10,379	10,068	86.5	122.2	40.1	49.9
1973	12		10,344	10,033	86.2	119.9	40.9	48.9
1974	12		10,549	10,233	87.9	121.9	41.8	47.9
1975	12		10,908	10,581	90.9	123.7	43.7	45.8
1976	12		11,204	10,868	93.4	124.9	45.3	44.2
1977	12		11,479	11,135	95.7	127.0	47.6	42.0
1978	12		11,618	11,270	96.8	127.2	51.9	38.5
1979	12		11,337	10,996	94.5	120.3	53.7	37.2
1980	12		11,504	11,159	95.9	122.0	56.7	35.3
1981	12		11,436	11,093	95.3	121.1	60.4	33.1
1982	12		11,649	11,300	97.1	122.4	65.7	30.4
1983	12		10,930	10,602	91.1	113.7	77.2	25.9
1984	16	7/1/83	13,072	12,652	90.6	110.1	91.3	35.0
1985	16		13,712	13,256	85.7	103.6	95.5	33.5
1986	16		12,943	12,514	80.9	97.8	102.0	31.4

Note: All figures are for fiscal year ending June 30th. The notation NA means not available.

Cigarette Sales Tax

Cigarette wholesalers in the state pay a tax of 16¢ per package of 20 cigarettes. The tax is included in the retail price of the cigarettes. A tax insignia must be affixed to each package within 72 hours after receipt by the distributor or dealer. Wholesalers and dealers are entitled to purchase insignias at face value less the following percentages which are allowed to defray costs of affixing insignias and precollecting the tax on behalf of the State of Montana:

- 1) 6% for up to 2,580 cartons purchased in any calendar month;
- 2) 4% for any portion of the next 2,580 cartons purchased in any calendar month; and
- 3) 3% for purchases in excess of 5,160 cartons in any calendar month.



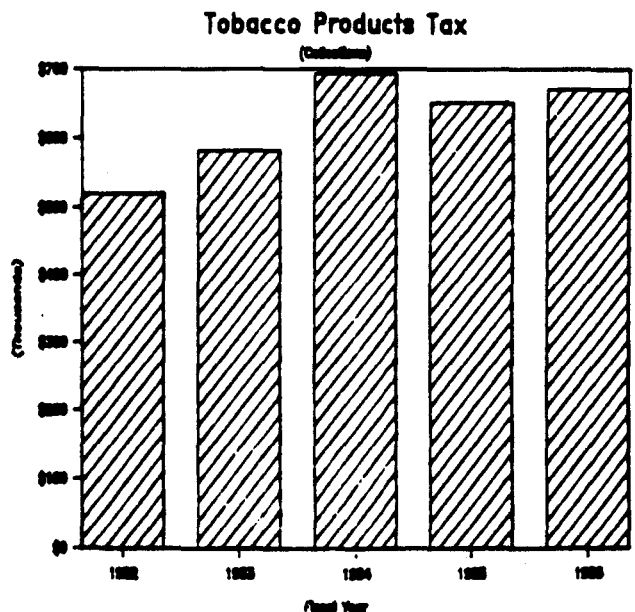
All money collected from the Cigarette Sales Tax is deposited in the Long-Range Building Program Fund. 79.75% of the deposits are allocated to the Debt Service Fund Type and 20.25% go to the Capital Projects Fund Type.

Cigarette Sales Tax Collections

FY 82	FY 83	FY 84	FY 85	FY 86
\$11,233,044	\$10,580,701	\$11,929,453	\$12,984,626	\$12,469,883

Tobacco Products Tax

All tobacco products, excluding cigarettes, are subject to a tax of 12½% of their wholesale price. The tax is collected from the wholesaler less a 5% defrayment for collection and administrative expenses. Collections are deposited in the Long-Range Building Program Debt Service Fund.



Tobacco Products Tax Collections

FY 82	FY 83	FY 84	FY 85	FY 86
\$ 519,448	\$ 581,203	\$ 692,897	\$ 650,793	\$ 669,932

EX-11
3-787
HB 544-
545

EX-11 #8
3-17
HB 544 545

I am Tom Stump and I stand in front of you today in opposition of HB544 & HB545. I speak not only for my employer, Pennington's Inc. in Great Falls, but for a large number of people and businesses in North Central Montana. These people are our customers and businesses that service us.

With sales tax on the selected products we sell being spread over an ever decreasing base, the people that enjoy tobacco products continue to carry a heavier burden. Another example of a regressive tax. With the heavier burden, fewer people consume the product resulting in not only decreased revenue for the state but, less profits to us. This in turn hurts the people that service us and our customers that need their profit in order to buy from us.

We support a taxing power that provides a wide base (and hopefully an expanding base) instead of the narrowing base of tobacco users.

Your job here today is that of a businessman, what is best for the state in the form of revenue generation for years to come, not just for two years.

You have already heard the figures and statistics, they speak for themselves. Lower consumption relates to lower taxes paid in the form of income, real, personal, payroll taxes to the state. In addition, lower profits mean fewer employees and again, they pay lower taxes. All in all, the state comes out a loser. Leave well enough alone and kill HB544.

(This sheet to be used by those testifying on a bill 544-545)

#8a
DATE 3-17-87
544-545

MAR. 17.

DATE February 20, 1987

NAME: Thomas W. Maddox

1777 Le Grande Cannon Blvd., P. O. Box 123
ADDRESS: HELENA MT 59624-0123

PHONE: (406) 442-1582

REPRESENTING WHOM? Montana Association of Tobacco and Candy Distributors Inc.

APPEARING ON WHICH PROPOSAL: H B 545

DO YOU: SUPPORT? AMEND? OPPOSE? 1

COMMENT:

Mr. chairman. members of the committee: My name is Tom Maddox, executive director for 25 years of the Montana Association of Tobacco and Candy Distributors, a nonprofit corporation. We propose payment by all individual and corporate citizens of a fair share of our state's tax burden, assessed on the broadest possible base. However, we oppose selective taxes on sales to only a minority of citizens. Therefore, we oppose HB545 to increase selective sales taxes by 100 per cent on tobacco other than cigarettes.

I speak for an organization of men and women who make up a lifeline of products — a variety of foods and other products — to the entire population of Montana. Our members are representative of the family-owned businesses — with as many as three generations actively working. They serve more than 5,000 retail stores — with many of them mom and pop stores. There are no chain stores in membership. A roster of membership is attached to the secretary's committee file copy.

