

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 26, 1987

The fiftieth meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on March 26, 1987 by Chairman George McCallum in Room 413/415 of the Capitol Building.

ROLL CALL: All committee members were present.

CONSIDERATION OF HB 795: Representative Gilbert, House District 22, presented this bill to the committee. This bill will allow for statutory changes to be made in Montana law in order for the Montana owned Gas Commission of the state of Montana control of underground injection wells in the state. It is not a complicated bill, it merely makes statutory changes to give that opportunity.

PROPONENTS: Bob McDougall, Production Manager, CENEX in Billings, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 1.

William W. Ballard, representing Balcron, gave testimony in support of this bill. A copy of his written comments is attached as Exhibit 2.

Jerome Anderson, attorney from Billings representing Shell Western E & P, gave testimony in support of this bill. He supports this bill in order to obtain better service in obtaining permits from an agency located in Montana. They do not anticipate relaxation of the regulations.

George Ochenski, Montana Environmental Information Center, gave testimony in support of this bill. This bill has a considerable grey area for them because the Oil and Gas Commission has not been overly environmentally sensitive. At the same time, they support bringing federal functions down to the state level because of the access it provides the citizens. In the House, the sponsor went on record that if the Oil and Gas Commission does not do a good job of carrying this out, he will sponsor a bill to take it out of their hands.

OPPONENTS: None.

QUESTIONS FROM THE COMMITTEE: Senator Halligan said on page 6 it talks about the Board having exclusive jurisdiction. He asked Representative Gilbert what is the EPA's role.

Representative Gilbert said the Oil and Gas Commission would still have to follow the EPA guidelines. If this does not work out with the Oil and Gas Commissioner, he will carry the bill to take this authority away from them.

Representative Gilbert closed.

CONSIDERATION OF HB 709: Representative D. Brown, House District 72, presented this bill to the committee. Those of you who were here last session have seen this bill before. HB 122 has been worked on during the interim and this session HB 709 received heavy support in the House, as it passed 94-4. This is a tax incentive bill for expansion of existing industry or for new industry coming into Montana. He reviewed the bill, section by section, with the committee. There are some bills in the House that may need some coordination instructions in this bill.

PROPOSERS: Representative Asay, House District 27, gave testimony in support of this bill. He has an amendment he would like to propose, attached as Exhibit 3, which would add the condition that if the business "has changed ownership due to a foreclosure or bankruptcy proceeding", then they would be authorized to be included under the provisions of this act. This would allow an industry that has come through bankruptcy, or foreclosure, and which has changed hands, to be considered by the local jurisdiction. The idea is to get them back into production and back into business. This amendment is intended to take care of the situation in Billings with the Western Sugar Company. The taxes on the company are quite drastic with the Department's interpretation of values.

Gary Langley, representing the Montana Mining Association, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 4.

Joe Weggenman, Executive Director, Helena Area Chamber of Commerce, gave testimony in support of this bill. He views this bill as a way where we can become competitive with our neighboring states. The potential of this bill is to put us on the same bargaining table as our neighboring states, with an incentive program to try to attract new business.

Steve Brown, representing BLM, gave testimony in support of this bill. He represents a project that has been in the works for two years and the project is in fact here and they hope to be filing an application with the Air Quality Bureau sometime within the next 4-6 weeks. The hard rock mining area is our one bright spot in the future and this bill will provide some incentives in that area.

Stuart Doggett, representing the Montana Chamber of Commerce, gave testimony in support of this bill. This bill will encourage local governments to provide incentives for a new economy.

Ken Williams, representing Entech/Western Energy, gave testimony in support of this bill. There is potential in the hard rock mining area and this bill will provide incentives for new production.

John LaFaver, Department of Revenue, said we are in favor of what this bill is after. His concern with the bill is there are a number of pieces of legislation that lower the tax rate on this type of property, the most notable being the sales tax which would lower most of this type of machinery from 16% to 5%. He would urge the committee to look at the other specific pieces of legislation that deal with this and if this passes out of committee to coordinate with the other legislation.

OPPONENTS: None.

QUESTIONS FROM THE COMMITTEE: Senator Halligan asked Representative Brown why July 1, 1981, on page 1, line 21, was used in this bill.

Representative Brown said that is existing statute. He does not have any problem with changing that.

