

MINUTES

MONTANA SENATE  
51st LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Senator Bob Brown, Chairman, on Tuesday,  
March 7, 1989, at 8:00 a.m.

ROLL CALL

Members Present: Senator Brown, Senator Hager, Senator  
Norman, Senator Eck, Senator Bishop, Senator Halligan,  
Senator Walker, Senator Harp, Senator Gage, Senator  
Mazurek, Senator Crippen

Members Excused: Senator Severson

Members Absent: None

Staff Present: Jill Rohyans, Committee Secretary  
Jeff Martin, Legislative Council

Announcements/Discussion: None

HEARING ON SENATE BILL 445

Presentation and Opening Statement by Sponsor:

Senator Mazurek, District 23, sponsor, said for the last year he had served on the Obstetrical Services Availability Advisory Council which had been appointed by Governor Schwinden in response to concerns regarding declining obstetrical services in the state, particularly in rural areas. The committee was comprised of representatives of hospitals, insurance, health organizations, doctors, nurses, and the public. The committee found the loss of OB services in rural areas is widespread and worsening. It is affecting urban areas as well. Contributing factors are skyrocketing malpractice insurance rates, tort related problems, and inadequate medicaid reimbursement. The access to care issue is also significant. Senator Mazurek indicated that 28% of all births in the state are paid for by medicaid. Given the problems already existent in medicaid funding, the problem is very large and being an entitlement program, the state pays regardless of the amount budgeted for the program. Under federal regulations the eligibility levels are

increasing. In Montana the eligibility level is 75% of the poverty level, however, the federal level is increasing to 100% and by 1990 it will be 150%. The reimbursement from medicaid to providers does not even come close to covering the per delivery cost of malpractice insurance. Therefore, doctors are getting out of obstetrics and turning away medicaid eligible patients because they cannot even cover the cost of insurance let alone be reimbursed for services rendered. A doctor has to deliver 50 babies annually just to break even.

In response, the committee has recommended raising the medicaid reimbursement level to a minimum \$1000 which is approximately the break even point for malpractice insurance, and raising the eligibility level. The bill would levy a 5 cent tax per pack of cigarettes, an increase from 16 to 21 cents, and other tobacco products would be raised from 12 1/2% to 25%. The money would be loosely earmarked to the general fund for use in medicaid reimbursement. The correlation between smoking and low birthweight babies and treatment costs is well documented leading to the natural selection of the funding source. California, by voter referendum, increased its cigarette tax by 25 cents a pack earmarking all the proceeds (totalling \$600-\$700 million) for health care programs. Senator Mazurek said Wyoming's tax is 7 cents per pack, North Dakota - 27 cents, South Dakota - 23 cents, Idaho - 18 cents, Washington - 31 cents, Colorado - 20 cents, and Utah - 23 cents.

Senator Mazurek pointed out that for every \$3.00 the state spends on medicaid, the federal government will match with slightly over \$7.00. The medicaid program needs the money as they are coming in for supplemental appropriations this year again. Not only will this help with the medicaid problem, it will help make services available to mothers, it will help encourage doctors to stay in the obstetrical business in rural areas, and to continue to serve medicaid patients.

List of Testifying Proponents and What Group they Represent:

Dr. Karen Landers, Montana Council for Maternal and Child Health  
Dr. Van Kirke Nelson, Obstetrician, Kalispell  
Dr. Robert M. St. John, Montana Medical Association  
Kay Foster, Montana Obstetrical Services Availability Advisory Council  
Jim Ahrens, President, Montana Hospital Association

Brenda Nordlund, Montana Women's Lobby

List of Testifying Opponents and What Group They Represent:

Jerome Anderson, Tobacco Institute  
Gene Phillips, Smokeless Tobacco Council  
Dennis Winters, Montana Market Development Company  
Tom Maddox, Tobacco and Candy Distributors  
Steve Buckner, Service Distributing Incorporated  
John Delano, Phillip Morris  
Roger Tippy, R. J. Reynolds Tobacco Company

Testimony:

Proponents:

Dr. Karen Landers, Helena pediatrician, representing the Montana Council on Maternal and Child Health, presented her testimony in support of the bill (Exhibit #1). She also presented a copy of the report of recommendations from the Obstetrical Services Availability Council to the committee (Exhibit #2).

Dr. Van Kirke Nelson, obstetrician from Kalispell, presented his testimony in support of the bill (Exhibit #3).

Dr. Robert M. St. John, Montana Medical Association, presented his testimony in support of the bill (Exhibit #4).

Kay Foster, Chairman, Obstetrical Services Availability Advisory Council, presented her testimony in support of the bill (Exhibit #5).

Jim Ahrens, President, Montana Hospital Association, said the problem is access to health care in Montana. Of the membership of 55 hospital, 15 no longer deliver babies and others totalling 39 hospitals are saying they will no longer deliver babies for a variety of reasons. He said increased funding will definitely help. Travel is difficult for prospective parents and availability of service is a constant worry for those in rural areas. He said there is a clear link between use of tobacco products and prenatal and neonatal health. He felt the funding was appropriate and urged the committee to support the bill.

Brenda Nordlund, Montana Women's Lobby, supported the previous testimony and stressed the importance of comprehensive and available prenatal care.

Opponents:

Jerome Anderson, Tobacco Institute, presented his testimony in opposition to the bill (Exhibit #6).

Gene Phillips, Smokeless Tobacco Council, said he endorsed Mr. Anderson's testimony. He said there is a sales tax revolt in this state and a 25 cent a pack tax is nothing but a sales tax. He said there is certainly no correlation between the use of smokeless tobacco and prenatal or neonatal problems. He urged the committee to kill the bill or at least remove the smokeless tobacco products from being subject to the tax.

Dennis Winters, Partner, Montana Market Development Company, presented his testimony in opposition to the bill (Exhibit #7).

Tom Maddox, Montana Association of Tobacco and Candy Distributors, Inc., presented his testimony in opposition to the bill (Exhibit #8).

Steve Buckner, Service Distributing, Inc.) presented his testimony in opposition to the bill (Exhibit #9).

John Delano, representing Phillip Morris, said tobacco product sales are declining and a tax on those products will not produce a very stable source of income. He said this is not a fair tax and compared it to the tax on tea that prompted the Boston Tea Party. He asked the committee to look unfavorably on the bill.

Roger Tippy, R. J. Reynolds Tobacco Company, agreed with the previous testimony and warned the committee against the possibility of other groups coming in for medicaid add-ons in the future.

Questions From Committee Members:

Senator Crippen asked how the long range building fund will be affected if tobacco product sales are on the decline now and are projected to be even less in the future.

Senator Mazurek said he had not looked at that question in depth, however, there is not much capital construction going on at this point. He felt the coal tax trust fund is the best place to find money for infrastructure building if the long range building program is in financial trouble. He pointed out the principal reason for the decline in cigarette sales is a health concern rather than the tax.

Closing by Sponsor:

Senator Mazurek closed by saying the correlation between smoking and problems in the prenatal and neonatal health care area. He said it is time to use the tax for the purpose it is directly related to and let the industry help pay the cost.

## HEARING ON SENATE BILL 423

Presentation and Opening Statement by Sponsor:

Senator Brown, District 2, sponsor, said the bill is being introduced by request of the Governor. It requires quarterly estimated payments by all taxpayers subject to corporate license or income tax who have annual state tax liabilities in excess of \$5000. The bill applies to corporations and bank corporations doing business in Montana. He pointed out the schedule of payments on pages 3, 4, and 5 of the bill. Present law provides for estimates to be paid on April 15, however, most corporations commonly get a six month extension. The bill effectively accelerates the payment schedule so that it corresponds to the periods in which the income is actually earned. Presently, the payment is made anywhere from 4 1/2 to 10 1/2 months later depending on whether an extension is sought. The bill has been written to conform to existing federal law.

The penalty provision is 20% of the underpayment for each installment. The fiscal note indicates the bill would generate about \$22.5 million in the biennium. \$13.5 million would go to the school foundation program, \$2 million to the sinking fund, and \$1.75 million to local governments.

List of Testifying Proponents and What Group they Represent:

Ken Nordtvedt, Director, Department of Revenue  
Tom Harrison, Montana Society of Public Accountants  
Dennis Burr, Montana Taxpayers Association  
John Lahr, Montana Power  
Gene Phillips, Pacific Power and Light  
Tom Biledeau, Montana Education Association  
Tom McGree, U. S. West  
Leo Berry, Burlington Northern  
John Alke, Montana Dakota Utilities  
Greg Groepper, Office of Public Instruction  
Tom Ebzery, NERCO

List of Testifying Opponents and What Group They Represent:

None

Testimony:

Ken Nordtvedt, Director, Department of Revenue, pointed out because of the \$5000 threshold, 92% of all corporations in Montana would be exempt from having to comply with the quarterly tax payment. Most corporations are quite small. The other 8% of the corporations who would be affected account for 85% of the money collected under the corporate license tax.

Mr. Nordtvedt suggested amending the penalty provision to 20% per annum which would convert it to an interest penalty proportional to how long and how much the quarterly payments are underpaid.

Mr. Nordtvedt pointed out SB 423 is one half of the tax package for balancing the budget this biennium. He said personal income tax collections are currently estimated to be \$46 million higher than was originally thought. That additional revenue would seem to make a case for fewer one time funding mechanisms. However, because budget recommendations are not always followed, these bill (SB 423 and 424) are one time funding sources to help balance the budget by the end of the session.

Tom Harrison, representing the Montana Society of Public Accountants, addressed only the amendment page 5, line 13: "per annum". The CPA's are concerned that this is keyed from the previous year's tax payment.

Due to a lack of time, the remainder of the proponents introduced themselves and expressed support for the bill without offering further testimony.

Questions From Committee Members: None

Closing by Sponsor: Senator Brown closed.

HEARING ON SENATE BILL 424

Presentation and Opening Statement by Sponsor:

Senator Brown, District 2, sponsor, said the bill has been introduced at the request of the Governor. He said it is similar to SB 423 in that it brings another section of the Montana tax code into compliance with the federal tax payment policy and procedures. It also results in acceleration of payments which will increase revenue on a one time basis. The bill provides for the quarterly payment of estimated tax for certain taxpayers and provides a penalty for underpayment. He noted the fiscal note shows a fiscal impact of \$37 million with \$16 million going to the general fund, \$8.5 million to the foundation program, \$2.5 million to the sinking fund. He noted it is somewhat more expensive to administer, \$250,000, due to the additional processing of 90,000 more tax documents. Senator Brown noted this proposal was first proposed by the Governor's Council on Management that was created by Governor Schwinden in 1981.

List of Testifying Proponents and What Group they Represent:

Ken Nordtvedt, Director, Department of Revenue  
Jeff Miller, Department of Revenue  
Dennis Burr, Montana Taxpayers Association  
Mike Holland, Legislative Chairman, Montana Society of CPAs.  
Greg Groepper, Office of Public Instruction  
Tom Biledeau, Montana Education Association

List of Testifying Opponents and What Group They Represent:

Tom Hopgood, Montana Association of Realtors

Testimony:

Ken Nordtvedt, Director, Department of Revenue, said this is a companion bill to SB 423 which together would raise a one time revenue boost of \$48 million to balance the budget for this biennium. He pointed out that the vast majority of wage earners whose income is subject to withholding will not be subject to the provisions of this bill. Taxpayers involved in agriculture will also be exempt from the provisions of the bill as they are

on the federal level. The bill accelerates only 10% - 11% of the income tax collections as it is targeted toward the larger taxpayer who earns the bulk of his income from investments rather than the salary based taxpayer whose income is subject to withholding. Originally, the plan was to couple Montana law to federal law by rule, but it was felt it was much cleaner to do it by statute and the amendments being proposed would put it into statute.

Jeff Miller, Department of Revenue, presented the proposed amendments and statement of intent which tie Montana law very specifically to federal requirements (Exhibit 10). Substantive amendments include #7 which establishes the installments, #13 which provides the calculation explanation for the installments, #18 introduces the penalty and interest provision, #19-#24 provide for the exceptions to the penalty provisions. The exceptions are basically for certain levels of payments that will qualify as sufficient to avoid penalty, but also there is provision for a transitional one year period for people who are just newly retired or had a circumstance develop where their income is suddenly not subject to withholding.

Dennis Burr, Montana Taxpayers Association, said the fiscal impact of the bill is about equivalent to a 10% surcharge on personal income tax for one year. He said this is a superior alternative to the surcharge and expressed support for the bill.

Mike Holland, Legislative Chairman, Montana Society of CPAs, expressed support for the bill with the amendments. He pointed out that at the federal level a penalty is paid which is computed like interest, but only one penalty is paid, not both. He felt this bill should reflect that same procedure.

Greg Groepper, Office of Public Instruction, said they support this bill as being another piece of the puzzle in overall tax reform. He suggested there be some coordinating language between SB 423 and SB 424 as there are some provisions which do not treat taxpayers in the same manner. As an example interest rates vary, and there is a minimum tax on individuals, but not on corporations. He also noted thresholds between corporations and individuals vary from \$5000 to \$400.

Tom Biledeau, Montana Education Association, expressed support for the bill for the previously mentioned reasons.

Opponents:

Tom Hopgood, Montana Association of Realtors, said the bill is not a tax increase but rather a revenue enhancement device. He said someone has to pay for this and if a loophole is closed in one place, it invariably opens in another and causes an increased financial burden for others.

Questions From Committee Members:

Senator Gage questioned the threshold levels.

Director Nordtvedt explained the threshold as it is set now allowed collection of 85% of the potential revenue by concentrating on the top 8% by size of the corporations. By lowering the thresholds, there would be very rapidly diminishing returns.

Senator Crippen said this is a one time fix and if passed it will be gone forever. He said he understood the Governor and the Department had taken a stand against the sales tax and adopted a stand against increasing expenditures....

Director Nordtvedt responded he had said they would skeptically view any tax that would raise more revenue than we need to meet our present obligations and that basically increases the spending authority levels of the state. Secondly, they think that any major tax change proposed to the people should be accompanied by their chance to vote on the constitutional spending limitations. He said they took no position on any particular tax that was discussed.

Senator Crippen said with the one time funding mechanism, we will be in the same shape two years from now and then what will we do.

Director Nordtvedt said we have an ongoing revenue shortfall from ongoing expenditures. That was identified as \$30 million a year with paying for the compensation for personal property tax reductions. However, he said, they have just revised the ongoing level of personal income tax collections by about \$23 million a year. That narrows the gap considerably depending on expenditure levels. By next session it could be completely eliminated by economic growth. Getting to the \$10 million level is within the uncertainty level of all revenue estimations. If the economy stays weak and expenditures go higher than the recommended budget

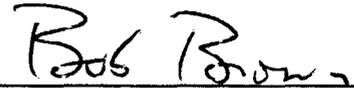
of January, there will be an ongoing gap and the next legislative session will need to have a new ongoing revenue source. He said he recommends not imposing it on the people before it is needed and so they are trying to get through this biennium with a temporary funding source.

Senator Crippen said his concern was that we are heading toward a surtax down the line notwithstanding a sales tax.

Closing by Sponsor: Senator Brown closed.

ADJOURNMENT

Adjournment At: 10:00 a.m.



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SENATOR BOB BROWN, Chairman

BB/jdr

MIN307A.jdr

ROLL CALL

TAXATION

COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 3/7

NAME	PRESENT	ABSENT	EXCUSED
SENATOR BROWN	X		
SENATOR BISHOP	X		
SENATOR CRIPPEN	X		
SENATOR ECK	X		
SENATOR GAGE	X		
SENATOR HAGER	X		
SENATOR HALLIGAN	X		
SENATOR HARP	X		
SENATOR MAZUREK	X		
SENATOR NORMAN	X		
SENATOR SEVERSON			X
SENATOR WALKER	X		

Each day attach to minutes.

TESTIMONY FOR THE SENATE TAXATION COMMITTEE

Support SB 445 Tobacco Tax for OB Reimbursement

Name: Karen Landers, MD Pediatrician from Helena

Representing: Montana Council for Maternal and Child Health

The Montana Council for Maternal and Child Health represents hundreds of health care professionals serving Montanans across the state. Because their primary goal is the provision of quality health care for Montana mothers and children, the Council supports SB 445 providing an increase in tobacco tax that will generate funds for Medicaid reimbursement of obstetrical providers and prenatal case management (MIAMI PROJECT).

In March of 1988, former Governor Schwinden appointed the Obstetrical Services Availability Advisory Council to examine the causes of the decline in the number of obstetrical providers in state especially in rural locations, and make recommendations for short and long term measures to alleviate this serious health problem. As of January of 1988, the Council reported that 18 of Montana's 56 counties were without obstetrical services. A more recent survey of the state completed in December of 1988, reveals that 26 counties are now without obstetrical services.<sup>1</sup> (See Map)

As the number of available obstetrical providers in the state declines, it becomes increasingly difficult for the low income woman to obtain the care that is needed to deliver a healthy baby. In Montana, women with 12 or more medical visits during pregnancy have a low birthweight rate of 4%. Women with 2 or fewer visits have a low birthweight rate of 11%.<sup>2</sup> The low

birthweight baby weighs less than 5.5 pounds at birth and has a much greater chance of dying before reaching age one year. An average of 120 infants die in Montana every year and low birthweight is present in about one-half of those infants. These infants are very costly to care for and some very low birthweight babies go on to have lifelong disabilities. In 1986, there were 3031 Medicaid babies born in Montana. Their medical costs for the first year of life totaled about \$5.4 million. Eighty-three of the 3031 babies cost \$2.7 million or one-half of the total expenditure. Over half of these infants (55.4%) were low birthweight.<sup>3</sup>

Quality prenatal care which is obtained early in pregnancy, has been identified as the most effective way to prevent infant deaths and low birthweight.<sup>4</sup> In addition, a case management approach to help low income high risk women access the health care system has been shown to work very well. An example is the Access Links program in Missoula where the low birthweight rate decreased by half during the two years of its operation. However, physician participation in this program has been declining with poor Medicaid reimbursement in the face of spiraling liability insurance premiums.