HB545 asks for more tax revenue to be prepaid out of capital by the relatively few tobacco wholesale distributors surviving in Montana. When the association was created in 1949 there were 55 independent wholesale distributors in Montana. Today there are a dozen ownerships left. Each and every one of these businesses and every employed family pay all kinds of taxes — personal income, business profits, taxes on cars and their fleets of trucks, and all other taxes. They prepay a special selective sales tax on noncigarette tobacco products of 12 and 1/2 per cent of the manufacturers' invoices on such products. They are forced to pay for the basic costs of all such products inside of 10 days — virtually a cash operation. Therefore prepayment occurs before all of such products move off their shelves to the marketplaces, and before payment by the retail stores. That's a very tight way to have to do business.

This is a tax which should not have been enacted at all.

The federal government taxes noncigarette tobacco products. Twice monthly manufacturers pay the federal government on bulk tobacco used in current production. The federal government has prohibited advertising of noncigarette tobacco products. Those who voted for the ad ban believe that sales of these products will be decreased.

EXHIBIT A

Twenty three states do NOT tax noncigarette tobacco. Ten other states which imposed a noncigarette tobacco tax found it to be unworkable — not cost effective, and repealed this tax. New York state, which taxes about everything known to man, repealed its "other tobacco" tax.

On Montana's border, South Dakota just rejected a tax on noncigarette tobacco. Wyoming has NO tax on these products. North Dakota has such tax, but less than in Montana (11%).

HB545 proposes doubling sales tax on products which comprise an industry which is not growing.

Check the fiscal note against the actual experience. In the fiscal year 1985, Montana revenues actually declined. Then for the next year there was a very slight gain of less than 3 per cent. About the year Montana enacted this tax, the federal census bureau pegged the U. S. dollar as worth 100 cents and the C-P-I — consumers purchasing index — was also pegged at a dollar. Using this accepted measure of inflation, our dollar today is pegged at worth 32 cents and the C P I \$1 is evaluated about the same, at 32 cents. Therefore, when you analyze Montana tax receipts for its noncigarette tobacco tax, you see that the growth in this area of sales has remained almost flat consistently since the tax was imposed in 1969. In other words when you say the revenue is \$669,932 for our latest known year -- 1986 — that is just about three times what 1969 revenue was; and this parallels the inflationary spiral of three times.

Then I suggest you may compute your own fiscal note to see how the fiscal note on HB545 starts with an overly optimistic base in projecting a 7 per cent increase for the next year, and a 11 per cent increase for the year following. This clearly is a rosier picture than what we actually are experiencing.

Tie in other factors. Montana lost 2,000 population in our latest unofficial count. Therefore, Montana has lost buyers of these products. This is an assumption more believable than projecting gains of up to 11 per cent.

I have with me the previous two fiscal notes--one for a 1985 session bill, and one for the '86 special session bill, each asking the same 100 per cent increase. The '86 projection was even further off the actual sales for 1986 (projected at \$828,000, against actual revenue of \$669,932.).

Also before you in written testimony is a chart which shows what a declining industry the noncigarette tobacco products business has become. Montana figures are even below the national trend

EXHIBIT B

SEE
EXHIBIT
C

Many of the same factors which have resulted in a flat market to losses for noncigarette products have also resulted in radical drops in cigarette sales. For Montana, the Department of Revenue shows cigarette sales have declined by 17 million packs since the year of the high sales — 1982. Record high taxes and increasing restrictions on tobacco and health issues are taking their toll.

The non cigarette tobacco business is low volume and low margin of profit business.

In Montana a sampling of other tobacco business was taken for current evaluation. This showed in computer records that all tobacco products other than cigarettes comprised 4.7 per cent of a wholesale distributors overall business.

Sales of pipe smoking tobacco comprised 1.5 per cent of overall business of the sampled wholesale house. Chewing tobacco comprised only 2.5 per cent. This is low volume business. However, these products are carried in inventory because of related purchases. That is, if a retailer is served with tomato juice or many other good food products, he also must provide a full line of other items he sells, including other tobacco products. In business, one must offer convenience items, even if it is a pouch of chewing tobacco or pipe tobacco which is not moving in volume.

Time was when there were several tobacco shops on main streets of Montana cities. Today they are rare to none on main streets. You will find them in the large shopping malls in larger cities. Time was when there were 55 wholesale tobacco businesses, all family owned. Today there are just a dozen.

EXHIBIT D

The fiscal note states in its number 3 assumption that increasing tax would decrease consumption by 1 per cent for each 10 per cent of tax increase. Relate that assumption to HB545 which asks a 100 per cent tax increase, or a 12.5 per cent additional tax. It does not follow logically that given any decrease in sales, Montana's population decline and impact of health campaigns, and prohibiting product advertising and Montana's faltering economy, could possibly justify the fiscal note's promise of up to 11 per cent increases. In short, this legislature's overall responsibility is to generate substantial new revenue from the broadest tax base, and it is time and energy wasting to consider nickel and dime taxation of what amounts mostly to a poor man's enjoyment. Of all of Montana's hodge podge of selective taxes, this one is the most discriminatory of all.

I have a question on HB545, page 2, lines 16 and 17: Two questions — one, is it good public policy to look to revenue from so criticized products and habits as a financial support for public schools? Parents want teachers to steer their young minds away from starting use of tobacco, and so do the manufacturers. The other question: You have the answer on this but I understood that revenue from tobacco products is pledged as a matter of good business and collateral against the state's longterm debt. What do our creditors think when their collateral is diverted?

Our people are good business citizens of Montana and they are for a great educational program, and they are for funding education from the broadest tax base, with as many as possible sharing general tax burdens. They oppose sales taxes on a select minority of our Montanans.

We urge you to vote that HB545 do not pass. Thank you.

Montana Association of

EXHIBIT A

Tobacco and Candy Distributors

1777 Le Grande Cannon Blvd., P.O. Box 123, Helena MT 59624

Telephone (406) 442-1582

November 5, 1986

Tom Maddox,
Executive Director

Mr. Terry Johnson,
Office of State Budget Director
Capitol, Helena MT 59620

RE: NONCIGARETTE TAXATION

You asked how the federal government taxes noncigarette tobacco products.

Twice monthly manufacturers pay the federal government on the bulk tobacco used in current productions:

For 1 pound of tobacco used in moist tobacco	\$ 0.24
For 1 pound of tobacco used in dry snuff	.24
For 1 pound of chewing tobacco	.08
For 1 cigar — standard size	.085 of recommended charge at retail sale.