Jim Lear said 1981 was when 15-24-1401 was enacted and they used that year as the base year.

Representative Brown closed by stating he would support Representative Asay's amendment.

CONSIDERATION OF HB 658: Representative Menahan, House District 67, presented this bill to the committee. He said this bill is a fee in lieu of property taxes on boats. The fees are listed in the bill and go up as the boats get bigger.

PROPONENTS: Ken Hoovestol, Montana Snowmobile Assn., gave testimony in support of this bill. They have been working with the Montana Boating Assn. for a number of years to work out a system that is fair and equitable. The fee system is good for the Snowmobile Assn. and he would encourage it for the Boating Assn.

Dave Seyfert, representing Flathead Sports, Inc. and the Montana Boating Assn., gave testimony in support of this bill. A copy of his written testimony is attached as Exhibit 5.

Tom Hanson, representing One Way Marine, Inc. and Montana Boat and Ski Club, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 6.

Jim Bender, Walleyes Unlimited, would urge support of this bill.

Further information was submitted in support of this bill as follows: an article entitled "The Hidden Costs of Boating", attached as Exhibit 7; written testimony in support of HB 658 from Larry Houck, President, White Bear Island Marine, attached as Exhibit 8; and written testimony from Tom Wallace, Missouri River Marine, attached as Exhibit 9.

OPPONENTS: None.

QUESTIONS FROM THE COMMITTEE: Senator Crippen said HB 377, the sales tax bill, eliminates the personal property tax on water craft. He asked Representative Menahan if this was to take care of that elimination and put it into a fee system.

Representative Menahan said the way this tax is now, with an ad valorem tax, it is not worth it for the people to license their boats.

Representative Menahan closed.

CONSIDERATION OF HB 700: Representative Bradley, House District 79, presented this bill to the committee. She said this is a continuation of the Science and Technology program that was started last biennium. The program has functioned well the last two years. They have done outstanding work to get the program off the ground. She furnished the committee with a handout on the Montana Science and Technology Alliance seed capital fund bonding program, attached as Exhibit 10.

PROPONENTS: Sam Hubbard, Executive Director, Science and Technology Alliance, gave testimony in support of this bill. The most surprising thing to the people implementing the Alliance was the astonishing level of requests for seed capital. They received 409 requests, which the Board of Directors indicated was very healthy and dynamic. This bill is designed to stimulate risk capital formation and provide the Alliance with substantially increased amounts of capital from direct investment purposes, to be focused on the seed stage of investment. The other part of the bill is designed to stimulate more private sector venture capital seed money. The mechanism to achieve this is a bonding approach. They would issue taxable bonds backed by the coal trust fund. The program would work like this: between \$2.5 and \$3.5 million in taxable bonds would be sold each year by the Alliance. Proceeds from these issues would be invested in two ways. First, up to \$3 million would be invested in as many as 3 private sector certified capital companies for reinvestment in seed and start-up companies in Montana. These funds would have to be matched on at least a dollar-for-dollar basis by private investors in the capital company. The result would be the capitalization of three private venture investment funds which would be in a position to provide risk capital to worthy companies throughout the state. The absolute worst case scenario would require a maximum of \$38 million from the trust fund for debt service after a 12-year period. The bonds themselves would have a deferred debt service feature and would mature at around 12 years. This would allow the capital companies and Alliance investments adequate time to generate earnings on those investments. These earnings would then be used to retire the bonds. We are very pleased with the stream of projects that have requested the capital and the quality of the requests. With this fund being available over the next few years, we will use that to invest in in-state capital and out-of-state capital as well.

Steve Browning, Chairman of the 15 member Board of the Science and Technology Alliance, gave testimony in support of this bill. Montana ranks among the lowest of the states in entrepreneurial activities. When we began the process of the Alliance many people came forward with ideas for funding. We were pleasantly surprised that we had before us a number of good ideas. What we have discovered is that there is a wealth of good entrepreneurial activities here if you can find funding for them.

Dave Birmingham, Wintrol, Inc., gave testimony in support of this bill. His firm specializes in research and development. Venture capital is difficult to obtain in Montana and especially in the very early stages of research. The Alliance will do much to help those new companies whose prospects are favorable.

Dick Bourke, President of Development Corporation of Montana, gave testimony in support of this bill. This bill is a very viable approach to putting more money out into venture capital in Montana.