The Obstetrical Services Availability Advisory Council in examining this statewide problem of access to care for pregnant women has recommended that Medicaid reimbursement for obstetrical providers be increased to \$1000/delivery (80% of insurance industry's allowance for a normal delivery) as a short term measure to enable providers in rural areas to continue to

deliver babies. The current level of reimbursement is about \$670. The Council also recommended expansion of outreach and education in prenatal care to areas where providers deliver such care. To offset the costs of these recommendations, a tobacco tax increase to be matched 70/30 by federal funds was proposed. There is evidence that pregnant women who use tobacco products are at increased risk for pregnancy problems, including low birthweight.<sup>5</sup>

The number of high cost Medicaid infants will continue to rise as available quality prenatal care declines, as will infant deaths and long term disabilities. I urge your careful consideration of and do pass recommendation on SB 445.

#### References

- <sup>1</sup> Montana Academy of Family Physicians Survey, December, 1988.
- <sup>2</sup> Montana DHES, Bureau of Records and Statistics
- <sup>3</sup> High Cost Medicaid Infant Study, Dept. of SRS, January, 1989.
- <sup>4</sup> National Commission to Prevent Infant Mortality, August, 1988.  
California Obstetrical Access Project, December, 1982.  
Recommendations of Medicaid/MCH Advisory Group (TAG) to National Commission to Prevent Infant Mortality, May, 1988.  
Capital Ideas, National Governor's Association, August, 1988.
- <sup>5</sup> Institute of Medicine, Preventing Low Birthweight, 1985.



SENATE TAXATION

EXHIBIT NO. 2 p. 1

DATE 3/7/89

BILL NO. SB 445

OBSTETRICAL SERVICES AVAILABILITY ADVISORY COUNCIL



REPORT OF RECOMMENDATIONS  
Submitted to the Honorable Ted Schwinden  
Governor of Montana

October 1988

DEPARTMENT OF COMMERCE

SENATE TAXATION

EXHIBIT NO. 2 p2

DATE 3/7/89

BILL NO. SB 445



TED SCHWINDEN, GOVERNOR

1424 9TH AVENUE

STATE OF MONTANA

(406) 444-3494

HELENA, MONTANA 59620-0401

November 2, 1988

The Honorable Ted Schwinden  
Governor of Montana  
State Capitol  
Helena, MT 59620

Dear Governor Schwinden:

On behalf of the Obstetrical Services Availability Advisory Council, which was created by Executive Order No. 6-88, I am pleased to present to you the council's "Report of Recommendations" regarding the loss of obstetrical care in Montana.

Many groups and individuals presented information and viewpoints to the council. The council is appreciative of their contributions, which were essential to the recommendation process.

The council hopes that you and other policymakers will find these recommendations helpful.

Sincerely,

*Kay Foster*  
Kay Foster  
Chairperson

OBSTETRICAL SERVICES AVAILABILITY ADVISORY COUNCIL

Medical Profession:

Dr. John T. Molloy  
Great Falls, MT

Dr. Van Kirke Nelson  
Kalispell, MT

Dr. Jimmie L. Ashcraft  
Sidney, MT

Kyle N. Hopstad  
Hospital Administrator  
Glasgow, MT

Legal Profession:

Leo Berry  
Helena, MT

Karl J. Englund  
Missoula, MT

Insurance Industry:

Leonard Kaufman  
Billings, MT

Charles Butler, Jr.  
Helena, MT

Legislature:

Sen. Joseph P. Mazurek (D)  
Helena, MT

Sen. H.W. Hammond (R)  
Malta, MT

Rep. John R. Mercer (R)  
Polson, MT

Rep. Ted Schye (D)  
Glasgow, MT

Public Members:

Kay Foster (Chairperson)  
Billings, MT

Marietta Cross, RN  
Missoula, MT

Jean Bowman  
Helena, MT

Staff:

Office of Research & Information Services  
Montana Department of Commerce

OBSTETRICAL SERVICES AVAILABILITY ADVISORY COUNCIL  
Report of RecommendationsBackground

The Obstetrical Services Availability Advisory Council was appointed on March 11, 1988, by Governor Schwinden. The appointment of the Council was the result of a recommendation by the Insurance Subcommittee of the Governor's Council on Economic Development, which had been studying the obstetrical malpractice insurance crisis in Montana at the request of the Governor and the Montana Medical Association in anticipation of the possible convening of a special session of the Legislature. Finding that the complexity of factors involved in the obstetrical care crisis were beyond the scope of a brief special session, the subcommittee recommended the formation of a broader based council whose charge would be to study in depth the factors contributing to the crisis.

The Obstetrical Services Availability Advisory Council has 15 members, representing the medical and legal professions, the insurance industry, the legislature, and the public.

The PURPOSE of the Council is to:

- (a) Examine the extent, causes and effects of the loss of obstetrical care in Montana;
- (b) Analyze possible short-term solutions, including but not limited to increased medicaid reimbursement and direct payments for a portion of malpractice premiums related to obstetrical care;
- (c) Analyze potential long-term solutions, including but not limited to those proposed by the Montana Medical Association and the State Auditor; and
- (d) Recommend, on or before September 30, 1988, preferred short-term and long-term solutions for submission to the 51st Legislature.

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The Council considers the loss of adequate obstetrical services from competent providers and the loss of access to such services in Montana a crisis.

The extent of the crisis is widespread and worsening, especially in rural areas; but urban areas are impacted as well.

The causes of the crisis include the well-publicized problem of skyrocketing malpractice insurance rates, a variety of tort-related issues, and inadequate medicaid reimbursement rates.

The effects of the crisis are many, but combined, can be described as the loss of adequate obstetrical services from competent providers and loss of access to such services in Montana, especially in rural areas. SB445

Among the worst effects are a possible increase in the number of low birthweight babies, the factor most closely associated with infant mortality, and an increase in the human costs and economic costs of babies born at risk.

OBSTETRICAL SERVICES AVAILABILITY ADVISORY COUNCIL  
Report of Recommendations

BACKGROUND DATA AND RECOMMENDATIONS

BACKGROUND DATA

The Obstetrical Services Availability Advisory Council met five times between April 1988, and September 1988. In addition to contributing information from their own areas of professional expertise, Council members solicited viewpoints and information regarding access to obstetrical services in Montana and in the nation from concerned individuals and interest groups.

In the interest of the conciseness of its report of recommendations, the Council has declined to reiterate comprehensively in this document the information, data, and arguments and critiques regarding each of the components of the issue of access to obstetrical services. Readers seeking such information are directed to the bibliography of documents and resources. It is sufficient to present selected information and data to illustrate briefly some of the factors that drive the crisis in loss of obstetrical services in Montana.

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The number of doctors delivering babies in Montana is declining.

|      |                      |       |           |
|------|----------------------|-------|-----------|
| 1986 | Family Practitioners | ..... | 160       |
| 1987 | "                    | "     | ..... 120 |
| 1988 | "                    | "     | ..... 87  |
| 1986 | Obstetricians        | ..... | (na)      |
| 1987 | "                    | ..... | 42        |
| 1988 | "                    | ..... | 37        |

(Source: Montana Academy of Family Physicians; Montana Medical Association)

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In January 1988, eighteen of Montana's fifty-six counties were without obstetrical services. Another nineteen counties were anticipating losing obstetrical services "soon."

(Source: Montana Academy of Family Physicians)

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In 1982, there were 14,538 births in Montana; in 1987, 12,239 births. Twenty-eight percent of Montana babies are Medicaid babies. By 1990, the national Catastrophic Coverage health plan will raise Medicaid eligibility to 100 percent of poverty level, and the percentage of

Medicaid babies will increase in Montana.

(Source: Montana Dept. of Health & Environmental Sciences; Montana Dept. of Social & Rehabilitation Services)

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Physicians' average global charges in Montana:

Normal deliveries -

|      |       |           |
|------|-------|-----------|
| 1986 | ..... | \$ 778.00 |
| 1987 | ..... | 932.00    |
| 1988 | ..... | 1,150.00  |

Caesarean Section -

|      |       |            |
|------|-------|------------|
| 1986 | ..... | \$1,098.00 |
| 1987 | ..... | 1,296.00   |
| 1988 | ..... | 1,542.00   |

Nationwide, the physicians' average global charge is \$1,436.00 in 1988.

Blue Cross and Blue Shield of Montana's maximum reimbursement to physicians in 1988 for a normal delivery is \$1,175.00. This represents the 90th percentile of all charges submitted in calendar year 1987 by Montana physicians who deliver babies.

Medicaid reimbursement to physicians in FY88 was \$619.00, and in FY89 is \$662.00 for a normal delivery.

(Source: Montana Blue Cross/Blue Shield; Montana Department of Social & Rehabilitation Services)

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Companies providing malpractice insurance to Montana family practitioners who deliver babies in 1988:

|              |       |            |       |       |          |
|--------------|-------|------------|-------|-------|----------|
| St. Paul     | ..... | 26 doctors | ..... | 29.0% | of total |
| ICA          | ..... | 10 "       | ..... | 11.5% | " "      |
| UMIA         | ..... | 26 "       | ..... | 29.8% | " "      |
| Doctors' Co. | ..... | 17 "       | ..... | 19.5% | " "      |
| Truck Ins.   | ..... | 8 "        | ..... | 9.2%  | " "      |
| Total:       |       | 87 "       |       |       |          |

Companies providing malpractice insurance to Montana obstetricians in 1988:

|              |       |           |       |       |          |
|--------------|-------|-----------|-------|-------|----------|
| St. Paul     | ..... | 0 doctors |       |       |          |
| ICA          | ..... | 0 "       |       |       |          |
| UMIA         | ..... | 5 "       | ..... | 13.5% | of total |
| Doctors' Co. | ..... | 32 "      | ..... | 86.5% | " "      |
| Total:       |       | 37 "      |       |       |          |

-----  
 Premiums for malpractice insurance for family practitioners:

|              | 1987     | 1988     |                              |
|--------------|----------|----------|------------------------------|
| ICA          | \$12,392 | \$13,011 | (no C-section, no high risk) |
| St. Paul     | (na)     | \$25,000 | (with C-section)             |
| UMIA         | \$12,646 | \$21,475 | "                            |
| Doctors' Co. | \$19,011 | \$20,962 | "                            |

Premiums for malpractice insurance for obstetricians (Caesarean section included) in 1988:

|              |          |
|--------------|----------|
| St. Paul     | \$66,939 |
| ICA          | \$44,971 |
| Doctors' Co. | \$39,039 |

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 In 1973, under the "occurrence" type insurance, family practitioners with obstetrical coverage AND WITH TAIL coverage paid \$1,981, and obstetricians paid \$3,247.

In 1988, under the "claims made" type insurance, family practitioners with obstetrical coverage and with NO TAIL coverage paid approximately \$25,000, and obstetricians paid \$39,841.

It is likely that, under the current system, malpractice insurance premiums will continue to increase 10 percent to 20 percent, or more.

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 Doctors who deliver babies pay the same premium amount regardless of the number of deliveries annually. It is estimated that a doctor must deliver 50 babies annually in order to "break even" with respect to malpractice insurance premiums.

The majority of rural (i.e., population under 10,000) family practitioners deliver less than the number of babies sufficient to cover their liability insurance costs.

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 In 1986, 83 of the 3,400 Medicaid babies born in Montana each cost over \$10,000 during the first year of life.

(Source: Montana Dept. of Social & Rehabilitation Services)

"The lifetime costs of caring for a low birthweight baby can reach 58445 \$400,000. The costs of prenatal care -- care that might prevent the low birthweight condition in the first place -- can be as little as \$400."

(Source: National Commission to Prevent Infant Mortality, "Death Before Life: the Tragedy of Infant Mortality," p.9)



## RECOMMENDATIONS

Having carefully considered the broad spectrum of information, data, and viewpoints, the members of the Council determined that the loss of adequate obstetrical services from competent providers and the loss of access to such services in Montana is a complex crisis having no single perfect solution. Efforts to ameliorate the crisis must be broadbased and sustained, and responsibilities for those efforts must be assumed immediately by state and local government, professional organizations, and the private sector.

Therefore, the Council recommends to the Governor of Montana, the following short-term measures that can be taken to encourage physicians to maintain their obstetrical practices, and long-term measures to address problems of insurance availability and affordability and to improve Montana's medical/legal climate.

### Short-term Measures

#### Regarding Increasing Medicaid Reimbursements -

- Raise the level of Medicaid reimbursement to doctors who deliver babies to \$1,000, which is a "break even" amount for doctors delivering babies, and which is approximately 80 percent of the insurance industry's allowance for a normal delivery. It is expected that this increase will encourage doctors considering leaving the practice not to do so, although it is not anticipated that doctors who have stopped delivering babies will begin delivering them again.
- Adopt presumptive eligibility for pregnant women and expedite applications for Medicaid assistance so that early, effective prenatal care is available to Medicaid clients. Further, reimbursement by Medicaid to providers for any services rendered must be guaranteed.
- Extend Medicaid eligibility coverage for pregnant women to 150 percent of the poverty level. (In 1990, by Federal mandate, Medicaid programs will include the population at 100 percent of poverty level.)
- Expand Medicaid's outreach/education/application programs for prenatal and infant care to sites where health providers deliver care, such as state and local health department clinics, hospital clinics, etc.

Regarding Funding Medicaid -

In seeking a source of funding for increased Medicaid reimbursements for obstetrical services, the Council recognizes the strains on the state budget.

There is considerable evidence that a significant number of Medicaid mothers with complicated pregnancies, which often result in the birth of babies whose health and development are at risk, use tobacco products.

- Because of the correlation between problem pregnancies, tobacco use, and infants born at risk, the Council recommends that the best potential source of increased funding for Medicaid reimbursements for obstetrical services is a tax increase on tobacco products to be matched 70/30 by federal funds.

Long-term MeasuresRegarding Reducing Medical Malpractice Insurance Costs -

The Council recognizes the 50th Legislature's tort reform efforts, and believes that those efforts will have a long-term beneficial impact on medical liability insurance premiums. The Council makes these further recommendations.

- Consider legislation that reduces medical liability insurance premiums for doctors who deliver babies. Of the proposals before the Council, the Montana Medical Association proposal published/dated June 1988, warrants careful consideration by the Legislature. The Montana Medical Association proposal seeks: (1) actuarial soundness; (2) provisions for injury prevention in birth-related cases; and (3) provisions for eliminating the uncertainties of the current tort and insurance system. The Infant Compensation Plan, proposed by the Office of the State Auditor, is too narrow in scope, does not adequately address the variety of needs, does not solve the problem on a short-term or long-term basis, and is not viable in the form presented to the Council.
- Consider alternative methods of medical malpractice liability insurance rate-setting.
- Amend current law relating to discretionary periodic payment of future damages of \$100,000 or more and make such periodic payments mandatory in obstetrical cases.

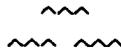
Other

- The Council recognizes that some small communities have devised creative, short-term solutions to encourage physicians who deliver babies to remain in those small communities, including paying a portion of the doctors' liability insurance premiums and making the doctors employees of the community hospitals. The Council applauds those efforts and urges other small communities to do the same. The Council recommends cooperation

3/7/89

and financial assistance in the form of matching ~~grants or loans~~ from the Legislature, private insurance carriers and others ~~in the short term~~, to keep physicians delivering babies in small communities. SB 445

- The Council supports and commends existing maternal/child health programs whose goals are the prevention of low birthweight babies and early access to medical care.
- The Council supports and commends the reform recommended by the Montana Medical Association limiting the liability of doctors who participate in peer review.
- The Council supports and commends the intentions of the Montana Medical Association to study the topic of state examination and certification of physicians practicing in Montana.
- The Council recommends that there be full disclosure to patients of the risks, particularly in rural areas, regarding the availability of and access to obstetrical services.



The Council extends its appreciation to all the organizations and individuals who contributed to the considerations of the Council, and especially to the Montana Medical Association and to Gerald (Gary) Neely.

OBSTETRICAL SERVICES AVAILABILITY ADVISORY COUNCIL  
Report of Recommendations

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DATE 3/7/89

BILL NO. SB 445

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TESTIMONY / COMMENTARY / DATA

American College of Obstetricians and Gynecologists  
 American Insurance Association  
 Blue Shield/Blue Cross of Montana  
 Doctors' Company  
 Missoula County Health Department  
 Montana Academy of Family Physicians  
 Montana Department of Social and Rehabilitation Services  
 Montana Hospital Association  
 Montana Legislative Council  
 Montana Medical Association  
 Montana Midwifery Association  
 Montana State University, College of Nursing  
 Neely, Gerald (Gary), Esq.  
 Office of the State Auditor and Commissioner of Insurance  
 Saint Paul Fire and Marine Insurance Company  
 State Bar of Montana  
 Triewiler, Terry N., Esq.