For other cigars, 2¢ to 8 1/2¢ maximum.

For pipe smoking tobacco, there is no federal tax.

This tax is paid to the Department of the Treasurer, Bureau of Alcohol, Tobacco and Firearms

The United States Association of Tobacco Merchants is not aware of any consideration to "equalize" federal taxes on all kinds of tobacco products, including cigarettes. Federal taxes on noncigarette tobacco products have simply increased over the years. Taxes generally now are more than 100 per cent more than the 10¢ a pound level of 1966, or about 140 per cent in 20 years.

*Also: U.S. now has prohibited advertising of
non-cigarette tobacco products. One side of
the AOBW argument is that sales —
consumption will be decreased.*

EXHIBIT C

Montana Department of Revenue provided the following figures on sales of state tax-paid cigarettes: by fiscal years:

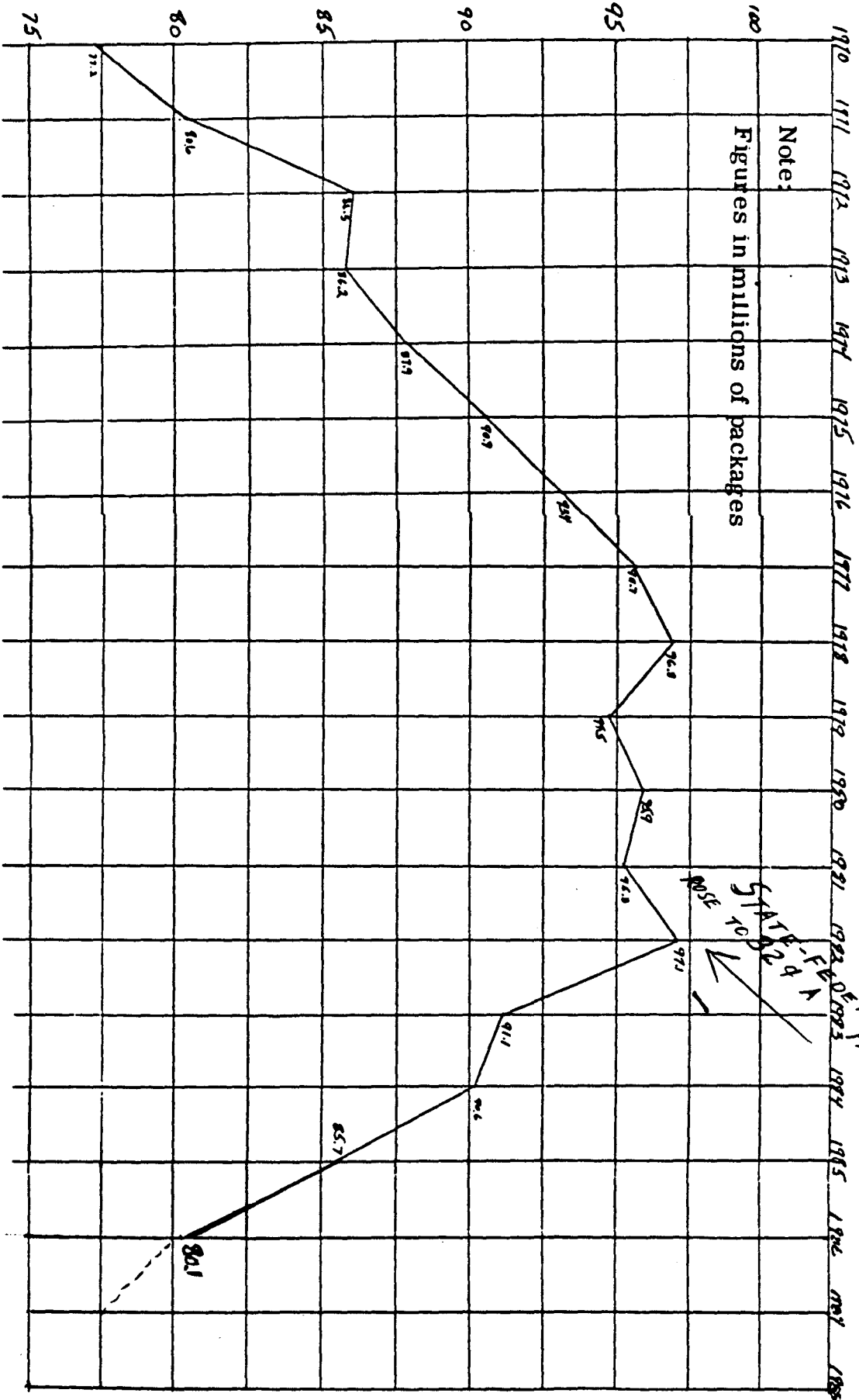


EXHIBIT B

DOMESTIC PRODUCTION OF MANUFACTURED TOBACCO

ON NATIONAL BASIS

MANUFACTURED TOBACCO PRODUCT	1985	1984	% CHANGE
------------------------------	------	------	----------

CIGARS

(thousands)

Large Cigars	2,900,000	3,129,800	-7.3% <i>Down</i>
Small Cigars	1,385,000	1,256,000	+10.2%

CHEWING TOBACCO

(million lbs.)

Firm	8.0	8.5	-5.9%
Moist	4.1	4.2	-2.4%
Twist	1.6	1.7	-5.9%
Loose Leaf	73.5	74.4	-1.2%

Do

SMOKING TOBACCO

(million lbs.)

	22.0	24.5	-10.2%
--	------	------	--------

SNUFF

(million lbs.)

Dry	9.5	10.2	-6.9% <i>Down</i>
Moist	41.0	39.2	+4.5%

*These NATIONAL FIGURES.
Mountain trend is down.*

Snuff warning rules issued

10/25/86

WASHINGTON (AP) — The Federal Trade Commission issued regulations Friday requiring specific health warnings on packages of snuff and chewing tobacco, starting early next year.

The warnings, similar to those already required on cigarette packages, were developed in response to congressional action earlier this year.

The rules cover all smokeless tobacco, a product which has drawn considerable attention and criticism in recent years.

Popular with many athletes, chewing tobacco and snuff have been used increasingly by young people in the last few years.

The National Institutes of

Health has warned that the use of these products, which are either chewed or held between the cheek and gum, pose serious health dangers, including mouth cancer.

Under the rules issued by the FTC, packages of these products will have to carry one of three specific warnings, alternated on a random basis. The warnings are:

- Warning: This product may cause mouth cancer.

- Warning: This product may cause gum disease and tooth loss.