Kay Foster, representing the Billings Area Chamber of Commerce, gave testimony in support of this bill. A copy of her written statement is attached as Exhibit 11.

Bob Correa, Bozeman Chamber of Commerce, stood in support of this bill.

OPPONENTS: None.

QUESTIONS FROM THE COMMITTEE: Senator Halligan asked Sam Hubbard what is usually used in states that do not have a trust fund.

Sam Hubbard said Utah is at the stage of a similar program to this one. Most states involved in this type of a program have area funds that are placed in a venture pool.

Senator Crippen asked Mr. Bourke how many venture companies are in the state of Montana.

Dick Bourke said there is one other besides his company.

Senator Crippen said they will be able to receive up to \$3 million from the dollars which appear from the bonding program.

Dick Bourke said he thought it would be from the proceeds of the bonds that are sold.

Senator Crippen asked if they would be investing capital.

Dick Bourke said you would have to ask Sam Hubbard about the details of the language of the bill.

Senator Crippen asked Sam Hubbard if the intent is to put some money into seed capital.

Sam Hubbard said we would be open to invest up to \$3 million, but no more than \$3 million.

Senator Crippen asked if those are Montana Capital Companies.

Sam Hubbard said Montana companies would need to be certified into capital companies and we would require that they would be invested in the state.

Senator McCallum said you will take this out of the permanent trust or will you take it out of the water development bonding.

Representative Bradley said the water program gets first crack at what is going in. This is bound by the permanent trust itself.

Senator Hirsch said you are transferring some \$38 million into the technology investment program debt service fund. Will that continue to earn interest in that fund just as if it were in the trust fund.

Sam Hubbard said the transfer, as outlined, would only occur if debt service was due and there was a shortfall in earnings in the debt service reserve account. If the earnings on the technology investments were not adequate to make the debt service payments on the bonds when they came due, funds from the trust would be used for that purpose.

Senator Neuman said venture capital companies have to have first dibs on this money. Are there other organizations that might be willing to make start up investments, that are not venture capital firms, that you are excluding by this language.

Sam Hubbard said we want to make sure capital companies have the first shot at start up investments. We will have the ability to provide seed capital to any early stage companies that we want. If we can't start up a seed company, under this bill we would be able to offer that investment opportunity to an existing capital company. If any other investor wants to invest in the deal, we would very much encourage that.

Senator Neuman asked if you have a firm who has some private and some of its own money from another source, would a Montana Capital Company have to enter into that or could you come into that directly.

Senate Taxation
March 26, 1987
Page Eight

Sam Hubbard said we can go in direct. It would depend on the stage of development. If it was a seed stage company we could just go ahead and do the deal as long as the matching funds were there.

Representative Bradley closed by stating we have a good track record on this and there is an enormous amount of projects for the future.

ADJOURNMENT: The meeting adjourned at 9:55 A.M.


SENATOR GEORGE McCALLUM, Chairman

ah

ROLL CALL

TAXATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 3-26-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR CRIPPEN	✓		
SENATOR NEUMAN	✓		
SENATOR SEVERSON	✓		
SENATOR LYBECK	✓		
SENATOR HAGER	✓		
SENATOR MAZUREK	✓		
SENATOR ECK	✓		
SENATOR BROWN	✓		
SENATOR HIRSCH	✓		
SENATOR BISHOP	✓		
SENATOR HALLIGAN, VICE CHAIRMAN	✓		
SENATOR McCALLUM, CHAIRMAN	✓		

Each day attach to minutes.