# Kalispell Ob-Gyn Associates, P.C.

SENATE TAXATION

EXHIBIT NO. 3DATE 3/7/89OBSTETRICS GYNECOLOGY INFERTILITY BILL NO. SB 445

AN KIRKE NELSON, M.D.  
JOHN L. HEINE, M.D.  
ELLIS M. SOWELL, M.D.

DIPLOMATS OF THE AMERICAN  
COLLEGE OF OBSTETRICS AND  
GYNECOLOGY

March 6, 1989

Dear Senator Mazurek:

Today in Montana, one third of Montana's family practitioners have given up the practice of obstetrics, and access to care in many rural communities is becoming severely limited. The reason for decreasing access to care is two fold. One, the high cost of liability insurance; and two, inadequate compensation from Medicaid for obstetrical services provided the medically indigent. As the cost of providing the service becomes greater than the compensation for that service, the physician will terminate provision of the service.

The impact of that decreased access to care on patients, their families, communities, and their hospitals, is obvious if the patient has to drive to another community for services.

Representative Addy has introduced House Bill #699 the "Patient Assured Compensation Fund", which hopefully will be passed to give relief from increasing liability premiums.

Inadequate compensation by Medicaid for physician obstetrical services rendered is a major limitation to access to care. In 1987, there were 11,924 deliveries in Montana of which 3427 were Medicaid recipients, or approximately 29%. The majority of these, 2378, were unwed mothers, who accounted for the majority of the 673 low birth weight babies born in Montana (1987)--and at considerable cost to the Dept. of Social and Rehabilitative Services.

You as a legislator have a major responsibility this year in providing for Medicaid funding. Presently, Montana eligibility for Medicaid recipients has been established at approximately 47% of the federal poverty level. Congress has mandated under OBRA that states raise by July 1, 1989 their qualifying levels to 75% of the federal poverty level, and by July 1, 1990 to 100% of federal poverty level. In Montana this translates, so far as obstetrical patients are concerned, to approximately 500 new mothers each year that will qualify as Medicaid recipients, bringing the total to approximately 4400 eligible recipients in 1990.

On your existing budget, you would have no choice but to reduce compensation for services, further limiting access to care.

Senator Mazurek's Senate Bill #445 is a means of funding and financing future Medicaid services without impacting the state general fund--in fact it will probably lessen the impact. Passage of Senate Bill #445 would yield an additional \$3,841,696.00 through a tobacco sales tax. The fact that these funds would be utilized for provision of care to the medically indigent would make those dollars eligible for a federal match, \$7 for every \$3 raised, or approximately \$12,805,000 that the state of Montana does not now have.

## SENATE TAXATION

EXHIBIT NO. 3DATE 3/7/89BILL NO. SB 445

Page Two

March 6, 1989

Re: ~~House Bill #699~~ Senate Bill #445

It is appropriate for this source of revenue, from sale of cigarettes and tobacco products, to be used in this manner. The majority of all Medicaid obstetrical patients smoke 1 to 2 packs of cigarettes daily. The medical evidence is irrefutable that the use of tobacco in pregnancy increases prematurity, with low birth weight babies, and adverse fetal outcome, and at great cost to the Medicaid budget.

Adequate compensation and decreasing the eligibility requirements for services rendered to the Medicaid obstetrical patient will increase accessibility to care, as physicians will be able to continue the practice of obstetrics and the provision of that care in rural areas--guaranteeing earlier patient access to care in their first trimester of pregnancy, with improved fetal outcome and decreased costs for premature care. Federal statistics support the fact that for every dollar spent in accessing care to the first trimester of pregnancy, that \$3 will be saved for care of the premature infant.

Presently in Montana, the neonatal death rate (fetal death rate in the first 28 days of life) is 4.6 per thousand deliveries---the lowest in the nation, second only to Nevada. This is an enviable record and one for which Montana should be proud. Certainly its physicians are proud. But do we maintain this enviable position if access is being limited.

The cost of providing obstetrical care to an obstetrical patient in Montana, including the cost of liability insurance and office overhead is approximately \$1000, with compensation from Medicaid \$662, essentially unchanged since 1982.

Montana physicians who continue to provide obstetrical care will provide that care whether or not they are compensated adequately or inadequately, to the private pay and Medicaid patient alike. It will be a rare physician who will discontinue seeing the Medicaid recipient, closing his practice to only those who can afford his services. Very honestly most physicians need every dollar of revenue from obstetrics that they can get to pay for their obstetrical liability insurance and office overhead. If that cost exceeds revenue, service to all is terminated, not just the Medicaid patient.

The physicians in Montana providing obstetrical services support this bill and request your support.



Van Kirke Nelson, M.D.

Past President Montana Medical Association

Member--Governor Schwinden's Obstetrical Services

Availability Advisory Council

VKNjw

*Joe - Thanks for all of your efforts -  
like*

# IN SUPPORT OF SB 443

EXHIBIT NO. 3 71  
DATE 3/7/89  
BILL NO. 50 445

~~Walter J. Peter, MD~~ (PETER)  
Mary Pat Murrell

Michael M. Lanier (LANIER)

Thomas F. Kent MD (KENT)

Samuel M. Molloy MD (MOLLOY)

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Virginia H. Braune

Frank Miller MD (Miller)

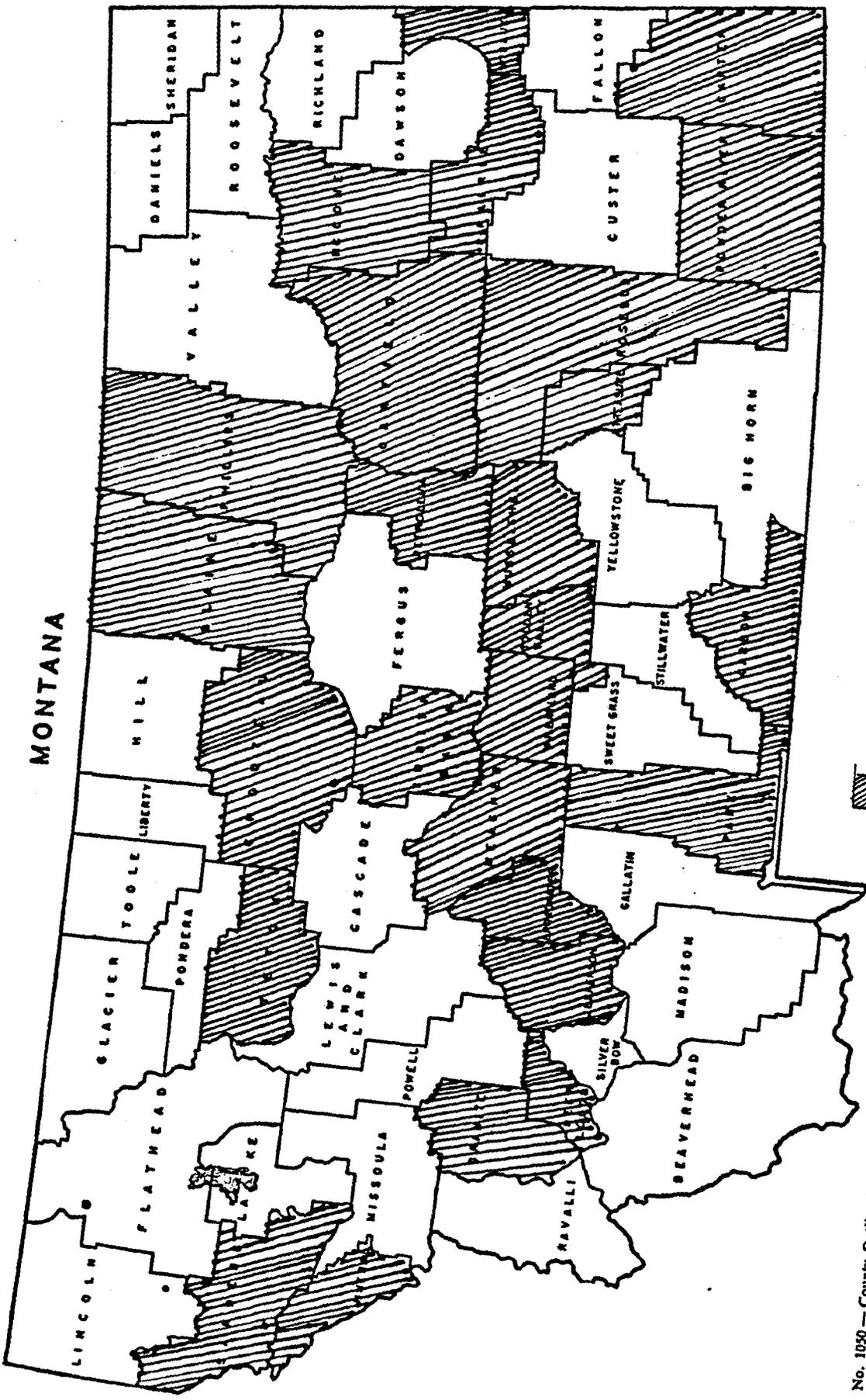
Kristin A. Ravel MD

Janet L. Dietrich M.D. (Dietrich)

Henriksen MD (Knudson)

Mark E. Randak (Randak)

(Charles Ludden M.D.)



MONTANA

SENATE TAXATION  
 EXHIBIT NO. 3 P2  
 DATE 3/7/89  
 BILL NO. SB 445

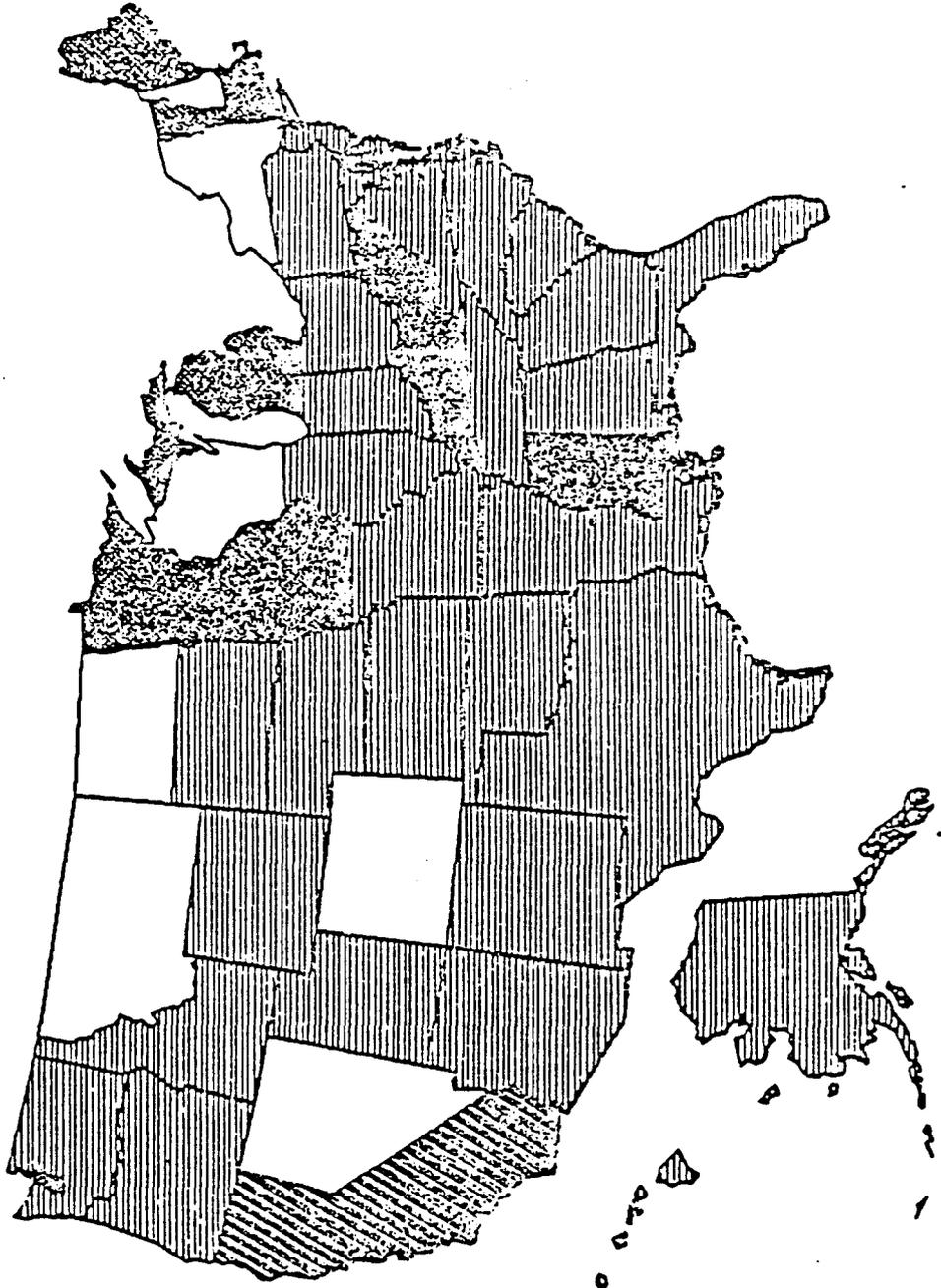
 Counties without obstetrical services

Source: Montana Academy of Family Physicians  
 December, 1988

No. 1050 — County Outline Map  
 STATE PUBLISHING COMPANY  
 Helena



# STATES BROADENING MEDICAID ELIGIBILITY Coverage of Pregnant Women and Children Up To/Above Poverty July 1988



State Response

- Adopted OBRA-87
- Adopted OBRA-86
- Medically Necessary
- Not Adopted

SENATE TAXATION  
EXHIBIT NO. 3 P. 3  
DATE 3/7/84  
BILL NO. SB 445

November 1988

FOR YOUR REFERENCE

EXPIRES 3/3/89

CDF Reports

DATE 3/7/89

BILL NO SB 445

**Medicaid Coverage for Low-Income Pregnant Women and Children:  
A State-by-State View  
(September 1988)**

State	Omnibus Budget Reconciliation Act of 1986					OBRA '87	Highest Income Eligibility	
	Expanded Financial Coverage			Continuous Eligibility for Pregnant Women	Presumptive Eligibility	Expanded Financial Coverage Greater than 100% of Federal Poverty	Preg. Women & Infants: % of Federal Poverty	Children Older than One: % of Federal Poverty <sup>2</sup>
	Pregnant Women and Infants	Children Older than One	Asset Test Waived					
Alabama	Yes	No	Yes	Yes	Yes	No	100	15.4
Alaska	Yes	No	No	No	No	No	100	77.4
Arizona	Yes	Yes	Yes	Yes	No	No	100	51.7 (100)
Arkansas	Yes	Yes	No	Yes	Yes	No	100	33.3 (100)
California	Yes	No	No	No	No	No	185	106.5
Colorado	No	No	No	No	No	No	54.3	54.3
Connecticut	Yes	No	Yes	Yes	No	No	100	91.4
Delaware	Yes	No	Yes	Yes	No	No	100	40.0
Dist. Columbia	Yes	Yes	Yes	Yes	No	No	100	62.6 (100)
Florida	Yes	Yes	Yes	Yes	Yes	Yes	185	46.3 (100)
Georgia	Yes	Yes	Yes	No	Yes	No	100	44.1 (100)
Hawaii	Yes	No	Yes	Yes	Yes	No	100	53.3
Idaho	Yes	No	Yes	No	No	No	68	39.2
Illinois	Yes	No	Yes	Yes	Yes	No	100	59.1
Indiana	Yes	No	Yes	Yes	Yes	No	50	33.0
Iowa	Yes	Yes	No	No	No	Yes	150	65.5 (100)
Kansas	Yes	Yes	Yes	No	No	No	100	59.4 (100)
Kentucky	Yes	Yes	No	Yes	No	Yes	125	34.5 (100)
Louisiana	Yes	Yes	Yes	Yes	Yes	No	100	33.3 (100)
Maine	Yes	Yes	Yes	Yes	No	Yes	185	72.0 (100)
Maryland	Yes	No	Yes	Yes	Yes	No	100	52.8
Massachusetts	Yes	Yes	Yes	Yes	Yes	Yes	185	84.9 (100)
Michigan	Yes	Yes	Yes	Yes	No	Yes	185	69.6 (100)
Minnesota	Yes	Yes	Yes	Yes	No	Yes	185	91.5 (100)
Mississippi	Yes	Yes	No	Yes	No	Yes	185	47.4 (100)
Missouri	Yes	Yes	No	Yes	No	No	100	36.0 (100)
Montana	No	No	No	No	No	No	52.1	52.1
Nebraska	Yes	Yes	Yes	Yes	Yes	No	100	58.1 (100)
Nevada	No	No	No	No	No	No	36.8	36.8
New Hampshire	No	No	No	No	No	No	60.3	60.3
New Jersey	Yes	Yes	Yes	Yes	Yes	No	100	69.9 (100)
New Mexico	Yes	Yes	No	Yes	Yes	No	100	33.3 (100)
New York	No	Yes	No	No	No	No	88	88
North Carolina	Yes	Yes	Yes	Yes	Yes	No	100	45.2 (100)
North Dakota	No	No	No	No	No	No	56.1	58.6
Ohio	Yes	No	Yes	Yes	No	No	100	39.0
Oklahoma	Yes	Yes	Yes	Yes	No	No	100	40.0 (100)
Oregon	Yes	Yes	Yes	Yes	No	No	100	68.3 (100)
Pennsylvania	Yes	Yes	Yes	No	Yes	No	100	54.8 (100)
Rhode Island	Yes	Yes	Yes	Yes	No	Yes	185	81.7 (100)
South Carolina	Yes	No	Yes	Yes	No	No	100	50.0
South Dakota	Yes	No	Yes	Yes	No	No	100	31.7
Tennessee	Yes	Yes	Yes	Yes	No	No	100	45.5 (100)
Texas	Yes	Yes	No	Yes	Yes	No	100	31.6 (100)
Utah	Yes	Yes	Yes	Yes	Yes	No	100	89.4 (100)
Vermont	Yes	Yes	No	Yes	No	Yes	185	78.5 (100)
Virginia	Yes	No	Yes	Yes	No	No	100	100
Washington	Yes	Yes	No	Yes	No	No	90	71.6 (90)
West Virginia	Yes	Yes	Yes	Yes	No	Yes	150	37.4 (100)
Wisconsin	Yes <sup>1</sup>	No	No	No	Yes	Yes	120 <sup>1</sup>	83.5
Wyoming	Yes	No	Yes	Yes	No	No	100	46.5
	45	29	33	37	18	12		

<sup>1</sup> 100% state funded.