- Warning: This product is not a safe alternative to cigarettes.

The package warnings must be in a color which makes them con-

spicuous or in large type or bold letters to make it clearly visible on the package label. The warnings must be in a conspicuous and prominent place on the package, which commission officials said would include the top or sides. The warnings cannot be placed on the bottom.

In addition, the warnings must be placed conspicuously in advertising for snuff and chewing tobacco with the specific warning to be used changed every four months.

Manufacturers of smokeless tobacco have 45 days to inform the commission of their plans for complying with these regulations, and the warnings must begin appearing by next Feb. 27.

Cigar Update

CAA to meet; tax unclear; new premium

The 49th Annual Meeting of the Cigar Association of America has been scheduled for December 4-7 at the Longboat Key Club in Longboat Key, FL. Writer and actor Rick Thomas, co-author of the soon to be released "101 Ways to Answer the Request: Would You Please Put Out That 3%\$&#! Cigar!," will be the guest speaker.

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12 -

NOTE: In 1920 there were 1,540 factories with federal permits to manufacture tobacco products. Today (1984 data), there are only 124 factories in 19 states.

COMMITTEE SECRETARY'S FILE COPY

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

3-17-87
HB 544
545
NAME: Thomas W. Maddox

EXHIBIT 8a
DATE 3-17-87
544 545
DATE: 17 March 1987

1777 LeGrande Cannon Blvd. - P. O. Box 123
ADDRESS: HELENA MT 59624-0123

PHONE: (406) 442 1582

REPRESENTING WHOM? Montana Association of Tobacco and Candy Distributors,
a nonprofit corporation of wholesale distributors,
licensed by the state to prepay cigarette taxes.

APPEARING ON WHICH PROPOSAL: HB544 AND HB 545

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

COMMENT: _____

GIST OF TESTIMONY ATTACHED

INCLUDING : _____

ROSTER OF FAMILY — OWNED MONTANA
INDEPENDENT, SERVICE WHOLESALE DISTRIBUTORS'
WAREHOUSES. (LARGE CORPORATE OUT-OF-STATE
DISTRIBUTORS ARE NOT MEMBERS OF OUR ASSOCIATION.)

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

Independent, Service . . .

Montana Wholesale Distributors of Tobacco products, candy, soft drinks, sundries
Warehouses — Alpha by cities — Personnel

(Area Code 406)

O-owner P-principal EE-Executive
OW-owner's wife PS-spouse EW-spouse

ANACONDA 59711
Roach & Smith Distributors Inc.
403 Chestnut St.

Joe Markovich-0 (N. Keenan) 563-2835-home
Ruth Markovich-ow

563-2041 - office

Dale Markovich-P (o?)
Maureen Markovich-ps
Rich Todorovich (J Haffey)
Colleen Todorovich

BILLINGS 59103
SERVICE CANDY Company

P. O. Box 1794

Donald J. Bollinger-o
Mary Ann Bollinger-o/ow (Jan-Mar)
1810 Avenida del Mundo
607 Encanto
Coronado CA 92119

252-2822 - office

Jack Bollinger-E
Kay Bollinger-eo
2038 St. Andrews Drive
Billings MT 59101
248-1491 - home

Phil McBride--e
Karen McBride - ew
2501 Terry Ave.,
Billings MT 59102

William L. Warner-e
Betty Warner - ew
1043 Terry Ave.,
Billings MT 59102
252-5292 - home

BOZEMAN 59715

Service Distributing Company
P. O. Box 1887
109 East Mendenhall street
1-800-221-0508
586 - 9183

Steve Buckner - 0
412 E. Front st.)temporary address:
Missoula MT 59802 Jan. -Mar)
543 - 4755 - home

Ellis Lewis (retiring June 15)-o
Wanda Lewis -ow
507 S. 11th Ave., Livingston MT 59047

BUTTE 59701

Harkins Wholesale Inc.
445 Centennial Ave.
782 - 1268

William Harkins - o
J. W. Harkins - o
Jack Harkins - o
809 West Silver Street
Butte MT 59701
723 - 3657 - home

GLENDIVE 59330

Reynolds Wholesale Grocers
109 S. Merrill Av. 365 - 2042

Kenneth B. McGovern - 0
201 River Ave. 365 - 4349 - home

GREAT FALLS 59403
Pennington's Inc.
P. O. Box 2546
911 River Drive
453 - 7628

C. L. Pennington - o
27 Prospect Drive
452 - 0427 - home
John Guza - e - Gen'l. Mgr.
141 Trailer Terrace
452 - 4258
Loy Ann Rembe - o
Karl Rembe - os

Susan Parker - o
Michael W. Parker - os

HAVRE 59501
Pennington's Inc. of Havre
P. O. Box 1720 X
265 - 5558

Lloyd J. Goulet - e
2135 1st Ave.
265 - 5117

HELENA 59624
Sheehan's of Helena Inc.
P. O. Box 1155
1324 Helena Ave.
442- 4333

Stan Feist - o
Dean Woodring - e
Reyna Woodring - ew
Blue Sky Heights - Box 42
Clancy MT 59634
933 - 5977
Stan Feist - o) See Sheehan-Majestic Inc.
Tom Watson - o) Missoula

KALISPELL 59903
Glacier Wholesale Inc.
P. O. Box 5279
16 West Reserve Drive (59901)
752 - 4479

W. Allen Arlint - o
Betty Arlint - ow
555 Three Mile Drive
257 - 3397 - home
Bill A. Arlint - o
Linda Arlint - ow
50 Stonecrest Drive
752 - 6808

MILES CITY 59501
Gierke Distributing Co.
215 North 7th street
252 - 1563

George A. Gierke - o
Iola Gierke - ow
Yellowstone Valley - R. Rte.
232 - 1590 - home
Allen Gierke - o (use office address)
Tracey Gierke - ow
Robert (Bud) Gierke - o
Marge Gierke - ow
1502 Batchelor
232 - 0345 - home

MISSOULA 59807

Sheehan-Majestic Inc.
P. O. Box 7248
1301 S. 3rd West

543 - 5109

Stan Feist - o
Linda Feist - ow
543 - 4447
Thomas Watson - o
212 Crestline Drive
Missoula MT 59801
549 - 5934
Syndee Watson - ow

SHELBY 59474

Pennington's Inc.
P. O. Box 459
815 Oilfield Avenue

434 - 5141

Ben Ruff - e
Phyllis - eo
735 N. Marias Ave.
434 - 2756

Gary Ruff - e
Terri Ruff - eo

SIDNEY 59270

East-Mont Enterprises Inc.
P. O. Box 526
608 East Main street
482 - 2910

Alan Burgess - o
Rosemarie Burgess - ow
Miranda Burgess - o
1313 S. Central Avenue
482 - 2943

WOLF POINT 59201

Hi-Line Wholesale Co.
212 Benton Street
653 - 1313 - o

Tom B. Ault - o
Wanda Ault - ow
745 Knapp street
653 - 1008
Burl Ault - o (retired)
Eunice Ault - ow
123 East Johnson Street
653 - 2806

HELENA 59624

Montana Association of Tobacco
and Candy Distributors Inc.