COMMITTEE ON

Senate Inaction

DATE

March 26, 1987

VISITORS' REGISTER

HB's 658, 700, 709, 795

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
Dave Sykes	Falthead Sports	658	✓	
W.W. Ballard	Balcran	795	X	
R.E. McDougall	CENEX	795	X	
James Anderson	Shell Western Expt	795	✓	
Ken Hoover	MT. Snowmobile Assn.	658	X	
Joe Weggenman	Helena Chamber of Commerce	709	X	
Janelle Fallon	MT Petroleum Assoc	795	X	
TOM HANSON	ONE WAY MARINE INC.	658	X	
DAVE BROWN	Sponsor - HB-709 - Butte	709	X	
Ted Rollins	ASARCO, INC.	HB 709	X	
DAVE BIRMINGHAM	WINTROL, INC.	700	✓	
Steve Brown	PLM	709	X	
GARY LANGLEY	MONTANA MINING ASSN.	709	✓	
Sam Cool	Exxon	795	✓	
Kay Foster	Billings Chamber	700	✓	
Ken Williams	Entech/Western Energy	709	✓	
Kenneth O'Brien	State of the Mtns., Inc.	658	✓	
Stuart Duggan	MT. Chamber of Commerce	700 709	✓	
GEORGE OCHENSKI	MT. ENV. INF. CNTR.	795		
Doug Miller	Montana Oil & Gas	795	✓	
Jim Bender	WALLACES UNLIMITED	658	✓	
John Augustine	CONOCO Inc	795	X	
Bret Boedecker	MONTANA FORWARD	709	X	
Bob Correa	Burg. Chamber of Com	700	X	
Sam Hubbard	MSTA	700	X	
Steve Browning	MSTA	700	X	

(Please leave prepared statement with Secretary)

DATE: March 26, 1987

Senate Taxation

NAME _____

REPRESENTING

BILL #

Check One

[illegible]

Dick Bonke

DN. CRP. OF. MT.

700



March 26, 1987

MONTANA SENATE
TAXATION COMMITTEE
HELENA, MONTANA

COMMENTS ON HOUSE BILL 795

Dear Mr. Chairman:

CENEX has been an active oil and gas exploration and production company in Montana since 1946 and we presently own a working interest in approximately 400 wells within the state. We are testifying today in support of House Bill 795 which significantly affects our working interest in 123 water injection/disposal wells within Montana.

It is our opinion that water injection/disposal wells are an integral and necessary part of oil and gas operations in Montana. We see no practical reason why they should not be administered by the Board of Oil and Gas Conservation Commission. Twenty-three other states that have oil and gas production presently administer their own compliance and monitoring operations. As an active Operator we need to have a knowledgeable and responsive Agency that will administer the UIC Program to its full intent while allowing a forum for reasonable solutions to oil and gas problems. With present EPA primacy of water injection/disposal wells in Montana, CENEX and other Montana Operators are faced with unnecessary delays, additional costs, and the potential loss of hydrocarbon reserves. Some examples of these problems are described in subsequent paragraphs.

Last year a field operator, in wells which CENEX has a working interest, applied for a permit to drill a new water disposal well in Roosevelt County. It took five full months to receive the necessary permit to drill. This delay cost the Operator, CENEX and other working interest partners approximately \$33,000 additional costs to truck water to other disposal sites.

In Petroleum County, CENEX is operating two waterfloods where drinking water from the 3rd Cat Creek Sandstone has been injected into the oil and gas reservoirs for over 30 years. CENEX personnel living in the nearby camp are still drinking the water from the same water supply wells used over these years. The UIC integrity testing rules require that these old injection wells be pressure tested, even though there doesn't appear to be

SENATE TAXATION

EXHIBIT NO. 1

DATE 3-26-87

BILL NO. H.B. 795

any possible way for the aquifer to be damaged by water reinjected from its own source. This pressure testing will cost CENEX approximately \$200,000 for 16 old water injection wells. At today's oil prices this is uneconomical. Our alternative will be to plug and abandon the wells and potentially lose approximately 250,000 barrels of oil reserves. Presently CENEX's producing status in this field is uncertain after corresponding with the EPA on this subject for approximately 1-1/2 years. We believe, however, that presentation of the engineering and geological data at an appropriate hearing could have most likely resulted in a practical solution to the problem.

CENEX has been preparing to plug and abandon a water injection well in Petroleum County. We were advised by both the EPA and the State of Montana that they will have witnesses for the actual plugging operation. This isn't a significant issue other than to illustrate the normal confusion that exists when two agencies have jurisdiction in a common area of oil and gas operations.

Recently CENEX experienced an example of an Operator and a State Oil & Gas Commission working closely together to solve a problem for joint benefit. Five water injection wells were integrity tested in this field as required by UIC rules. Two wells failed the tests and were promptly shut in by CENEX. CENEX then located the source of the leaking problem and proposed a method of solution to that State Oil and Gas Commission. The Commission approved the well repair procedure, CENEX promptly performed the work at reasonable costs and the wells were then retested successfully to meet integrity requirements. Instead of the wells being plugged and abandoned and redrilled, at a replacement cost of \$700,000, they are being utilized today with a significant benefit to CENEX and the State and without danger of contamination of fresh water sources.