<sup>2</sup> Parenthetical figures represent income eligibility levels for newly covered young children. Each state can set the top age limit (between ages one and eight) that it will cover.

# Table of Rates

EXHIBIT NO. 3 p. 5  
 DATE 3/7/89  
 SB 445

The following are rates of state cigarette taxes per pack of twenty cigarettes exclusive of any local taxes. For details see the following state summaries.

State	Rate	State	Rate
Alabama	16.5¢	Montana	16¢
Alaska	16¢	Nebraska	27¢
Arizona	15¢	Nevada	20¢ <sup>1</sup>
Arkansas	21¢	New Hampshire	17¢
California	20¢ <sup>2</sup>	New Jersey	27¢ <sup>3</sup>
Colorado	20¢	New Mexico	15¢
Connecticut	26¢	New York	21¢
Delaware	14¢	North Carolina	2¢
District of Columbia	17¢	North Dakota	27¢
Florida	24¢	Ohio	18¢
Georgia	12¢	Oklahoma	23¢
Hawaii	40% <sup>4</sup>	Oregon	23¢
Idaho	18¢	Pennsylvania	18¢
Illinois	20¢	Rhode Island	27¢
Indiana	15.5¢	South Carolina	7¢
Iowa	34¢ <sup>5</sup>	South Dakota	23¢
Kansas	24¢	Tennessee	13¢ <sup>6</sup>
Kentucky	3¢ <sup>7</sup>	Texas	26¢
Louisiana	16¢	Utah	23¢ <sup>8</sup>
Maine	28¢	Vermont	17¢
Maryland	13¢ <sup>9</sup>	Virginia	2.5¢
Massachusetts	26¢ <sup>10</sup>	Washington	31¢
Michigan	25¢	West Virginia	17¢
Minnesota	38¢	Wisconsin	30¢ <sup>11</sup>
Mississippi	18¢ <sup>12</sup>	Wyoming	8¢
Missouri	13¢		

[The next page is 5521.]

<sup>1</sup> Iowa: Rate reduced to 31¢ on July 1, 1989.  
<sup>2</sup> Hawaii: 40% of wholesale price.  
<sup>3</sup> Mississippi: If the federal cigarette tax is reduced, the state rate will be increased by the amount of the federal tax reduction.  
<sup>4</sup> Tennessee: An additional 0.05¢ per pack fee is imposed on dealers or distributors.  
<sup>5</sup> Kentucky: Plus a \$.001 tax each package of cigarettes.  
<sup>6</sup> Nevada: The tax is reduced to 15¢ per pack, effective June 1, 1989.  
<sup>7</sup> Massachusetts: The tax rate is increased by any amount by which the federal excise tax on cigarettes is less than 8 mills.

<sup>8</sup> New Jersey: The figure includes a surtax levied at the same percentage as the sales tax and based on average wholesale price.  
<sup>9</sup> Utah: The tax rate will be increased by the same amount as any amount of reduction in the federal excise tax on cigarettes.  
<sup>10</sup> Maryland: The tax is increased by the same amount as any future reduction below 3¢ per thousand cigarettes in the federal excise tax on cigarettes. [Repealed January 1, 1989.]  
<sup>11</sup> Wisconsin: An additional tax of 16¢ per pack of twenty cigarettes is imposed minus the federal cigarette tax.

STATE OF MONTANA - FISCAL YEAR  
Form RD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for SB445, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

- An act increasing the cigarette sales tax and the tax on tobacco products other than cigarettes; allocating the revenue from the tax increase to the general fund for the purpose of increasing the medicare reimbursement for obstetrical services furnished by physicians; and providing an effective date and an applicability date.
- ASSUMPTIONS:
1. Cigarette tax receipts, under current law, will be \$10,155,000 in FY90 and \$9,705,000 in FY91. (REAC)
  2. The current effective tax rate on cigarettes of 15.3968 cents would remain constant under current law during the biennium. Under the proposed legislation, this rate would be 20.2083.
  3. Tobacco product receipts, under current law, will be \$789,000 in FY90 and \$809,000 in FY91. (REAC)
  4. Currently, the tax rate on tobacco products is 12.5% which is assumed constant throughout the biennium. Under the proposal, the tax rate would be 25% of the wholesale price.
  5. Cigarette tax collections are allocated as follows under the proposed law: 60.76% debt service; 15.43% capital projects; 23.81% General Fund.
  6. Under the proposed legislation, the additional revenue collected by the increase in the tobacco products tax rate would go to the General Fund.
  7. There is no appropriation in this bill. Therefore expenditures for medicare are not impacted.

FISCAL IMPACT:

Revenue Impact:	Current		FY90 Proposed		FY91 Proposed		Difference
	Law	Proposed	Law	Proposed	Law	Proposed	
Cigarette Tax	\$10,155,000	\$13,063,932	\$2,908,932	\$9,705,000	\$12,737,696	\$3,032,696	
Tobacco Products Tax	789,000	1,578,000	789,000	809,000	1,618,000	809,000	
Total	\$10,944,000	\$14,641,932	\$3,697,932	\$10,514,000	\$14,355,696	\$3,841,696	
Fund Information:							
Long-Range Building							
Debt Service	\$ 8,887,612	\$ 8,887,347	(\$265)	\$ 8,548,737	\$ 8,548,424	(\$313)	
Long-Range Building							
Capital Projects	2,056,388	2,056,554	166	1,965,263	1,965,426	163	
General Fund	-0-	3,698,031	3,698,031	-0-	3,841,846	3,841,846	
Total	\$10,944,000	\$14,641,932	\$3,697,932	\$10,514,000	\$14,355,696	\$3,841,696	

\$1,964 or  
12805696

SENATE TAXATION

EXHIBIT NO. 3 p. 6

DATE 3/17/89

BY SB 445

*Ray Shackelford*  
RAY SHACKLEFORD, BUDGET DIRECTOR

DATE 2/21/89

*Joseph P. Mazurek*  
JOSEPH P. MAZUREK, PRIMARY SPONSOR

DATE 2/27/89

OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note for SB445, as introduced

SB 445

TOBACCO TAXES  
FACT SHEETCigarette Tax

Rate: 1982-83 12¢ per pack  
1984-88 16¢ per pack

Amount of Revenue:	FY 82	\$11,233,044	
	FY 83	\$10,580,701	- 5.8%
	FY 84	\$11,929,453	+12.7%
	FY 85	\$12,984,626	+ 8.8%
	FY 86	\$12,469,883	- 4.0%
	FY 87	\$12,157,915	- 2.5%
	FY 88	\$11,430,657	- 6.0%

Disposition (16-11-119 M.C.A.): 79.75% long-range building fund  
in the debt service fund

20.25% long-range building program  
fund in the capital projects fund

\*Minus the expense of collecting all the  
taxes levied, imposed, and assessed.

Tobacco Products Tax (Ex.: smokeless tobacco, chewing tobacco).

Rate: 12.5% of the wholesale price to the wholesaler, except products  
as may be shipped from Montana and destined for retail sale and  
consumption outside the State of Montana.

Amount of Revenue:	FY 82	\$519,448	
	FY 83	\$581,203	+11.9%
	FY 84	\$692,897	+19.2%
	FY 85	\$650,793	- 6.0%
	FY 86	\$669,932	- 2.9%
	FY 87	\$720,332	+ 7.5%
	FY 88	\$773,440	+ 7.3%

Disposition (16-11-206 M.C.A.): 5% defrayment for collection and  
administrative expense.

95% long-range building fund is  
the debt service fund.

FY - Fiscal Year July 1 - June 30 (Example: July 1, 1987 -  
June 30, 1988 - FY 88)

NOTE: Prepared by Toni Jensen, Rocky Mountain Tobacco Free Challenge,  
Montana Department of Health and Environmental Sciences.

Source: Montana Department of Revenue

TJ/vg-037a

**10A**Great Falls Tribune  
Friday, November 11, 1988**Opini**

## *Advisory council seeks cure for state's obstetrical care crisis*

Who's delivering the babies in rural Montana?

Increasingly, the answer is nobody. It's not news that Montana is facing an obstetrical care crisis. Since 1986 the number of family practitioners delivering babies in the state has dropped nearly in half, from 160 in 1986 to only 87 in 1988.

The number of ostetricians delivering babies has decreased too, from 42 in 1987 to 37 in 1988. The numbers tell a grim story. Nearly one quarter of Montana's 56 counties were without obstetrical care in 1988. Another 19 counties are expected to lose such service in the near future.

Why?

According to an advisory council appointed by Gov. Ted Schwinden to analyze the problem and present possible solutions there are three reasons for the loss of obstetrical services.

"Skyrocketing malpractice insurance rates, a variety of tort-related issues and inadequate Medicaid reimbursement rates," were the causes listed in the board's Nov. 2 report to Schwinden.

What can be done to ease the situation?

The 15-member council wasted little time in getting down to the business of answering that question. Short-term and long-term measures to encourage physicians to maintain their obstetrical practices, to ease the insurance availability problem and to improve the medical/legal climate were suggested in the report.

The Montana Medical Association will present a bill to the 51st Legislature that will restructure the way obstetrical services are paid for, cut-

ting insurance premiums by nearly 40 percent, according to Brian Zins, executive director of the MMA. The council endorsed that proposal and rejected a proposal by the Office of the State Auditor as being "too narrow in scope... (it) does not solve the problem on a short-term or long-term basis," the report stated.

The state medical association's proposal, on the other hand, would provide quick and lasting relief for the obstetrical insurance crisis.

"All we want to do is let the physicians practice medicine and provide services to the citizens of Montana," Zins said. The MMA's bill would do that by making obstetrical insurance affordable for the state's family practitioners and obstetricians.

Medicaid also drew the council's attention. Several changes in that program could ease the situation, according to the council's report. Among the suggested changes were raising the level of Medicaid reimbursement to doctors who deliver babies to \$1,000 — the "break-even" amount for the doctor, extending the program's eligibility coverage for pregnant women and expanding the prenatal and infant care education programs.

Those changes will cost money. The council suggested paying for the expanded Medicaid services with a tax increase on tobacco products to be matched by federal funds. The funding issue merits further study.

We join the Montana Medical Association in commending Schwinden and the board for their prompt and studied response to the medical insurance crisis. The Legislature must act in a similar fashion.



# MONTANA PERINATAL NEWSLETTER

SENATE TAXATION

EXHIBIT NO. 3 P.9

DATE 7/7/89

NOVEMBER 1988

BILL NO. SB 449

VOLUME 9, NO. 2

A brief of the recommendations of the Obstetrical Services Availability Advisory Council was delivered to Governor Schwinden on September 30. The full report will be prepared by mid-October.

## BACKGROUND

The Obstetrical Services Availability Advisory Council was appointed on March 11, 1988, by Governor Schwinden. The appointment of the Council was the result of a recommendation by the Insurance Subcommittee of the Governor's Council on Economic Development. The Insurance Subcommittee had been studying the obstetrical malpractice insurance crisis in Montana. Finding that the complexity of the situation made the crisis appear almost overwhelming, the subcommittee recommended the formation of a council whose charge would be to study in depth the factors contributing to the crisis.

The Obstetrical Services Availability Advisory Council has 15 members, representing the medical and legal profession, the insurance industry, the legislature, and the public.

The **PURPOSE** of the Council is to:

- (a) Examine the extent, causes and effects of the loss of obstetrical care in Montana;
- (b) Analyze possible short-term solutions, including but not limited to increased Medicaid reimbursement and, direct payments for a portion of malpractice premiums related to obstetrical care;
- (c) Analyze potential long-term solutions, including but not limited to those proposed by the Montana Medical Association and the State Auditor; and
- (d) Recommend, on or before September 30, 1988, preferred short-term and long-term solutions for submission to the 51st Legislature.

The loss of access to obstetrical services in Montana is considered a crisis. The extent of the crisis is widespread and worsening, especially in rural areas; but urban areas are impacted as well. The causes of the crisis include the well-publicized problem of skyrocketing malpractice insurance rates, a variety of tort-related issues, and inadequate Medicaid reimbursement rates. The effects of the crisis are many, but combined, can be described as the loss of access to obstetrical care in Montana, especially in rural areas. Among the worst effects are a possible increase in the infant mortality rate, and the human costs and economic costs of maloccurrence, or bad outcome.

## COUNCIL RECOMMENDATIONS

Having studied a variety of information, data, and viewpoints the members of the Obstetrical Services Availability Advisory Council determined that the loss of access to obstetrical services in Montana is a crisis, and that responsibilities for seeking solutions to the crisis must be assumed by state and local government, individual communities and organizations, and the private sector. Therefore, the Council recommends to the Governor of Montana, the following:

**Regarding Medicaid —**

- Raise the level of Medicaid reimbursement to \$1,000 which is approximately 80% of the industry average, and a "break even" figure for doctors delivering babies.
- Adopt presumptive eligibility for early, effective prenatal care for Medicaid clients.
- Expand outreach/education programs in prenatal and infant care.
- Increase medicaid coverage to 150% of the poverty level for prenatal care.

**Regarding Funding Medicaid —**

- In seeking a source of funding for increased Medicaid reimbursements the Council recognizes the strains on the state budget.
- A significant number of medicaid mothers with complicated pregnancies (bad outcomes) use tobacco products.
- Because of the correlation between problem pregnancies and tobacco use, the Council recommends that the best potential source of increased funding is a tobacco taxation increase to be matched 70/30 by federal funds.

**Regarding Medical Malpractice Insurance Costs —**

- Introduce legislation that immediately reduces medical liability insurance premiums for doctors that deliver babies. The alternative must be actuarially sound, with provisions for injury prevention in birth-related cases, and with provisions for eliminating the uncertainties of the current tort and insurance system. The proposal of the Montana Medical Association, published/dated June, 1988, seeks to secure the above provisions, and deserves careful consideration by the Legislature. The Infant Compensation Plan, proposed by the Office of the State Auditor, is too narrow in scope, and does not adequately address the needs, does not solve the problem on a short-term or long-term basis, and is not viable.
- Amend current law relating to periodic payment of future damages of \$100,000 or more and make periodic payments mandatory in obstetrical cases.
- The Council supports some of the reforms recommended by the Montana Medical Association, including limiting the liability of doctors who participate in peer review.

**Other —**

- Consider alternative methods of insurance rate-setting.
- Disclose fully the risks to patients in rural areas as to the availability of and access to obstetrical services.
- Support the intentions of the Montana Medical Association to examine the topic of state examination and certification of physicians practicing in Montana.
- Support existing maternal/child health programs whose goals are the prevention of low birthweight babies and early access to medical care.
- The Council recognizes that some small communities have devised creative, short-term solutions to encourage physicians who deliver babies to remain in those small communities, including, among others, paying a portion of the doctors liability insurance premiums, making the doctors employees of the community hospitals. The Council applauds those efforts and urges small communities, with the cooperation and financial assistance in the form of matching grants or loans from the legislature, private insurance carriers and others, to continue those efforts in the short-term to keep physicians delivering babies in those small communities.

Governor Schwinden

Cost Containment Council

## DISCUSSION PAPER NO. 9

Issue: Which, if any, alternative ways of financing Indigent Care could produce cost savings?

The term "indigent care" refers to health care provided to people who are unable to pay for it. The reasons for this inability to pay are numerous: income below the poverty line; "medical indigency", in which income is below the poverty line after medical expenses are deducted; lack of medical insurance; insufficient insurance; catastrophic medical expenses. Society dictates that medical care must be provided for these people; medical care costs money -- the problem is determining the source of that money and any potential for cost savings.