P. O. Box 1 2 3
442 - 1582

Thomas W. Maddox - executive director
Marilyn L. Maddox - secretary - eow
1777 LeGrande Cannon Blvd.,
442 - 1582

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

Thomas W. Maddox
NAME: _____

MAR 17
DATE February 13, 1987

1777 Le Grande Cannon Blvd., P. O. Box 123
ADDRESS: HELENA MT 59624-0123

PHONE: (406) 442-1582

REPRESENTING WHOM? Montana Association of Tobacco and Candy Distributors Inc.

APPEARING ON WHICH PROPOSAL: H B 545

DO YOU: SUPPORT? _____ AMEND? _____ OPPOSE? 1

COMMENT:

Mr. chairman. members of the committee: My name is Tom Maddox, executive director for 25 years of the Montana Association of Tobacco and Candy Distributors, a nonprofit corporation. We propose payment by all individual and corporate citizens of a fair share of our state's tax burden, assessed on the broadest possible base. However, we oppose selective taxes on sales to only a minority of citizens. Therefore, we oppose HB545 to increase selective sales taxes by 100 per cent on tobacco other than cigarettes.

I speak for an organization of men and women who make up a lifeline of products — a variety of foods and other products — to the entire population of Montana. Our members are representative of the family-owned businesses — with as many as three generations actively working. They serve more than 5,000 retail stores — with many of them mom and pop stores. There are no chain stores in membership. A roster of membership is attached to the secretary's committee file copy.

HB545 asks for more tax revenue to be prepaid out of capital by the relatively few tobacco wholesale distributors surviving in Montana. When the association was created in 1949 there were 55 independent wholesale distributors in Montana. Today there are a dozen ownerships left. Each and every one of these businesses and every employed family pay all kinds of taxes — personal income, business profits, taxes on cars and their fleets of trucks, and all other taxes. They prepay a special selective sales tax on noncigarette tobacco products of 12 and 1/2 per cent of the manufacturers' invoices on such products. They are forced to pay for the basic costs of all such products inside of 10 days — virtually a cash operation. Therefore prepayment occurs before all of such products move off their shelves to the marketplaces, and before payment by the retail stores. That's a very tight way to have to do business.

This is a tax which should not have been enacted at all.

The federal government taxes noncigarette tobacco products. Twice monthly manufacturers pay the federal government on bulk tobacco used in current production. The federal government has prohibited advertising of noncigarette tobacco products. Those who voted for the ad ban believe that sales of these products will be decreased.

EXHIBIT A

Twenty three states do NOT tax noncigarette tobacco. Ten other states which imposed a noncigarette tobacco tax found it to be unworkable — not cost effective, and repealed this tax. New York state, which taxes about everything known to man, repealed its "other tobacco" tax.

On Montana's border, South Dakota just rejected a tax on noncigarette tobacco. Wyoming has NO tax on these products. North Dakota has such tax, but less than in Montana (11%).

HB545 proposes doubling sales tax on products which comprise an industry which is not growing.

Check the fiscal note against the actual experience. In the fiscal year 1985, Montana revenues actually declined. Then for the next year there was a very slight gain of less than 3 per cent. About the year Montana enacted this tax, the federal census bureau pegged the U. S. dollar as worth 100 cents and the C-P-I — consumers purchasing index — was also pegged at a dollar. Using this accepted measure of inflation, our dollar today is pegged at worth 32 cents and the C P I \$1 is evaluated about the same, at 32 cents. Therefore, when you analyze Montana tax receipts for its noncigarette tobacco tax, you see that the growth in this area of sales has remained almost flat consistently since the tax was imposed in 1969. In other words when you say the revenue is \$669,932 for our latest known year -- 1986 — that is just about three times what 1969 revenue was; and this parallels the inflationary spiral of three times.

Then I suggest you may compute your own fiscal note to see how the fiscal note on HB545 starts with an overly optimistic base in projecting a 7 per cent increase for the next year, and a 11 per cent increase for the year following. This clearly is a rosier picture than what we actually are experiencing.

Tie in other factors. Montana lost 2,000 population in our latest unofficial count. Therefore, Montana has lost buyers of these products. This is an assumption more believable than projecting gains of up to 11 per cent.

I have with me the previous two fiscal notes--one for a 1985 session bill, and one for the '86 special session bill, each asking the same 100 per cent increase. The '86 projection was even further off the actual sales for 1986 (projected at \$828,000, against actual revenue of \$669,932.).

Also before you in written testimony is a chart which shows what a declining industry the noncigarette tobacco products business has become. Montana figures are even below the national trend

EXHIBIT B

SEE
EXHIBIT
C

Many of the same factors which have resulted in a flat market to losses for noncigarette products have also resulted in radical drops in cigarette sales. For Montana, the Department of Revenue shows cigarette sales have declined by 17 million packs since the year of the high sales — 1982. Record high taxes and increasing restrictions on tobacco and health issues are taking their toll.

The non cigarette tobacco business is low volume and low margin of profit business.

In Montana a sampling of other tobacco business was taken for current evaluation. This showed in computer records that all tobacco products other than cigarettes comprised 4.7 per cent of a wholesale distributors overall business.

Sales of pipe smoking tobacco comprised 1.5 per cent of overall business of the sampled wholesale house. Chewing tobacco comprised only 2.5 per cent. This is low volume business. However, these products are carried in inventory because of related purchases. That is, if a retailer is served with tomato juice or many other good food products, he also must provide a full line of other items he sells, including other tobacco products. In business, one must offer convenience items, even if it is a pouch of chewing tobacco or pipe tobacco which is not moving in volume.

Time was when there were several tobacco shops on main streets of Montana cities. Today they are rare to none on main streets. You will find them in the large shopping malls in larger cities. Time was when there were 55 wholesale tobacco businesses, all family owned. Today there are just a dozen.