In summary, CENEX is not requesting nor do we expect relaxation of UIC rules by establishing primacy in Montana. We do expect, however, to have State Oil and Gas Commission procedures whereby engineering and geological evidence of matters on water injection/disposal wells receive responsive action for the benefit of all citizens in Montana. For these reasons we urge your passage of this legislation.

Respectfully submitted,

R. E. McDougall

R. E. McDougall
Production Manager

REM:vw

SENATE JOURNAL
EXHIBIT NO. 1
DATE 3-26-87
BILL NO. H.B. 795

HOUSE BILL 795

HB 795 should be passed for the following reasons:

1. Federal rules for protection will be adopted;
2. Montana is the only State in the Rocky Mountains that does not administer underground injection control;
3. The Montana Oil and Gas Commission now administers all other well regulations and has done so successfully since the 1920's. Montanans should regulate Montanans, and not the Federal Government;
4. The U.S. Environmental Protection Agency (EPA) presently administers UIC in Montana mostly out of the Denver office and this results in very costly delays of permit issuance, in some cases, more than one year after all requirements are met. The Montana Oil and Gas Commission could require the same standards and still issue permits in a timely fashion, thus avoiding the costly delays;
5. Industry will be paying administration costs thus saving tax payer's money.

W. W. Ballard

W. W. BALLARD

SENATE TAXATION

EXHIBIT NO. 2

DATE 3-26-87

BILL NO. H.B. 795

Gary Langley

TESTIMONY OF THE MONTANA MINING ASSOCIATION
ON HB 709-Senate Taxation Committee
March 26, 1987

House Bill 709 will accomplish two purposes important to the mining industry.

First, it will encourage new investment in Montana--new money from outside of the state that is paid to local people and is used to purchase, goods and services in Montana.

Initial capital investments in the mining industry are high--from \$50 million to as much as \$150 million. Second, this bill will encourage the expansion of new technological processes which will allow mines to recover lower grade ore that will extend the life of a mine and allow it to hire additional workers, thus extending tax payments to the state and local governments.

HB 709 is a key element in the mining industry's ability to meet its challenge of helping supply this nation's mineral needs and provide jobs. It takes into account the unique nature of the mining industry in the following ways:

A. High capital investment in a high risk industry coupled with a volatile worldwide market.

B. A depleting resource--As mines are depleted and reclaimed new ones must be built to replace them. As new

SENATE TAXATION

EXHIBIT NO. 4

DATE 3-26-87

BILL NO. H.B. 709

Page 2

becomes available, existing mines must be built to replace them. As new technology becomes available, existing mines can be expanded if incentives are available.

C. Addresses the problem that much of the mining company's tax bill is not related to income but to production. Property taxes and severance taxes in Montana are among the highest in the nation.

There should not be any misconception that a mine will not pay taxes during the period of the incentive.

It will pay property taxes on the graduated schedule under HB 709.

HB 709 will not reduce taxes being paid, but temporarily reduce the increase in taxes on a new or expanding plant. A mine also pays other taxes during this period that are unique to the industry. They are:

A. Proceeds taxes on production.

B. Severance taxes--The metal Mines License Tax and the Resource Indemnity Trust Tax.

SENATE TAXATION
PAGE NO. 4
DATE 3-26-87
BILL NO. H.B. 709

C. An individual mine pays a total of \$2-3 million a year in taxes.

Passage of HB 709 will allow local governments that wish to increase tax potential from a mine to do so by implementing the incentive.

It also will allow the mining industry to better compete on a worldwide market with mines in other states and countries that operate under a more favorable tax climate.

As new ore bodies are being found HB 709 would be an appropriate gesture to encourage new mining companies to develop those ore bodies in Montana.

For these reasons, the Montana Mining Association hopes you will support House Bill 709.

Thank you.

SENATE TAXATION

EXHIBIT NO. 4

DATE 3-26-87

BILL NO. H.B. 709

Flathead Sports Inc.