Discussion:

Cost containment efforts must be approached cautiously where indigent care is concerned. Cutting back on services, or requiring use of unregulated alternative services, may result in development of more serious ailments. Any short-term savings could be swallowed up by long-term expenses. Cutting back on funding doesn't make the costs go away, although it will make them appear in someone else's pocket.

Montana has a fairly liberal indigent care policy. Medicaid, a tax-supported system, is available for qualified indigent and medically indigent; Medicaid reimbursement falls short of actual costs, however. Health care providers are left with a residue of expenses which must be covered somehow, usually by shifting costs to patients able to pay.

State and county medical assistance is available for qualified persons who do not meet Medicaid requirements. For those unable to qualify for any other form of assistance, the hospital will still provide care and forgive all or part of the charges. For Montana hospitals, this means that from 4.2% to 6% of net patient revenue is uncompensated, with the higher ratios occurring in financially distressed rural hospitals. Again, these costs must be paid somewhere and are shifted to self-paying consumers and third-party payers as a "sick tax."

The costs of providing indigent care, then, are borne in three ways: through taxation for Medicaid, state and county programs; through higher insurance premiums, deductibles and co-insurance payments necessitated by factoring in the "sick tax;" and through direct payment of the "sick tax" by self-paying patients. The costs must be paid, but is this the most equitable way to do it? It is the able-to-pay hospital user who bears the brunt of subsidizing the indigent.

The method of funding indigent care is one issue; cost containment is another. Is there a way to provide care for these people without creating a "two-tiered" system which provides one level of care for the indigent and

another, higher-quality level for the able-to-pay? A Robert Wood Johnson Foundation study (1982) showed that uninsured people were more likely to have a serious illness in the family that had caused major financial problems and were more likely to perceive themselves to be in poor health, yet were also more likely not to have seen a physician in the preceding 12 month period, to have postponed needed health care, and not to have a regular source of health care. The result is that preventative care is largely non-existent. Without a primary care physician, people frequently rely on an expensive hospital emergency room for treatment and prescription drugs. Children fail to receive well-child services; pregnant women do not get adequate pre-natal care and are more likely to deliver low-birth-weight babies. When these people finally seek medical care, they are more likely to need expensive inpatient care for untreated problems. Added to this are other health hazards associated with poverty: poor nutrition, environmental hazards, alcohol and drug abuse, domestic violence, crime, stress. Any attempt at reducing indigent care costs should consider and address the unique causes for high costs among this population.

#### Financing Options:

1. Recognize the existence and consequences of cost shifting, but continue to use it to finance indigent care.
2. Finance indigent care through taxes (general revenue, special purpose, health care provider taxes, health insurance taxes, etc.).
3. Institute an all-payer rate control system; perhaps a diagnosis-related grouping reimbursement system, with discounts for Medicare, Medicaid, and possibly large third party payers.

#### Cost Containment Options:

1. Compute public health department costs for preventative services. Contract with providers to provide pre-natal, neo-natal, well child services, etc.
2. Promote availability of Medicaid-covered pre-natal care. Educate providers, eligible families, secondary school students on need for, and availability of, services.
3. Establish a health maintenance organization for indigent care and require membership of all eligible people.

#### Staff Discussion:

The Council must decide whether it wants to deal with the issue of how to most equitably fund indigent care, how best to reduce indigent care costs, or both. This is a complex issue, involving also long-term care concerns, rural hospitals, alternative delivery systems, alcohol and drugs and health promotion issues. Careful study is needed to make all the pieces of this puzzle fit together.

DISCUSSION PAPER NO. 9  
Page 3

SENATE TAXATION

EXHIBIT (1) 3 p.13

DATE 3/7/89

BILL NO SB 445

Work Session Participants: Anthony Wellever (Montana Hospital Association), Don Allen (Consultant), Mike Pichette (Governor's Office), J. Dale Taliaferro (Health Planning and Resource Development Bureau), Lowell Uda (Medicaid Services), Steve Waldron (Mental Health Services, Inc., Helena), Gordon Morris (Montana Association of Counties), Charles Briggs (State Aging Coordinator).

Comments: Tom Ryan, Council Member:

"Financing options: Institute an all-payer rate control system - a DRG reimbursement system. Discounts would lead to a pass on (of costs) of sorts. Mandated charges would be my recommendation.

Passing a sick tax would be one approach but it would not do anything for health cost containment. Competition has not been in evidence. It can only become a workable system when more of those capable of training are trained."

(This sheet to be used by those testifying on EXHIBIT NO. 4)DATE 3/7/89BILL NO. SB 445DATE: 2/7/89NAME: Robert M. St. John, MDADDRESS: 874 So MontrossPHONE: 406 782-4292REPRESENTING WHOM? Physicians, MMAAPPEARING ON WHICH PROPOSAL: SB 445DO YOU: SUPPORT?  AMEND?  OPPOSE? 

COMMENT: Montross has a recognized obstetrical crisis. 50% of the physicians delivering babies in Montross 7-10 yrs ago have quit. One of the major problems has been Medicaid reimbursement levels for obstetrical patients. 1/3 of all pregnant patients in Montross are covered by Medicaid. If the reimbursement for a Medicaid covered patient does not cover the overhead to take care of that patient, in the past we have been told that the legislature agrees that a problem of low reimbursement exists that how can this problem be met with the legislative shortfalls that exist. This is a very logical way to fund increased of reimbursement. Most of the Medicaid patients are smokers, smoking is a voluntary decision.

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

Presented by Kay Foster  
3/7/89

Senate Taxation  
Committee

SB 445  
November 2, 1988  
EXHIBIT NO. 5 p. 1  
DATE 3/7/89  
PI NO. SB 445

GOVERNOR SCHWINDEN -----

I am pleased to present the formal report of the findings and recommendations of the OSAAC.

For 6 months the Council worked to determine the extent and causes of the loss of adequate OB care in the state and, particularly, in its rural areas. The findings document that there are currently 87 Family Practitioners delivering babies in Montana (down from 160 in 1986) and 37 Obstetricians serving pregnant women, most of whom are concentrated in urban areas.

The facts simply stated are:

\*Rural populations have declined while medical liability rates for all physicians have risen.

\*A physician delivering 20 babies in a small town pays the same liability premium as a similarly rated doctor in a larger area with 100-200 maternity patients a year.

\*Most doctors who continue to offer OB services in sparsely populated areas do so because it is one of the more enjoyable parts of their practice and a very necessary service in the community. Payment for care seldom covers even the cost of liability insurance.

WE FEEL that in the short term these doctors must be commended and encouraged to continue this service. The economies of these small towns and the future of their hospitals are greatly impacted by the loss of OB care. For this reason, as well as the overriding social concern for healthy mothers and healthy babies, the State of Montana has an obligation to become involved in assuring an adequate level of care.

Our recommendations are NOT easy answers...there appears no "quick fix".

Formal proposals were presented to us and addressed. The Infant Compensation Fund proposed by the State Auditor appeared too narrow in scope and not to truly address the needs on either a short term or long term basis.

The lengthy Montana Medical Association proposal, and particularly certain portions relating to peer review, disclosure of risk and

SENATE TAXATION

EXHIBIT NO. 5 P.2  
DATE 3/7/89  
BILL NO. SB445

mandatory periodic payment of future damages, merits consideration by the Legislature. Questions continue regarding the constitutionality of some provisions of the plan and the documentation of its actuarial soundness. These prevented the Council from endorsing the concept in its report.

THE BEST SHORT TERM AND LONG TERM SOLUTION WE HAVE FOUND IS IN THE LOWERING OF THE NUMBER OF HIGH RISK PREGNANCIES THROUGH MATERNAL EDUCATION AND ACCESSIBLE PRENATAL CARE.

Montana's medicaid reimbursement rates are among the nation's lowest. The process of qualifying is lengthy and cumbersome. As a result, mothers-at-risk frequently receive little or late prenatal care and physicians are reluctant to treat them because of the high risk of "bad outcomes" and low level of reimbursement.

We recommend:

- \*Raising the level of Medicaid reimbursement from \$662 to \$1000 for a normal delivery.
- \*Adoption of presumptive eligibility to insure early care.
- \*Extension of coverage to those at 150% of poverty level.
- \*And, most especially, expansion of education and outreach programs for prenatal and infant care.

These only highlight our findings. We offer to work with you and the next Legislature toward their implementation.

Thank you.

STATEMENT OF THE TOBACCO INSTITUTE IN OPPOSITION TO SENATE BILL  
445

Mr. Chairman and Members of the Committee:

My name is Jerome Anderson. I am an attorney with offices in Helena, Montana. I am a registered lobbyist for the Tobacco Institute and represent that group here today in opposition to Senate Bill 445.

The Tobacco Institute represents the tobacco industry generally before legislative bodies and governmental entities. It is funded by companies who produce and distribute various types of tobacco products in the United States.

Before we get on to the specifics of our opposition to Senate Bill 445, perhaps it would be well to discuss the history and present use of the cigarette tax.

Montana's first cigarette tax was passed by the legislature in 1947. It was applied to cigarettes as a means of paying off bonds that were issued to finance the World War II Veterans Bonus. When those bonds were paid off, the tax was then used to finance the Korean War Veterans' Bonus. After further increases in the cigarette tax, and after the Veterans' Bonds were paid off, proceeds from the tax were earmarked for the state building program and today, the money is generally used for debt service. According to the Legislative Fiscal Analyst's Office, approximately 21% of the proceeds from the cigarette tax go into the Capitol Project's cash account and 79% go into the Long-Range

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SB 445

Building Program Fund. The Capitol Project cash account money is used to pay for both construction and major maintenance which is paid for directly in cash. The 79% that goes to the Building Program Fund is, along with moneys from the personal income tax and from the corporate license tax, used for debt retirement for the Long-Range Building Program. It is a contradiction that cigarette tax and other tobacco products' tax revenues have been used to finance the construction of buildings within which the use of cigarettes and other tobacco products is either severely restricted or banned entirely.

The last cigarette tax increase occurred in 1983. The moneys from that increase were used principally to finance a "greenhouse" at MSU at Bozeman. That was a 33%, 4 cent per pack, increase, and, consistently since that time, the tax paid sales of cigarettes in Montana have decreased. As a result, the revenues from those sales have severely decreased. The highest level of annual sales of cigarettes in Montana occurred in 1982, when 97.1 million tax paid sales of packages of cigarettes occurred. By fiscal year 1988, sales were down by 25.2% to 72.6 million packs during that year. This decline in sales is nearly three times greater than the decline in national cigarette sales for the same period. We believe that the Montana tax increase, coupled with the increase in the federal tax in 1985, has had a significant affect on tax paid sales which has resulted in substantial reductions in revenues to the state. The present tax on a package of twenty cigarettes in Montana is 16 cents state tax, and 16 cents federal tax, for a total of 32 cents per

package. This constitutes a sales tax of approximately 35% of the weighted average price of a package of cigarettes before taxes.

There are a number of bills now introduced calling for cigarette and other tobacco product tax increases. House Bill 266 calls for a one cent per pack increase in tax and House Bill 202 asks for a five cent per pack increase. House Bill 494 calls for doubling the other tobacco products tax from 12 1/2% to 25% of the wholesale price. We have truly become a target for all to shoot at. House Bill 266 and House Bill 494 have been tabled in the House Taxation Committee. House Bill 202 calling for a 5 cent increase and this bill, Senate Bill 445, also calling for a 5 cent increase, are still to be acted upon in Committee.

When a specific rate of tax reaches a saturation level, any increase in that tax becomes counterproductive. The level of saturation has been reached in Montana. Any further increase which tends to increase the rate of reduction of taxed sales of cigarettes could severely harm the amounts available for reduction of the present Long-Range Building debt structure and for moneys for the Capitol Projects' cash account. We urge the Committee to carefully scrutinize the effects of proposed tax increases on the continuing capability of the provision of adequate moneys from this tax to take care of existing obligations in connection with the Long-Range Building Program which obligations are ongoing and which will continue for a number of years.

As to Senate Bill 445, the moneys to be derived from the five cent per pack increase on a package of twenty cigarettes and from doubling the tax on other tobacco products is go directly to the General Fund for the purpose of increasing the Medicaid reimbursement for obstetrical services performed by physicians. The amount to be raised is approximately 3.7 million dollars in fiscal year 1990 and 3.8 million dollars in fiscal year 1991. The medical fraternity is certainly assaulting this legislature with money requests for bail-out programs for doctors. In each case, the doctors want someone else to pay the bill. For instance, House Bill 699 is a bill introduced on behalf of the Montana Medical Association and Montana's obstetricians. That bill provides for the establishment of a fund to be used as a sort of malpractice fund to pay off malpractice claims against obstetricians. It is intended, as we understand it, to replace the need for malpractice insurance. Guess how that obligation is paid for. By a tax on all casualty insurance premiums. You may think that the insurance companies will assume that tax. If you do, you don't think correctly. That tax, obviously, would be passed on to you and I who pay for car insurance, home liability, and fire insurance, and many other forms of casualty insurance coverage. In the case of this bill, the consumer again is hit with the tax increase. Remember, cigarettes don't pay taxes-- people do. If the doctors want payment for obstetrical care from some tax revenue source, let them tax themselves and tax their own facilities--hospitals, et al. When lawyers in this state needed a program to alleviate malpractice insurance costs, they

didn't come running to the legislature to have the legislature SB445 arrange for someone else to pay the bill. Montana's lawyers put together their own program--at their own expense. That's what the doctors should do here. Pregnancy and tobacco products certainly seem to be unrelated. Tobacco products don't cause pregnancies. Why then should tobacco products pay for them. But the medical profession, the Lung Association, the Cancer Society, and the rest, call for the tax based on some social principal that makes it right and equitable to punish tobacco users by loading unfair and extreme sales taxes upon them. Yet the same action and attitude is not exhibited against the, by far, leading cause of death in the United States--Cardiovascular and heart disease--strokes and heart attacks.

Where is a provision for a tax on meat and meat products, or on meat packers, leading sources of fats and cholesterol to pay for Medicaid obstetrical costs?

Where is the provision for a tax on automobiles, leading sources of air pollution allegedly associated with lung cancer and respiratory problems to pay for Medicaid obstetrical costs?

Where is the provision for a tax on dairy products which contain cholesterol to pay for Medicaid obstetrical costs?

Where is the tax on timber harvests which produce the wood burned in homes and fireplaces which, in turn, severely impact the pristine air of Montana, in turn, causing alleged respiratory inflammations? Where is such a tax to pay Medicaid obstetrical costs?

Where is the tax on other like products like asbestos, which allegedly do physical harm to some members of the public? Why are not those products paying their fair share, if one there is?

Those taxes are not being asked for because it would be unfair to tax those products individually just as it is unfair to select the cigarette and other tobacco products' taxes as the sole targets for this money.

But even beyond the unfairness of this bill is the contradiction exhibited by this bill as compared to the members of the medical fraternity who support it. The contradiction exhibited by this bill that is the most difficult to justify, is the position that all of the medical and health sponsors of this legislation have placed themselves in. They come before this Committee and rail against tobacco products, trying to scare you into passing this legislation, making dire statements and predictions as to the mortality of a significant portion of our population. Yet they want to rely on revenues from these products to increase their average annual earnings. They are saying to you that they believe that the use of the products is extremely harmful to your health. Yet, on the other hand, they certainly want the products sold in great quantities so that the obstetricians get paid for their services. There is a word describing such contradictory activity on the part of individuals. I hesitate to use it here. It sounds much like the name of the oath that the members of the medical profession swear to when they become doctors.

Higher and higher cigarette taxes in Montana have resulted in an ever-increasing rate of untaxed sales in this state. In 1985, a study conducted by the Federal Advisory Commission on Intergovernmental Relations found that 17.2% of Montana's tobacco sales were untaxed sales on Indian reservations. We have reason to believe that that rate has increased to the level of approximately 21%. We have the highest percentage of such sales in the nation. In addition, people from Montana purchase cigarettes and other tobacco products from locations in Wyoming as well as from federal installations in Montana where the tax may not be collected. Untaxed sales of tobacco products in this state are exacerbated by tax increases.

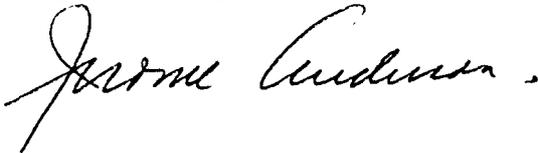
We truly believe enough is enough. There has been enough discrimination, enough harassment, enough control, enough legislation, enough censorship, and enough taxation with regard to the use of tobacco products in the United States and in Montana. A national poll conducted in the latter part of 1988 showed that most Americans do not support an increase in the cigarette excise tax. In fact, 53% said that they believe that excise taxes--amounting to about one-third of the price of a pack of cigarettes--should stay the same (38%) or be significantly reduced (15%). People in the United States have apparently not lost their sense of fair play and are now realizing that the rate of tax is about all that the traffic will bear.

The average income of a doctor in the United States is in excess of \$130,000 per year. We ask you to bear this in mind when you vote on this bill which is designed to not only protect

existing fees but to increase the fee collection to SB44  
obstetricians. Why should the obstetricians only bite 30% of the  
population for payment of their fees? If the use of the proposed  
funding is for the common good in Montana, then let's all pay the  
bill.