EXHIBIT D

The fiscal note states in its number 3 assumption that increasing tax would decrease consumption by 1 per cent for each 10 per cent of tax increase. Relate that assumption to HB545 which asks a 100 per cent tax increase, or a 12.5 per cent additional tax. It does not follow logically that given any decrease in sales, Montana's population decline and impact of health campaigns, and prohibiting product advertising and Montana's faltering economy, could possibly justify the fiscal note's promise of up to 11 per cent increases. In short, this legislature's overall responsibility is to generate substantial new revenue from the broadest tax base, and it is time and energy wasting to consider nickel and dime taxation of what amounts mostly to a poor man's enjoyment. Of all of Montana's hodge podge of selective taxes, this one is the most discriminatory of all.

I have a question on HB545, page 2, lines 16 and 17: Two questions — one, is it good public policy to look to revenue from so criticized products and habits as a financial support for public schools? Parents want teachers to steer their young minds away from starting use of tobacco, and so do the manufacturers. The other question: You have the answer on this but I understood that revenue from tobacco products is pledged as a matter of good business and collateral against the state's longterm debt. What do our creditors think when their collateral is diverted?

Our people are good business citizens of Montana and they are for a great educational program, and they are for funding education from the broadest tax base, with as many as possible sharing general tax burdens. They oppose sales taxes on a select minority of our Montanans.

We urge you to vote that HB545 do not pass. Thank you.

Montana Association of

EXHIBIT A

Tobacco and Candy Distributors

1777 Le Grande Cannon Blvd., P.O. Box 123, Helena MT 59624

Telephone (406) 442-1582

November 5, 1986

Tom Maddox,
Executive Director

Mr. Terry Johnson,
Office of State Budget Director
Capitol, Helena MT 59620

RE: NONCIGARETTE TAXATION

You asked how the federal government taxes noncigarette tobacco products.

Twice monthly manufacturers pay the federal government on the bulk tobacco used in current productions:

For 1 pound of tobacco used in moist tobacco	\$ 0.24
For 1 pound of tobacco used in dry snuff	.24
For 1 pound of chewing tobacco	.08
For 1 cigar — standard size	.085 of recommended charge at retail sale.

For other cigars, 2¢ to 8 1/2¢ maximum.

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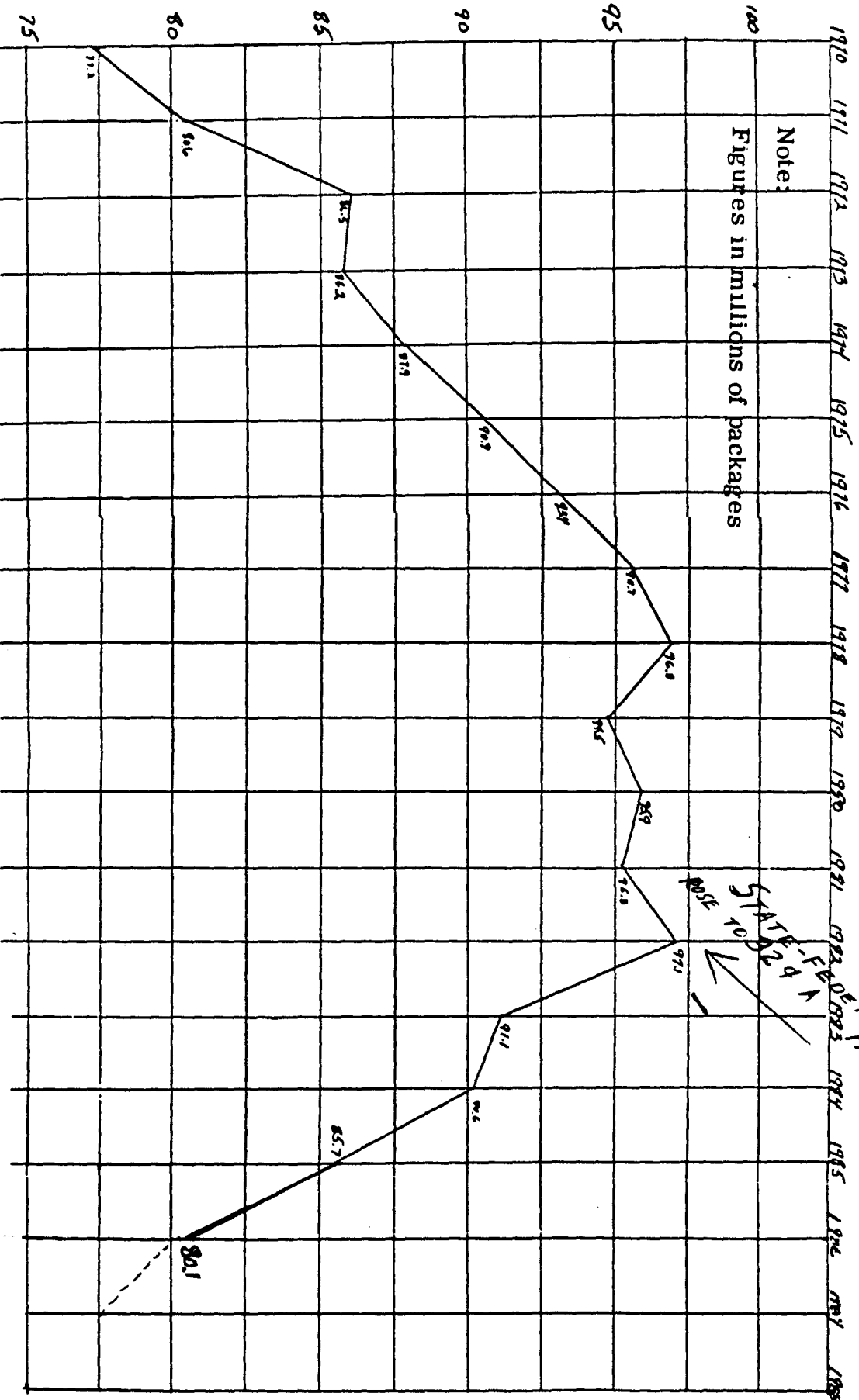


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ON NATIONAL TV BASIS

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10/25/86

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CIGARETTE TAX FACTS

In 1981 - 1982 Montana state cigarette tax was 12¢ a pack of 20.
Consumption or sales had reached a high point for all time: 91.1 million packs.
Fiscal '82 state revenue from cigarette tax reached \$11,300,000.
Per capita sales of tax-paid cigarettes was 122.4 packs a year.