PHONE (406) 755-8767

• 2307 HWY. 93 SOUTH •

KALISPELL, MONTANA 59901

February 19, 1987

Mr. Chairman and Members of this Committee:

HB 658

My name is Dave Seyfert and I am owner of Flathead Sports in Kalispell. I have been working on this issue for 6 years now and would like to see a system that is fair and equitable for boat registration based on a per foot system.

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

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

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

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

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

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

Thank You.

SENATE TAXATION

EXHIBIT NO. 5

DATE 3-26-87

BILL NO H.R. 150

NAME: TOM HANSON DATE: 3-26-87

ADDRESS: 5671 YORK RD. HELEN 5901

PHONE: HOME 227-5555 BUS 443-7373

REPRESENTING WHOM? ONE WAY MARINE IN MONT BOAT & SKI CLUB

APPEARING ON WHICH PROPOSAL: H. B. 658

DO YOU: SUPPORT? ☒ AMEND? ☐ OPPOSE? ☐

COMMENTS: IT IS TIME WE MADE EQUITABLE THE
METHOD OF LICENSING BOATS IN MONTANA.
THE CURRENT METHOD ALLOWS FOR FRAUD
DECEIT, AND TOTAL NON COMPLIANCE.
THIS BILL WILL ALLOW MONTANA TO INCREASE
REVENUE & SOLVE A CG. PROBLEM AT THE SAME
TIME. IF THERE IS ANY POSSIBILITY, I WOULD
TRY TO SET ASIDE SOME REVENUE OUT OF
BOAT LICENSING FOR ENFORCEMENT, AS WELL
AS FUNDING FOR FW & P TO EXPAND
& IMPROVE DOCKS, & MARINE RECREATION
FACILITIES IN OUR STATE.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION

EXHIBIT NO. 6

DATE 3-26-87

H. B. 100

THE HIDDEN COSTS OF BOATING

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

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

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

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

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

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

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

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

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

program, Colorado and Wyoming. Colorado is particularly strapped for boating funds, as the state's Constitution provides that all fuel taxes must go directly into the state's highway trust fund.

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

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

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

BOATING FEES & TAXES — WESTERN STATES

HB 658

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

Exhibit - 7
3-26-87



White Bear Island Marine

WHITE BEAR ISLAND
LOWER MISSOURI RIVER ROAD
GREAT FALLS, MT 59401-9699
(406) 761-1851

HB 658

March 7, 1987

House of Representatives
Taxation Committee
Capitol Station
Helena, Montana 59620

We Montanan's are proud of our Big Sky Country and the quality of life through recreation that this great State has to offer. As we assess this commodity, one must ponder, is something wrong with our system? Montanan's work hard. They endure long cold winters. When winter is over, they are deserving of, and eager for summer recreation. Family boating is among the more popular. It promotes strong family stability and cohesiveness among family members.

The annual personal property tax on the average 17 foot family boat is about \$400.00 per year. With the average family using their boat every other weekend during the months of July and August, they end up paying an allocated use-per-weekend tax of \$50.00.

The boating sales outlets in Montana sold over 1000 new boats within the State of Montana last year, yet there were approximately 5000 fewer boats registered in Montana last year than in 1985. Unfair, high taxes on boats are preventing people from enjoying boating. Many of the existing purchasers are not registering them.

There would seem a growing protest from the boating population against an unfair and discriminatory tax on pleasure boats. With lower taxes, in all probability, tax revenue would soar from the increased numbers registering.

PLEASE SUPPORT BH 658.

Sincerely,

Larry Houck, President
White Bear Island Marine

SENATE TAXATION

EXHIBIT NO 8

DATE 3-26-87

BILL NO. H.B. 658

Specializing in Recreational Equipment

Missouri River Marine

58 LOWER MISSOURI RIVER ROAD
GREAT FALLS, MT 59405
(406) 761-1857

HB 658

March 6, 1987

Taxation Committee
House of Representatives
Capitol Station
Helena, Montana 59620

Fair equitable tax laws should support the government functions while maximizing economic development.

The excessive, discriminatory tax on boats discourages becoming a boat owner or purchasing a newer boat by existing owners.

A more equitable tax on boats would result in twenty (20) additional jobs provided statewide, from additional purchases of boats for our industry at a dealer level.

Additional potential for economic growth and activity exists at a manufacturing level.