If the obstetricians feel that Medicaid reimbursement  
requires additional funding, let them go to the Appropriations  
Committee and get it like everyone else does. We urge you to  
protect the existing debt retirement funding structure and vote  
"Do Not Pass" on this bill.

Respectfully submitted,



Jerome Anderson  
Representing the Tobacco Institute

**SENATE TAXATION**

EXHIBIT NO. 6 P. 9  
 DATE: 3/7/89

and essential suppliers spend dollars for goods and services in other industries. Those tobacco dollars thus support additional jobs that generate other incomes and spending flows.

For instance, Chase traced the effect of tobacco worker spending on demand for the basics, such as housing, cars, food and clothing, whose consumption in turn leads to a broad range of demands for intermediate goods. Chase found Montana, 44th state in population, disproportionately high among states in induced effects on employment in mining, primarily oil and natural gas, in agriculture, in construction and in wholesale and retail trade. In just the four sectors, tobacco employee dollars supported 2,111 jobs, with more than \$31.1 million in wages and benefits. The induced effect in all sectors was 3,317 jobs and more than \$53.7 million in compensation.

In all, tobacco sales and the employee paychecks of tobacco companies and their suppliers generated or supported 4,929 jobs and some \$78.9 million in incomes in Montana in 1983. The job figure is equal to more than half the entire population of Miles City.

# Tobacco in Montana



Fur traders and prospectors followed and shortly there were ready markets for tobacco goods at the first trading posts and settlements.

Although America's first commercial crop is not grown in Montana, busy wholesale and retail tobacco operations in the state have long been dynamic economic forces.

## Growing Through the Economy of the Big Sky Country

A study by Chase Econometrics, published in 1985, examined the contribution of tobacco in 1983 to the national economy and the economies of 50 states.

One Chase finding demonstrates the magnitude of the golden leaf's effect on the state's economy. An estimated 1.6 percent of all Montana's private sector jobs are related to tobacco. That's the equivalent of one in every 62 jobs of all kinds.

Almost a third of these jobs are directly related to tobacco industry activity. The rest result from multiplier or ripple effects as tobacco workers, their employers

## Rooted in History

The Lewis and Clark expedition crossed the Continental Divide near present-day Butte in August 1805 and came face-to-face with 60 mounted warriors. The explorers reached for tobacco and a pipe to communicate their peaceful intentions. Before smoking, Lewis wrote in his journal, the Indians sat in a circle and pulled off their moccasins, a custom indicating "a sacred obligation of sincerity."

## Paying Taxes to Benefit All Montanans

Nationally and in most states, tobacco is more heavily taxed than any consumer product. In fiscal year 1987, more than \$9.7 billion in excise taxes on cigarettes and other tobacco products was pumped into federal, state and local coffers. This tax money helps pay for everything from vocational training to public libraries.

In fiscal 1987, the U.S. Treasury received 16 cents for every pack of cigarettes sold in Montana. The state collected another 16 cents in excise tax per pack.

Montana also imposes excises on other tobacco products. In fiscal 1987 these netted the state \$720,332.

### Cigarette Tax Facts FY 1988

Federal tax	16¢
State tax	16¢
Total taxes per pack	32¢

### Cigarette Sales & Taxes FY 1987

Packs sold	76,700,000
State tax net collection	\$11,999,000
Federal tax collection	\$12,272,000
Weighted avg. price per pack	115.3¢
Taxes as percent of avg. price before taxes	38%

### 1983 Tobacco Employment and Income Contributions to the Economy of Montana

#### Industry & Suppliers

Wholesaling	
Jobs	163
Income	\$3,518,830
Retailing/vending	
Jobs	699
Income	\$7,692,970

#### Tobacco Industry Suppliers

Jobs	751
Income	\$14,023,700

#### Induced by Employee Spending

Jobs	3,317
Income	\$53,653,400

#### Total Tobacco-related Effects

Jobs	4,929
Income	\$78,888,500

All job numbers represent full-time equivalent employment as calculated by Chase Econometrics. The concept tends to understate the number of persons employed because some tobacco employment is seasonal, requiring part-time workers. Many individuals in distribution and retailing are also involved with products other than tobacco.

All tax data are for the year ending June 30, 1987, except average retail price, taxes as a percent of pre-tax average retail price and the sales tax rate, which are as of November 1, 1987.

### The Tobacco Institute

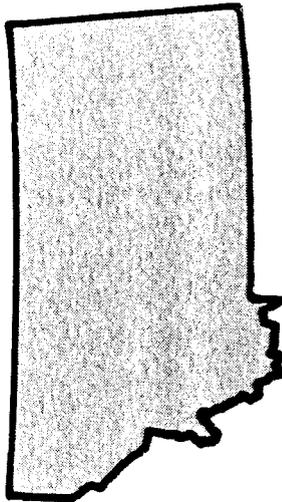
15446 Bel-Red Road  
 Suite 360  
 Redmond, WA 98052  
 206/885-7111

Sources: Chase Econometrics: The Economic Impact of the Tobacco Industry on the United States Economy in 1983, 150 Monument Road, Bala Cynwyd, PA 19004

The Tobacco Institute: The Tax Burden on Tobacco, Vol. 22, 1987, 1875 I Street NW, Washington, DC 20006

August 1988

# Tobacco in Montana



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Almost a third of these jobs are directly related to tobacco industry activity. The rest result from multiplier or ripple effects as tobacco workers, their employers

## SENATE TAXATION

EXHIBIT NO. 6

DATE: 3/7/89

and essential suppliers spend dollars for goods and services in other industries. Those industries thus support additional jobs that generate other incomes and spending flows.

For instance, Chase traced the effect of tobacco worker spending on demand for the basics, such as housing, cars, food and clothing, whose consumption in turn leads to a broad range of demands for intermediate goods. Chase found Montana, 44th state in population, disproportionately high among states in induced effects on employment in mining, primarily oil and natural gas, in agriculture, in construction and in wholesale and retail trade. In just the four sectors, tobacco employee dollars supported 2,111 jobs, with more than \$31.1 million in wages and benefits. The induced effect in all sectors was 3,317 jobs and more than \$53.7 million in compensation.

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March 6, 1989

TO: Senate Taxation Committee  
FROM: Dennis E. Winters, Partner  
Montana Market Development Company  
RE: Senate Bill #445

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Mr. Chairman and Members of the Committee

My name is Dennis Winters. I am a partner in Montana Market Development, the only firm in Montana that makes its living on the improvement of Montana's economic conditions. We have worked with clients in Montana's urban and rural areas: with Butte/Silver Bow on economic development strategic planning; and with the Department of Natural Resources and Conservation to create ways in which rural areas can deal with some of the negative conditions affecting the survival of their towns.

I. Why Excise Taxes

The problem with earmarking of funds, especially in so-called "sin tax" areas is that people feel there is no negative trade off when a tax is placed upon cigarettes, liquor, beer, or even gasoline.

Many people will say, we are only 33rd in the nation in the application of cigarette tax or beer tax or whatever.

All of these arguments seem logical only when the current economic context of Montana is not taken into account.

I. Montana is rapidly fulfilling the prophecy of becoming the "Empty Quarter" economically in the US.

II. Bulk Commodities....

III. Manufacturing...

Results:

IV. Decline in Agriculture, Lumber, Minerals (except for recent boomlet)

V. Decline in population, change in age of population

VI. Decline in personal income

VII. Decline in taxable income, decline in land values



Page 2  
March 6, 1989  
Testimony: Senate Taxation Committee

When you look at the so-called "Sin Products," we see a decline in sales:<sup>1</sup>

- Cigarette sales will decline by 6 million packs, or 9%
- Liquor sales will decline by 14%
- Beer consumption will increase by only 900,000 barrels
- Wine sales will decline by 400,000 liters.

At the same time, we see a growing dependence on establishments that sell products that are getting hit with excise taxes.

What does all this mean?

1. Many of our rural towns have dwindled to the very places that depend on beer, wine, cigarette sales;
2. We are 47th in growth in personal income; that means this 5 cents tax will hit Montana harder than all States but two...

According to Citizens for Tax Justice:

"Tobacco taxes comprise .5% of the income from the lowest quintal of Montana residents, while only .1% from the highest. The 500% difference between poor and rich distinguishes this as one of the most regressive taxes in the U.S. In other words, in Montana, tobacco taxes take 5 times the amount in income from poor people as from the rich."

In 1986, alone, the State collected over 25.9 million in cigarette taxes--that's equal to over 1/2 of expenditures in Health Programs in the State.

3. Our changing demography is already showing strong negative impacts on these products and on the businesses that retail and wholesale them. We will retard the job growth in these two sectors if we continue to attack the sales base - especially in light of the severe drop in personal income.

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<sup>1</sup> Governor's Revenue Estimating Council 1988



EXHIBIT NO. 7 p. 3  
DATE. 3/7/89  
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SO... THERE IS A TRADE-OFF; A VOTE FOR THIS BILL OR THE HOUSE BILL THAT INTENDS TO DO THE SAME THING WILL BE VOTING FOR A DECLINE OF THE RETAIL AND WHOLESALE SECTOR AND, AT THE SAME TIME, WILL BE PENALIZING THE PEOPLE IN MONTANA WHO ARE POOR BECAUSE OF MACRO-ECONOMIC CHANGES OUT OF THEIR CONTROL.

THE STATE DOES NEED MORE FOR MEDICARE AND MORE FOR VETERANS- BUT, WE MUST FIND A WAY THAT DOESN'T HURT THE SMALL TOWNS, LOW INCOME PEOPLE AND ONE OF THE FEW GROWING INDUSTRIES WE HAVE.

Wine, beer, cigarette sales are significant component of wholesale/retail trade.

Sales of these products are declining, or at best remaining relatively stagnant.

Increased prices contribute to declining sales, since wine, beer and cigarette products are price inelastic.



## Why Excise Taxes?

- They are "Hidden Taxes"

People often don't know they're paying them as they buy their gas, purchase tires, buy a beer, make a long distance call

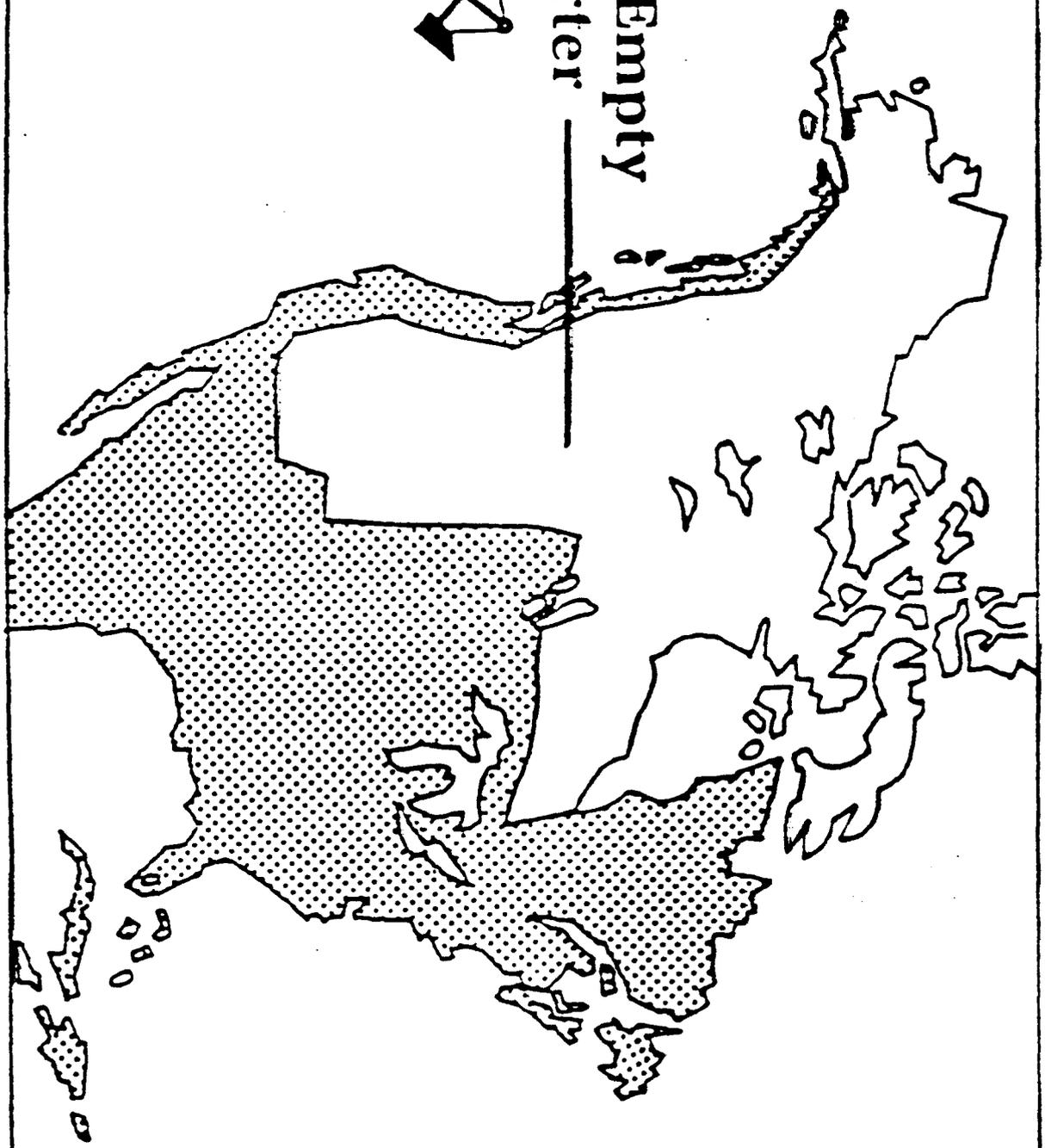
- They are "Painless"

People won't mind paying a few pennies with each purchase

- They are "Sin Taxes" or "Luxury Taxes"

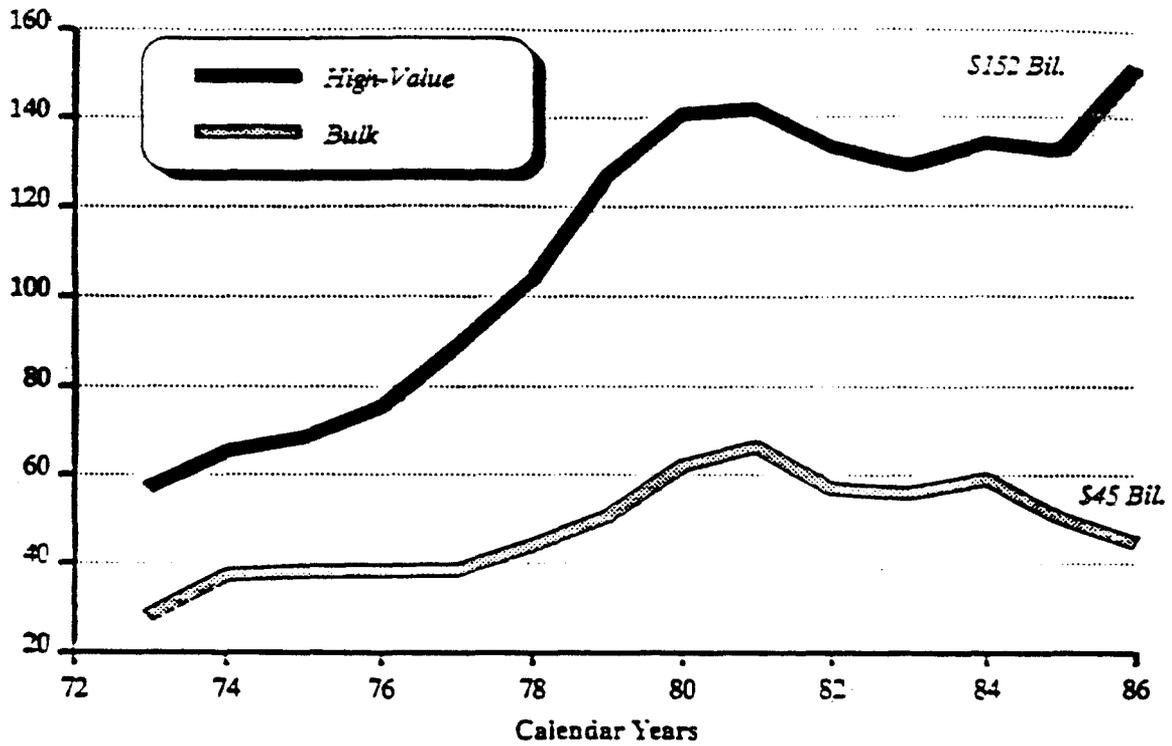
They discourage consumption of "bad" things like, cigarettes or alcoholic beverages; they're things we can live without, like air travel or long distance calls; they're things we can substitute, like taking a bus instead of driving our cars