The high yield for the state from cigarette tax was \$941,667 from 1¢ of tax.

In 1982 both the state and federal government raised cigarette taxes —
the state tax was increased to 16¢ from 12¢; the federal tax was doubled to 16¢ from 8¢.
The total state-federal tax was increased to 32¢ a pack of 20, from 20¢.
In addition manufacturers provided packs of 25 cigarettes in Montana and Montana
amended the tax law to tax 25-packs at 20¢; making the state-federal tax 40¢.

The Montana legislature and congress now threaten higher taxes —
a federal tax increase of 16¢ — a proposed 100% increase — to 32¢ a 20-pack;
HB 544 proposed the state tax at 21¢ a 20-pack; 26.25¢ a 25-pack.

The experience since 1982 for cigarettes has been downhill ---
consumption of cigarettes has plummeted by 17 million packs a year in Montana
(through fiscal 1986) to 80.1 million packs. Per capita sales fell to 103.6 for '85
The state's yield for 1¢ of tax has fallen to \$781,513 from 1¢ of tax,
a loss on 1¢ of tax of \$160,154! (Refer to the statistical chart for all years.)

Why such loss? The higher taxation, state and federal. State laws which have
restricted smoking. Anti-smokers and media have combined in a massive
campaign to stop all cigarette smoking. Montana's population has declined
substantially from 1982 to 1986 — by 6,000 in 1986 and still dropping.
Numbers of smokers have declined for these several reasons.

Historically, cigarette taxes were used to pay bonuses to veterans of several wars.
Use of cigarette taxes was switched to being pledged as collateral for longrange
debt to build state buildings. Now we have buildings with empty rooms, and
the volume of state employment is on the decrease. However, bills continue to
be introduced to restrict smoking, and to increase taxes — bills with overly optimistic
fiscal notes.

Experience teaches that raising select sales tax on cigarettes drives down use or sales.
Since this trend is so clear, then bills to increase tax on sales of tobacco are not
to enhance revenue, but to support moral causes to stop sales of a wholly legal
product, whose distributors comprise the small family-owned businesses.

Before the state began taxing cigarettes there were 55 family-owned cigarette
wholesale businesses in Montana. Today there are a dozen or fewer. To survive,
they are forced to diversify with other products. Another cigarette wholesale business
owned by two families failed recently.

Government has "profited" more from cigarettes overall, than the tobacco farmer
has, or — on one pack — than the manufacturer, or the wholesaler, or retailer.
For years, government taxes on cigarettes was like controlling the goose that laid
produced the golden eggs. Now a vote for more cigarette taxes is a vote to kill
the goose and its golden eggs.

Maddy
3-17-87
MB 544
MB 545

8a
3-17-87
544-545

Arguments Against Increasing the Other Tobacco Products (OTP) Tax in the State of Montana

Montana is considering legislation to increase its 12.5 percent tax on tobacco products, in addition to its tax on cigarettes. In the face of nationally declining sales in all segments of manufactured tobacco products except snuff, this type of tax increase appears to be an unlikely source of additional revenue for the state.

An increase in the tax on other tobacco products would likely cause a significant drop in the taxable sales of cigars, smoking and chewing tobacco and snuff. Such an impact could result in a tax source that would yield far less than anticipated in additional tax revenue and offer the state, at best, diminishing returns in terms of the cost of implementation and administration.

Regressivity Of The Tax

An increase in the tax on other tobacco products would place a punitive levy on a segment of the state's citizens who wage a daily fight against the increasing cost of living. Such an increase would further add to the discriminatory tax burden on those least able to afford it. Manufactured tobacco, other than cigars, has been judged primarily as a "poor" man's tobacco and these products have a small number of users. Because of this, the cost to the consumer is held to the lowest possible level. The manufacturers have strived to do this in the face of increased costs of labor, materials, production, packaging and distribution. They have sought to improve marketing, packaging and methods of production. The benefits of such efficiency have been passed on to the consumer.

However, because of continuing increases in costs and the failure of manufactured tobacco product sales to keep pace with the increase in population, this part of the tobacco industry has been in a distressed condition for many years. It has taken a lot of effort by producers of manufactured tobacco to stay in business, while providing quality goods to low income consumers at prices they can afford.

Historically, many manufacturers have not been able to maintain the pace and many have gone out of business. For example, in 1920, the United States Internal Revenue Service reported there were 1,540 factories which had permits to manufacture tobacco. Today (1984 data) there are only 124 factories in 19 states that have federal permits to manufacture tobacco products.

An increase in the tax on items such as smoking tobacco, chewing tobacco, cigars and snuff will raise the price significantly and it will, without doubt, reduce in-state sales on these tobacco products. This, in turn, will hurt the many small business establishments in the state that sell tobacco products.

Currently, 25 states tax tobacco products in addition to cigarettes. Both nationally and on a state basis, tax revenue generated from other tobacco products appears to be from a source of diminishing returns.

Until 1986, the federal government taxed only cigars (and cigarettes) and the tax yield from cigars for fiscal year ending June 30, 1985 at the federal level was down almost 20 percent from 1984. State revenues in 1985 from other tobacco products were up from 1984 levels but the increase was largely due to new taxes in Texas which generated more than 80 percent of the increase in state revenues from this source. Assuming the price elasticity for other tobacco products to be not significantly different from cigarettes (-0.33), the proposed 108 percent tax increase would likely net only about \$635,000 for Montana because of reduced sales.

High Costs, Low Yields

Although Montana has an OTP tax, several states which once had taxes on other tobacco products found the taxes to be unworkable, unfair and unproductive. Ten states (Alaska, Delaware, Maine, Massachusetts, Michigan, New Hampshire, New Mexico, New York, Rhode Island and Virginia) have repealed their taxes on other tobacco products.

Rhode Island's action was taken after six years of a tax on other tobacco products. New Hampshire removed its tax on other tobacco products in 1975. In 1974 there were 20 states with taxes on other tobacco products. Twelve years later there were 25 states with taxes on other tobacco products, so the tax is not one that has been turned to much in recent years.

New York repealed its tax on other tobacco products after only two years with the tax. The Governor's tax study committee had indicated that other tobacco products had suffered between a 20 and 30 percent loss in dollar sales as a result of the tax.

Michigan also found this type of tax unfair and unsound. It found that the cost of administration was higher than expected and the tax almost put Michigan's only cigar manufacturer out of business.

The Congress of the United States recognized manufactured tobacco as a tax burden on the lower income groups and repealed the federal tax on manufactured tobacco (except cigars) effective January 1, 1966.