PLEASE SUPPORT HB 658

Sincerely,

Tom Wallace
Missouri River Marine

TW/mp

SENATE TAXATION

EXHIBIT NO. 9

DATE 3-26-87

BILL NO. H.B. 658

Your Boating Specialists

MONTANA SCIENCE AND TECHNOLOGY ALLIANCE

SEED CAPITAL FUND BONDING PROGRAM

HB 700

PROGRAM
BACKGROUND

The two most common reasons behind small business failures in our country are a lack of access to business management expertise and inadequate capital. In both regards, Montana is no exception. In particular, there is a significant lack of risk capital in our state which makes it especially difficult for small entrepreneurial businesses to sustain themselves through the early stages of development and growth -- a period when adequate capital is extremely critical.

LACK OF RISK
CAPITAL

MSTA - SEED
CAPITAL

One of the primary purposes of the Science and Technology Alliance is to provide seed (or very early stage) capital to technology-based businesses. During the past 18 months the Alliance has invested \$1.2 million in 9 seed capital projects. The Alliance Board of Directors is convinced that the potential exists to productively invest a considerably larger sum in the future in these kinds of projects.

PURPOSE OF
SEED CAPITAL

The need for seed financing in Montana is particularly acute. A surprisingly large number of early stage companies are attempting to develop profitable business ventures throughout the state, but the lack of available capital is the principal impediment. This is the most difficult stage of business development for attracting capital investment. In the past year and a half the Alliance has received funding requests from over 40 such companies for almost \$6 million in investment capital.

BONDING
MECHANISM

The mechanism being proposed to enable the Alliance to help address this need is a \$16 million, 6-year bonding program which would result in the creation of a \$15 million seed capital fund. The program would work like this: between \$2.5 and \$3.5 million in taxable bonds would be sold each year by the Alliance. Proceeds from these issues would be invested in two ways. First, up to \$3 million would be invested in as many as 3 private sector certified capital companies for reinvestment in seed and start-up companies in Montana. These funds would

USES OF
PROCEEDS

CAPITAL
COMPANIES

have to be matched on at least a dollar-for-dollar basis by private investors in the capital company. The result would be the capitalization of three private venture investment funds which would be in a position to provide risk capital to worthy companies throughout the state.

DIRECT TECHNOLOGY
INVESTMENTS

The second use of proceeds would be for direct technology investments in seed stage companies by the Alliance. Approximately \$3 million per biennium would be available for this purpose, with the investment decisions made by the Alliance board of directors.

DEFERRED
COUPON BONDS

The bonds themselves would have a deferred debt service feature and would mature at around 12 years. This would allow the capital companies and Alliance investments adequate time to generate earnings on those investments. These earnings would then be used to retire the bonds. To make the bonds investment grade, the Coal Tax Permanent Trust Fund would be used as security. This means that if earnings on the technology investments were not adequate to make the debt service payments on the bonds when they came due, funds from the Trust would be used for that purpose. The absolute worst case scenario would require a maximum of \$38 million from the Trust Fund for debt service after a 12-year period. This would be required only if all the investments made with bond proceeds failed. Because the Trust Fund is involved passage of the legislation to create this program will require a three quarters vote of each house.

COAL TRUST FUND
AS SECURITY

INVESTMENT
PROCESS

The process the Alliances uses to make investment decisions is designed to make certain that only very high quality projects with significant earnings and economic development potential are selected for funding. This would apply to both the capital company and direct technology investments. In the case of the former, recipients of capital company investments would have to demonstrate a proven ability to assist in the successful development of new businesses and to make high quality investment decisions.

RIGOROUS EVALUATION
AND DUE DILIGENCE

In the case of direct technology investments, the Alliance employs a rigorous evaluation and due diligence process to verify market size and potential, suitability of the product to the market, and adequacy of the management team to grow the company to achieve the business plan objectives.

RETURN ON
INVESTMENT
CONSIDERATIONS

In return for its investment, the Alliance has and will continue to receive a discounted rate of return of between 15 and 25 percent, compounded annually, which is paid as a percentage of gross sales revenues once the company moves its product to market. In addition, the Alliance usually receives a "sales override" -- an additional percentage of gross sales revenues -- which typically begins after the basic investment is repaid and runs for a predetermined period of time, usually between 5 and 12 years.