# The Empty Quarter



from Joel Garreau's *The Nine Nations of North America*

### Expansion of World Trade in Agricultural Commodities During 1980's Has Been Concentrated in High-Value Products



### Growth in World Trade Greatest in Processed Products

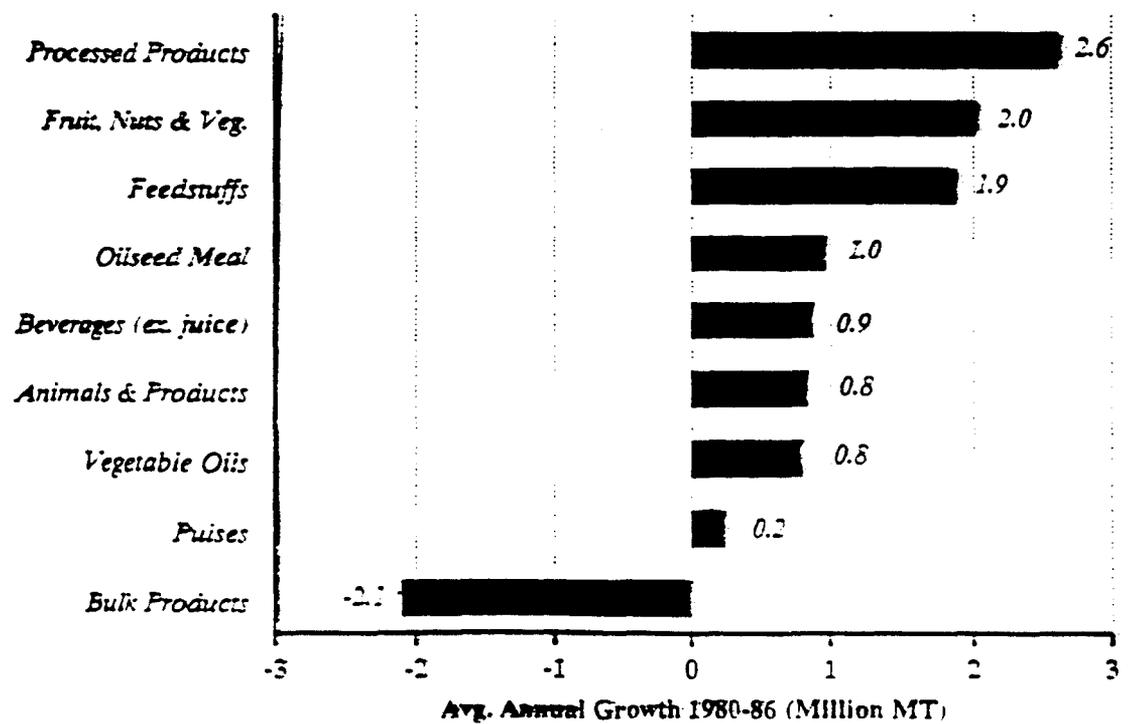
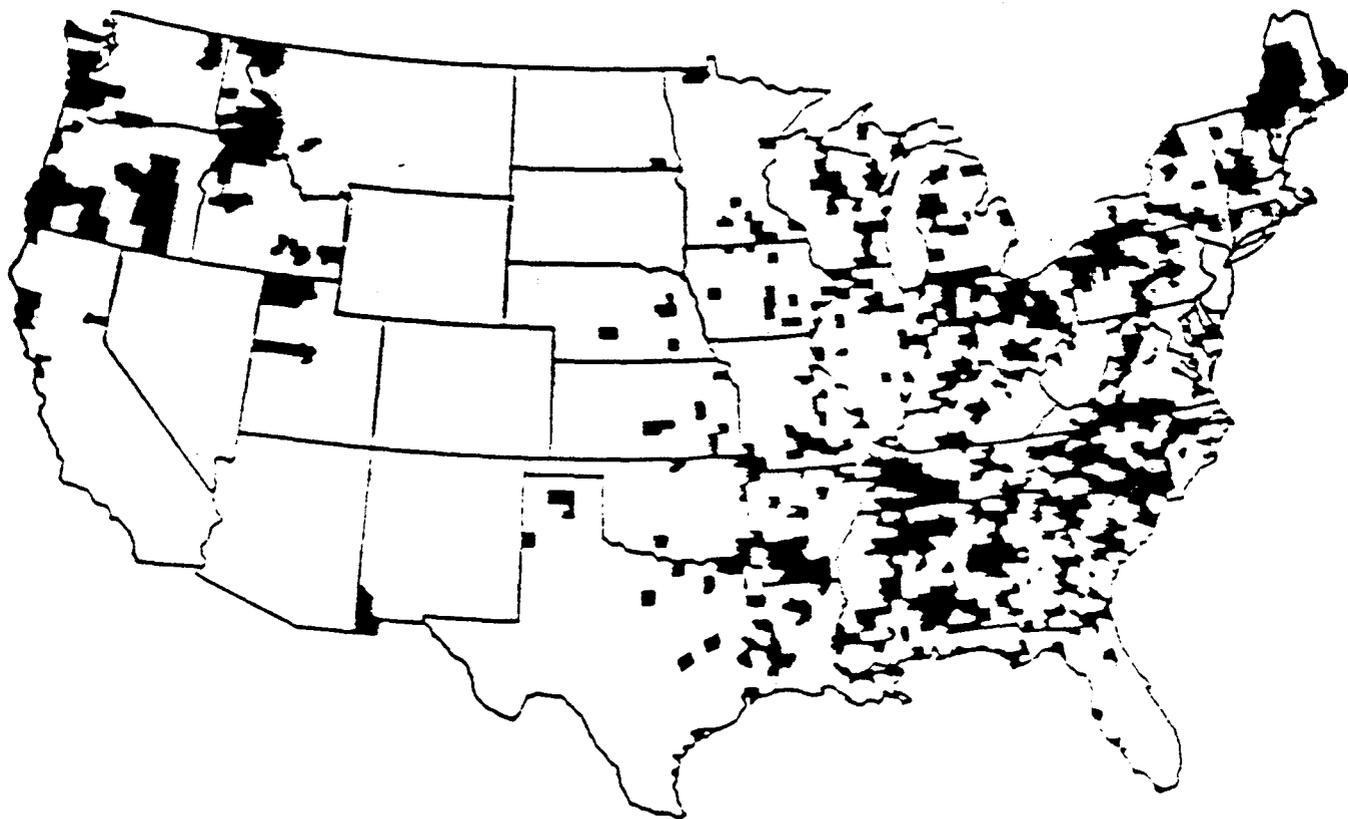


Chart 126

## Nonmetro Manufacturing-Dependent Counties

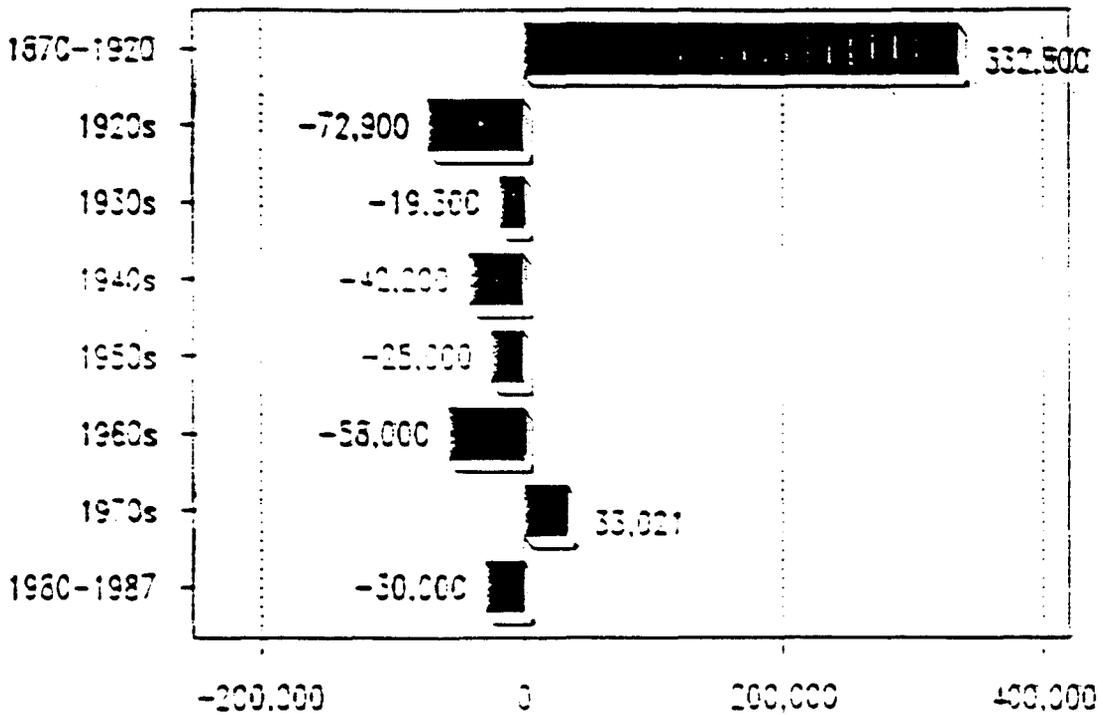
Although manufacturing has shifted away from the Northeast and Midwest during the last two decades, the Midwest still accounts for a third of manufacturing-dependent counties.



The 678 nonmetro manufacturing-dependent counties are those where manufacturing contributed at least 30 percent to earnings in 1979.

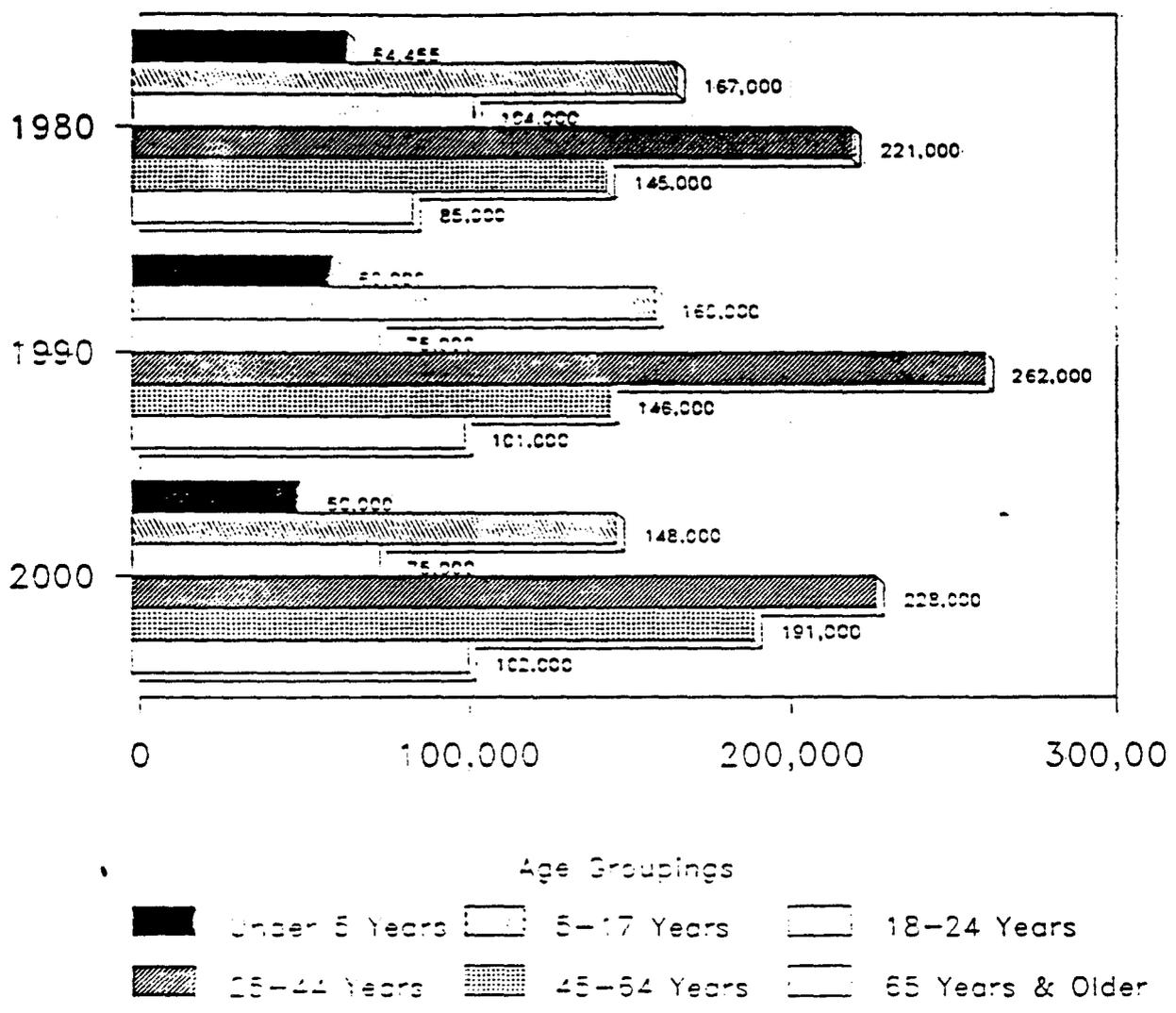
# Montana Migration Patterns

## Net Migration Effect, 1870-1987



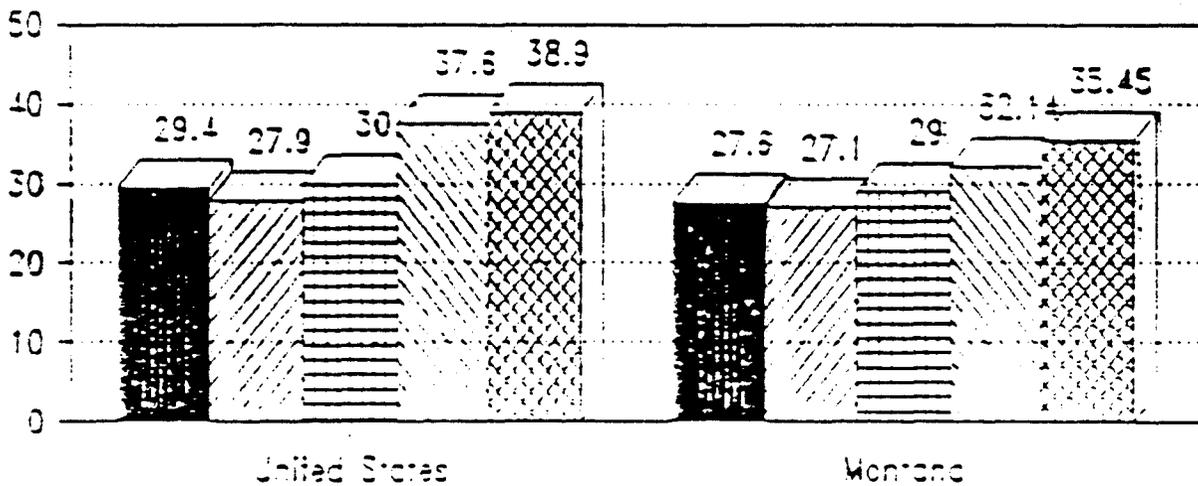
Sources: U.S. Bureau of the Census, MT  
Census & Economic Information Center