Consumption Declines

While taxes on other tobacco products seldom meet expectations as revenue producers, consumption itself is decreasing in all segments of the market except snuff. A comparison of domestic production of manufactured tobacco for calendar year 1984 against calendar year 1983 indicates this. (see chart)

At the same time, as might be deduced from the above, per capita consumption of manufactured tobacco has decreased in every category except snuff which remained constant for the past two years.

A Summary of Negative Effects

An increase in the tax on other tobacco products in Montana would add to the tax burden on those who consume these products. It will be particularly burdensome to those residents who may be among the elderly living on fixed incomes. Nearly 22 percent of Montana families have an effective household income of less than \$10,000 a year. The tax increase will produce only a small amount of new revenue with little or no potential for growth. It will adversely affect the businesses in the state that handle tobacco products and will impact economically on retail sales in the state because of the loss in sales of items other than tobacco. The loss in sales will affect the gross income of retailers in the state who handle tobacco products. The administrative and compliance costs of the tax will have to be deducted from the modest revenue such a tax increase will produce.

It would be more prudent for state legislators to look at other types of taxes that have growth potential and which do not burden one small group of the populace. This is especially true in the case of other tobacco products since the tax falls most heavily on those least able to pay. An increase in the tax on tobacco products will disproportionately burden persons in lower income groups, while providing no special benefits to them.

DOMESTIC PRODUCTION OF MANUFACTURED TOBACCO

MANUFACTURED TOBACCO PRODUCT	1985	1984	% CHANGE
<hr/>			
<u>CIGARS</u> (thousands)			
Large Cigars	2,900,000	3,129,800	-7.3%
Small Cigars	1,385,000	1,256,000	+10.2%
<u>CHEWING TOBACCO</u> (million lbs.)			
Firm	8.0	8.5	-5.9%
Moist	4.1	4.2	-2.4%
Twist	1.6	1.7	-5.9%
Loose Leaf	73.5	74.4	-1.2%
<u>SMOKING TOBACCO</u> (million lbs.)	22.0	24.5	-10.2%
<u>SNUFF</u> (million lbs.)			
Dry	9.5	10.2	-6.9%
Moist	41.0	39.2	+4.5%

COMMITTEE SECRETARY

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

SECRET

9

DATE 3-17-87

DATES 03/17/87

NAME: Steve Buckner

Service Distributing Company, Bozeman and Livingston MT

ADDRESS: c/o 412 East Front Street

P.O. Box 1887

Missoula MT 59802

BOZEMAN MT 59715

PHONE: 1-800-221-0508 (Service Distributing Co)

REPRESENTING WHOM? Myself and my family business

APPEARING ON WHICH PROPOSAL: HB544 and HB545

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENT:

Being unable to appear personally, due to conflict of final examination at the University of Montana this date, I have requested that our state representative, Mr. Bob Raney (District 82) formally present my testimony which is attached:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

Mr. Chairman, members of this committee. For the record I am Representative Bob Raney, of the 82nd district. As a matter of personal courtesy for one of my constituents, I ask the committee's consideration of the following testimony — copy of which is also being submitted to the committee secretary.

Quoting from the written testimony

Mr. Chairman, members of the committee: My name is Steve Buckner. I oppose House Bills 544 and 545, which propose to increase tax on sales of cigarettes and other tobacco products.

I am a graduating senior in business administration at the University of Montana. At the time of these hearings, I am scheduled to be taking a final examination in marketing, and regret that I am unable to personally present this statement.

Throughout my years of education, I have consistently heard of the detriments of being involved with tobacco products from my past teachers. Now I find it somewhat ironic that there are those who propose using more taxes on cigarettes and other tobacco products to help bail the state out of a deficit.

It is disturbing to me to think that while our mature school and government leaders campaign against cigarettes and other tobacco that these same persons expect to rely or depend on an industry with decreasing sales to help finance the state.

I have been working in the wholesale business since the eighth grade. This past year I have had the opportunity to become heavily involved in our newly owned family wholesale business, in Bozeman and Livingston. As I leave the University of Montana, the future looks very exciting in the wholesale business. I am proud to be a part of this industry. But a constant assault of cigarettes and other tobacco, which make up a crucial part of our business, does put some doubt in my mind as to our family business stability

If the objective of the committee is to totally eliminate tobacco consumption, the committee should pass these bills on. If the state is to maintain this tax revenue base, I believe the committee should leave the tax rates as they are. I respectfully urge the committee to vote against House Bills 544 and 545. I thank the committee for this opportunity to be heard. (End)

VISITORS' REGISTER

 EXHIBIT 3-17-87
 DATE 544
 NO. 544
House Taxation

COMMITTEE

BILL NO. HB 544DATE March 17, 1987SPONSOR Moore

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Tom Maddox	Helena		✓
Ed Buckner	Livingston		✓
Tom Maddox	Helena		✓
Gil Markovich	Oranochda		✓
Bill Leary	MT. Hosp Assoc Helena	✓	
Norm Anderson	Bullington		✓
William H. H. H.	Helena	✓	
Don Sigler	MT. Chamber of Commerce		✓
Harry Foster	Bldg Chamber -		✓
John Smith	HRDC / MAR	✓	
John DeLano	Helena		+
David Lackman	MT. PHP Publ. Health Ass	✓	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

3-17-67
545

COMMITTEE

DATE March 17, 1987

SPONSOR Moore

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

347 87
851HOUSE TAXATION COMMITTEEBILL NO HB 851DATE March 17, 1987SPONSOR HARP

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
JUDY BORDARI	Columbia Falls 22 COUNCIL BLUFF	✓	
Harold [unclear]	Kalispell		✓
Ken [unclear]	Kalispell		—
Judy Luce	Columbia Falls	✓	
Mennis Corbett	Kalispell	✓	
Gary S. Spitz	Columbia Falls	✓	
Ryan J. [unclear]	" "		
Thomas F. Payne	Columbia Falls	✓	
GARY SAUREN	WHITEFISH	✓	
Terry Miller	Columbia Falls	✓	
Colleen [unclear]	Columbia Falls	✓	
Gordon Monin	MA Co.		✓
JT BROUSSARD	Columbia Falls	✓	
Peter Tracy	WHITEFISH	✓	
Steve [unclear]	Columbia Falls	✓	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

EX-111
377-87
876

COMMITTEE

DATE March 17, 1987

SPONSOR Ramirez

[illegible]

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.