RISKS

Typically, risk capital investments are viewed as high risk in nature. However, when considered as a part of a larger fund, the risky nature of such investments can be mitigated by diversifying the entire portfolio by financing a variety of projects, both in terms of time, nature of the company, and location of the company. Still, a program or fund such as this should expect losses. In fact, the industry standard suggests that for every 10 investments made, around 3 can be expected to fail outright, 3 to 4 more will do little better than break even, and the final three can be expected to do very well, returning the original investment as much as several times over. In attempting to determine a break-even point for this program, these assumptions were used, the result being that an average annual rate of return on the successful projects of about 15 percent would enable the bonds to be retired without subsidy from the Trust Fund. But again, it is important to keep in mind that all the projects funded could fail; under those circumstances the maximum risk to the Trust would be \$33 million at the end of 12 years.

BENEFITS

The potential benefits of this program are significant. The typical company supported through this type of program is technology oriented with very high growth potential. This can benefit the Montana economy in several positive ways: (1) large numbers of new jobs can be directly created by the portfolio companies themselves (approximately 1,000 could result from the \$1.2 million in investments to date); (2) large numbers of new jobs in support industries (i.e., precision machining, breadboard computer assembly, injection molded plastics) could also result from the growth of new technology companies; (3) new tax revenues could be generated at both the local and state level; and (4) Montana's basic industries could become much more competitive on a national scale (many of the companies considered for investment are attempting to develop products for agriculture, forest products, and mining).

SENATE TAXATION

EXHIBIT NO. 10

DATE 3-26-87

SUMMARY

Providing a ready source of seed financing in Montana is crucial to the continued development of the entrepreneurial sector of our economy. However, it does not necessarily involve an indefinite commitment. In fact, it is believed that the 5-year seed fund proposed here would be principally a "pump-priming" measure and that by the end of that period the private sector in our state would be providing the level of risk capital necessary to support these kinds of companies. This program thus provides a significant opportunity to stimulate Montana's economy over the next several years -- it is a long-term investment in our future that could reap huge rewards.

MONTANA SCIENCE AND TECHNOLOGY ALLIANCE

TYPES OF INVESTMENTS

MSTA FUNDS	MSTA PRIVATE SEED FUNDS	PRIVATE VENTURE FUNDS MSTA	PRIVATE VENTURE FUNDS
APPLIED RESEARCH	SEED CAPITAL	START-UP CAPITAL	EXPANSION CAPITAL
Development of concept Confirmation of research studies	Proof of concept Prototype development Prototype testing Final product design Business plan development Marketing plan development Manufacturing plan	Initiate manufacturing Significant market penetration (mainly regional)	Expand manufacturing to enlarge market and share (i.e., regional to national)

SENATE TAXATION

EXHIBIT NO. 10

DATE 3-26-87

MONTANA SCIENCE AND TECHNOLOGY ALLIANCE

PROJECTED USE OF SEED FUND BOND PROCEEDS
(000 \$)

EXPENDITURE ITEM	FISCAL YEAR						TOTAL
	1988	1989	1990	1991	1992	1993	
Capital Company Investments	1,000	1,000	1,000				3,000
Direct Technology Investments	1,500	1,500	2,000	3,000	2,000	1,800	11,500
Administrative Costs	73	105	105	105	105	105	590
Costs of Issuance	90	90	90	90	90	90	540
TOTALS	2,663	2,695	3,195	3,195	2,195	1,995	15,938



March 26, 1987

TESTIMONY IN SUPPORT OF HB700

Mr. Chairman and members of the committee:

My name is Kay Foster and I appear on behalf of the Billings Area Chamber of Commerce.

We urge your support of HB700 and its recognition of the need in Montana for risk capital to promote and sustain Montana businesses through their beginning stages of growth.

We feel that the bonding program outlined in this bill fills a critical need for those innovative and entrepreneural Montanans who thus far have been unable to find significant seed capital to allow them to reinvest their talents in our state.

The bill provides two methods for the use of these bond proceeds. The first of these is through the reinvestment of certified capital companies in start-up business in Montana. These monies would be matched by capital company investors to leverage the amount for the increased benefit of many new businesses. The second aspect, direct technology investment by the Alliance, could assure that quality projects with high economic development potential will remain in and be nurtured within our state.

We urge passage of HB700.