# Montana Population By Age Groups, 1980-2000



Source: U.S. Bureau of the Census  
Figure 2.11

# Median Age Changes U.S.A. & Montana 1960-2000

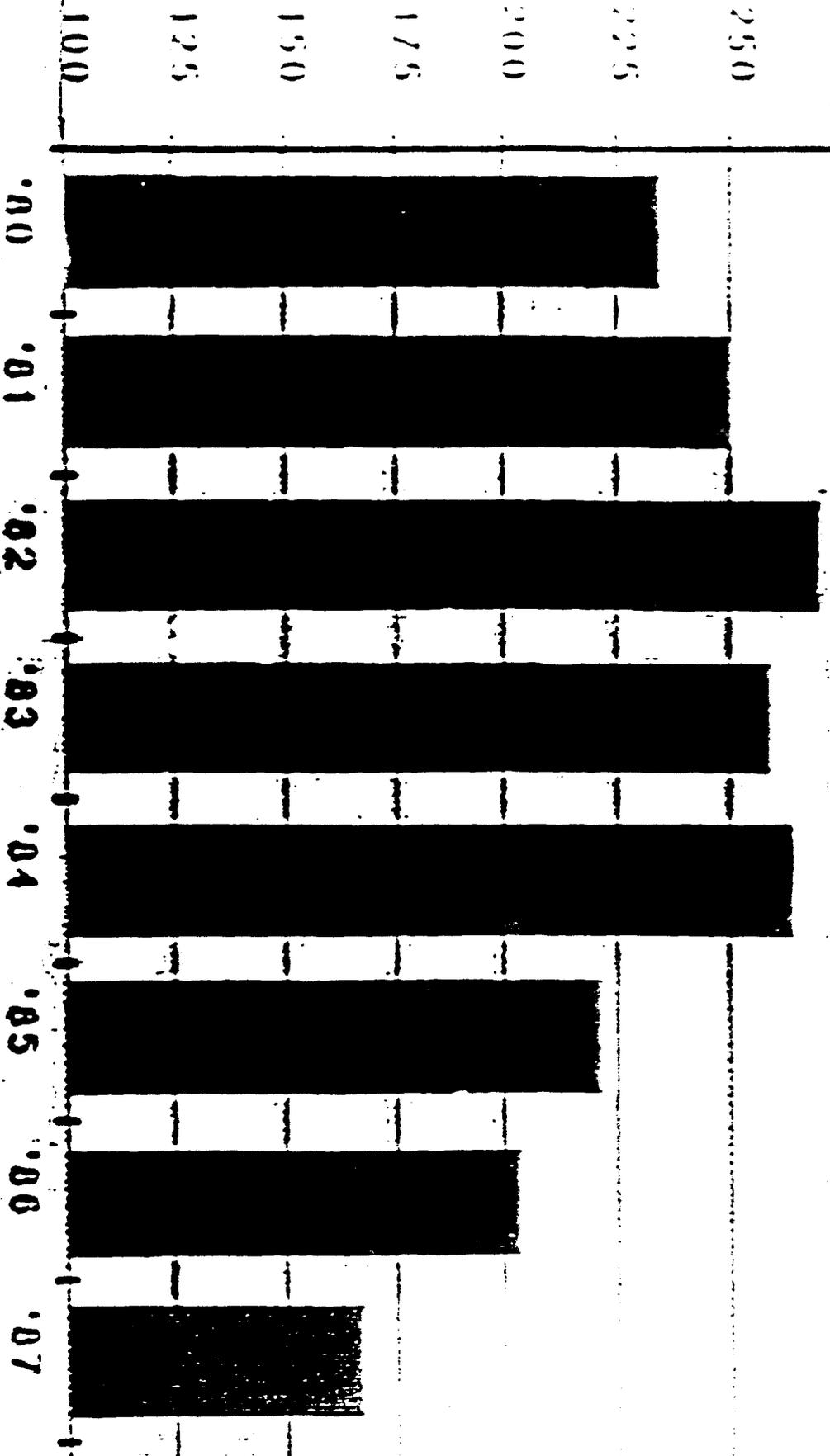


1960
  1970
  1980
  1990\*
  2000

\*U.S. 1990 Median Age is 1995 Projection

Sources: U.S. Bureau of Census,  
Woods & Poole Economics

# Montana Land values



SENATE TAXATION  
 EXHIBIT NO. 7  
 DATE 3/17/84  
 FILE NO. SA 445

# Counties' tax breakdown

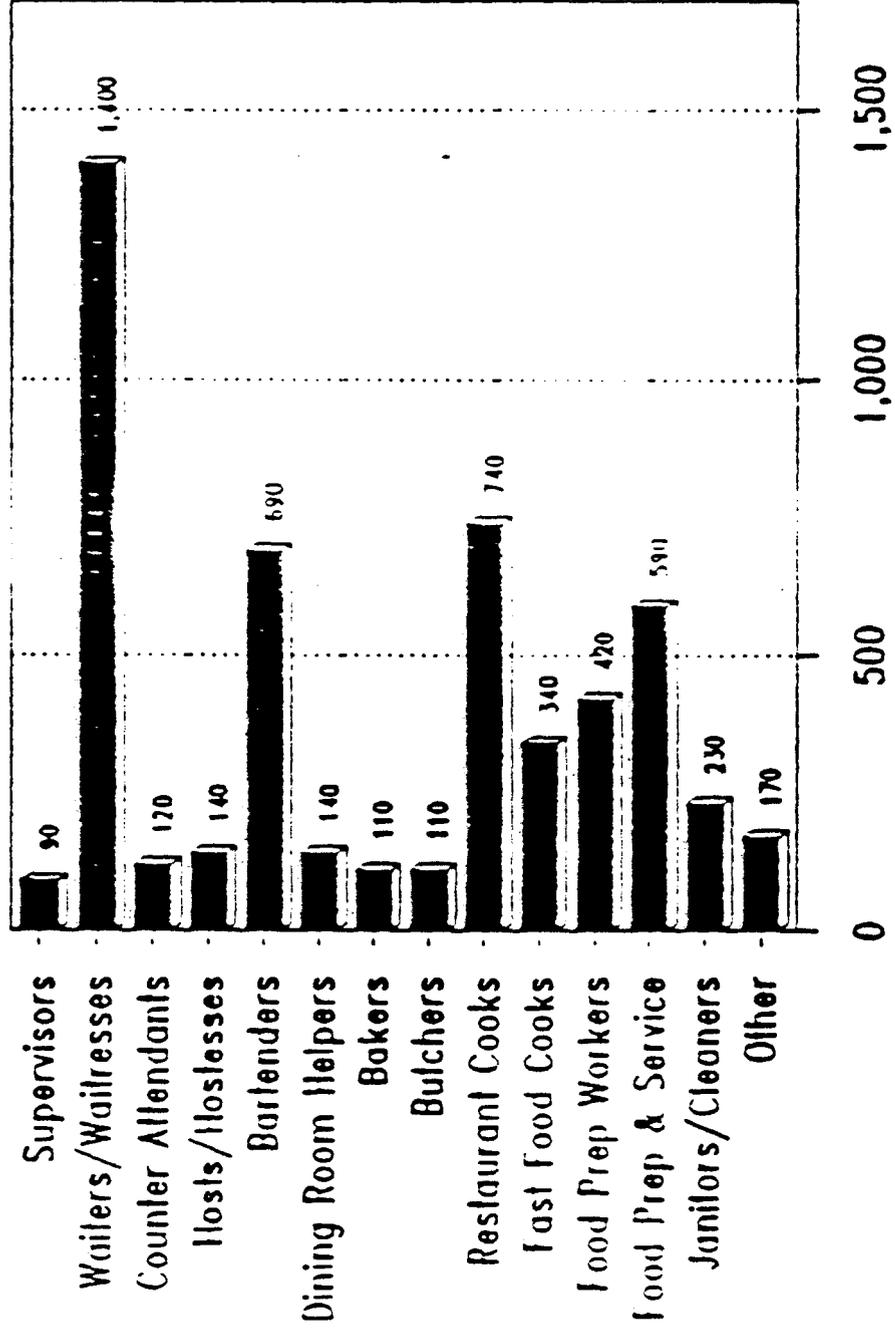
HELENA (AP) — Here is a county-by-county list of changes in taxable valuations from 1987 to 1988. The first number is the change in dollar value and the second number shows the difference as a percent. The third number shows the percent change from 1986 to 1988.

Cnty	\$ Diff.	87-88	86-88
Beaverhead	-\$180,666	-1.2	+0.08
Big Horn	-\$8.5 million	-7.5	-15.5
Blaine	-\$2.5 million	-7.6	-28.5
Broadwater	-\$220,652	-1.9	-2.4
Carbon	+\$1.2 million	+5.2	-13.9
Carter	-\$311,717	-5.3	-10.6
Cascade	-\$1.6 million	-1.7	-2.5
Chouteau	-\$1.9 million	-6.3	-10.3
Custer	-\$2 million	-12.1	-12.5
Daniels	-\$362,729	-11.5	-19.4
Dawson	-\$1.3 million	-7.3	-22.0
Deer Lodge	-\$202,357	-2.2	-3.7
Fallon	+\$5.5 million	+8.6	-45.7
Fergus	-\$661,549	-3.2	-5.3
Flathead	-\$576,694	-0.6	-7.5
Gallatin	-\$1 million	-1.6	-1.3
Garfield	-\$470,081	-6.6	-30.8
Glacier	+\$1.8 million	+6.0	-29.4
Golden Vly	-\$452,311	-3.5	-11.0
Granite	-\$713,274	-9.3	+13.1
Hill	-\$5.5 million	-12.8	-21.0
Jefferson	+\$459,248	+2.3	+16.1

Judith Bsn	-\$768,920	-3.4	-12.4
Lake	-\$644,319	-2.0	-2.7
Lewis-Clrk	-\$686,098	-1.0	-4.3
Liberty	-\$750,963	-3.1	-29.5
Lincoln	-\$3.9 million	-11.2	-13.7
McCone	-\$497,625	-5.5	-15.0
Madison	-\$343,334	-4.7	+1.0
Meagher	-\$233,700	-2.3	+1.3
Mineral	-\$833,139	-9.7	+38.4
Missoula	-\$1.3 million	-1.1	+0.5
Mussishell	-\$41,780	-0.3	-40.6
Park	-\$72,550	-0.3	-1.4
Petroleum	+\$544,341	+22.5	-46.3
Phillips	+\$188,674	+0.5	+21.1
Pondera	-\$230,402	-1.2	-18.5
Powdr Rivr	+\$368,724	+5.2	-53.6
Powell	-\$1.7 million	-13.7	-18.8
Prairie	-\$623,003	-12.5	-29.1
Ravalli	-\$144,683	-0.5	-0.1
Richland	-\$5.6 million	-9.3	-34.3
Roosevelt	-\$627,323	-1.3	-42.2
Rosebud	-\$10.1 million	-4.5	-1.9
Sanders	-\$2.4 million	-7.6	-4.2
Sheridan	+\$757,197	+1.9	-55.3
Silver Bow	+\$355,919	+2.24	+5.0
Stillwater	+\$778,487	+4.5	+5.3
Sweet Grss	-\$303,304	-4.1	-5.9
Teton	-\$1.2 million	-7.0	-16.6
Toole	-\$1.1 million	-3.5	-30.2
Treasure	-\$724,958	-14.1	-17.1
Valley	-\$2.9 million	-9.1	-31.2
Wheatland	-\$418,949	-5.5	-1.5
Wibaux	+\$2.5 million	+17.6	-27.0
Yellowstn	-\$17.2 million	-7.5	-5.7
<b>Total</b>	<b>-\$53.5 million</b>	<b>-2.9</b>	<b>-15.3</b>

7.11 988

# Service Jobs in the Retail Sales Area



SENATE TAXATION

EXHIBIT NO. 7 p.13

DATE 3/2/89

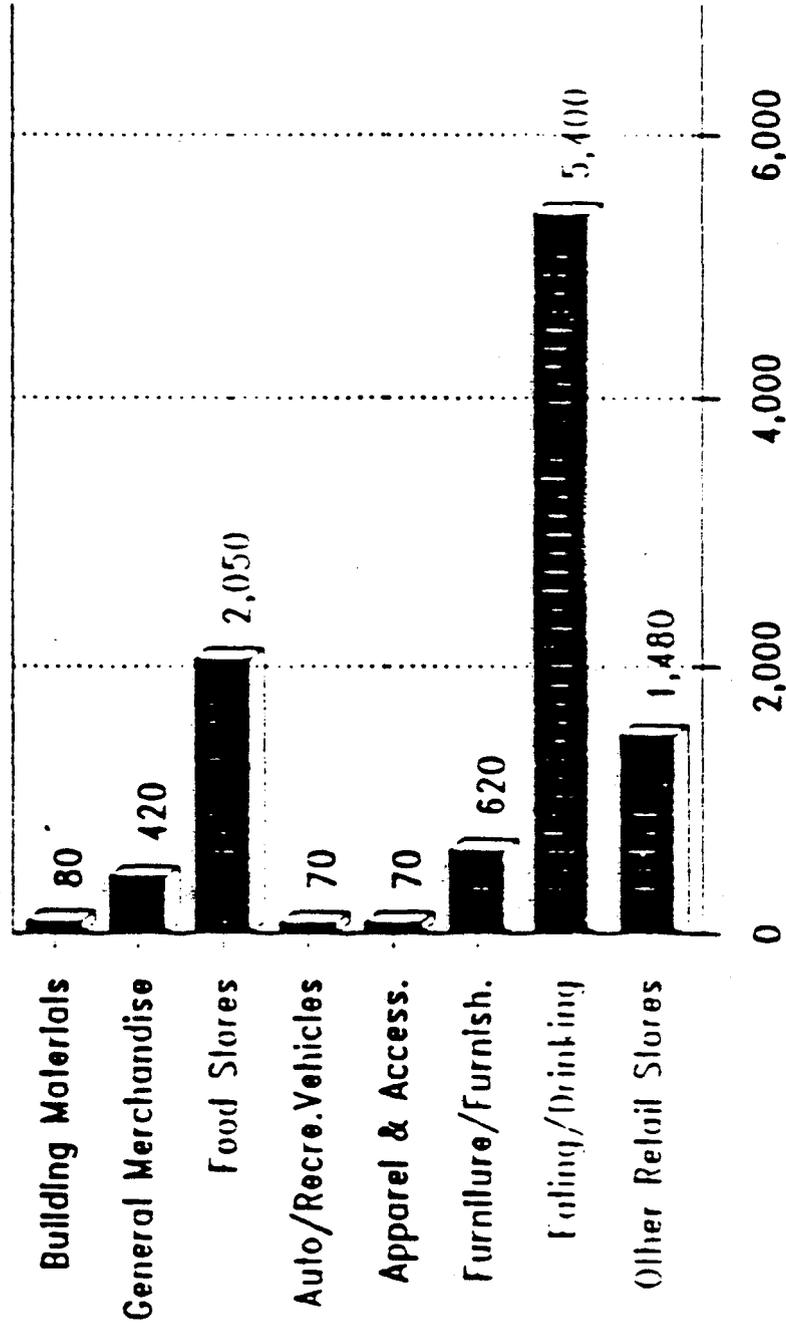
BILL NO. 513445

Source: OES Matrix, MT Table C5/2

# Retail Sales Jobs

## By Retail Store Type

Retail Sales Jobs Total: 10,200



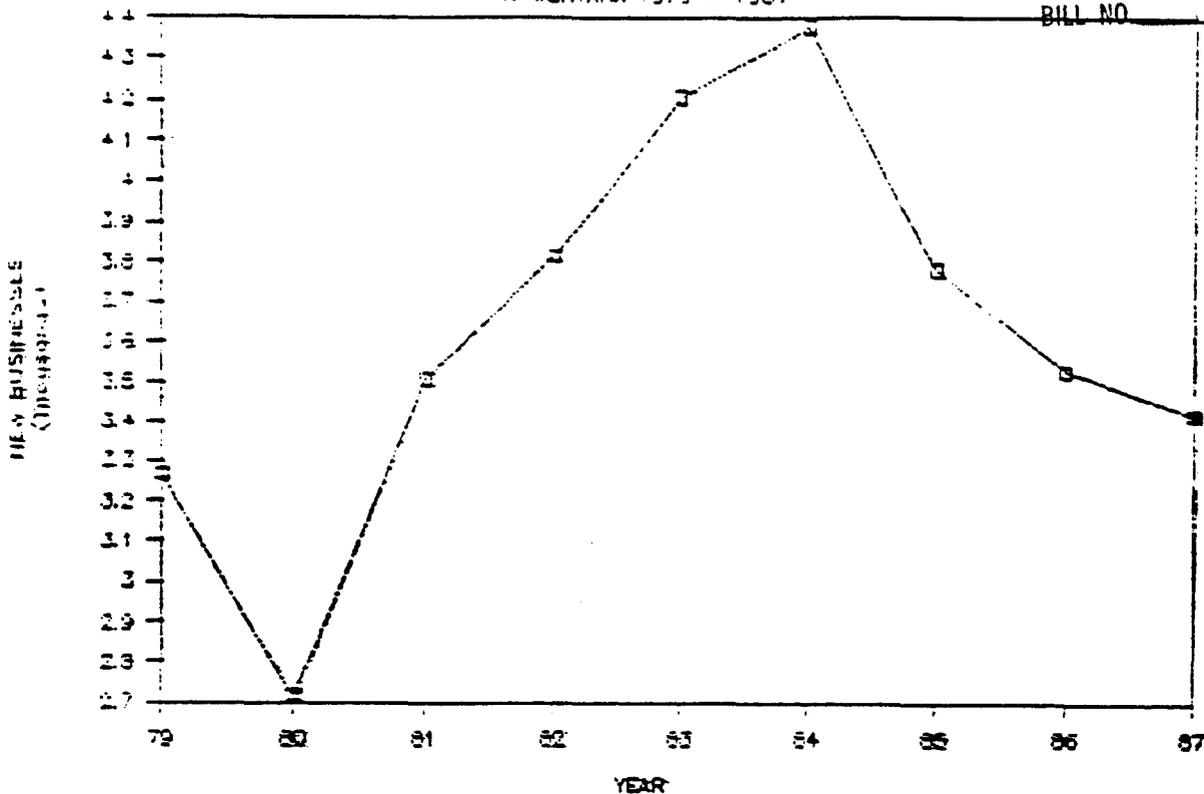
Source: OES Matrix, MT Table B

## NEW BUSINESS ESTABLISHMENTS

DATE 3/7/89

IN MONTANA 1979 - 1987

BILL NO. SB 445



**NEW BUSINESS ESTABLISHMENTS IN MONTANA  
BY INDUSTRY FOR 1985, 1986 AND 1987**

*INDUSTRY	1985	%	1986	%	1987	%
AGRICULTURE .						
FOREST, FISH	115	3.0%	90	2.5%	96	2.8%
MINING	70	1.8%	51	1.4%	60	1.8%
CONSTRUCTION	529	14.0%	419	11.8%	388	11.3%
MANUFACTURING	206	5.4%	201	5.7%	193	5.6%
TRANSP., COMM.,						
ELEC., GAS	201	5.3%	202	5.7%	178	5.2%
TRADE: WSL & RTL	1103	29.1%	1124	31.8%	952	27.8%
FINANCE, INSURANCE & REAL ESTATE	184	4.9%	179	5.1%	159	4.6%
SERVICES	1084	28.6%	1017	28.8%	1133	33.1%
**NONCLASSIFIABLE ESTABLISHMENTS	293	7.7%	249	7.1%	262	7.7%
STATE TOTAL	3785	100.0%	3531	100.0%	3421	100.0%

\*THE NEW BUSINESS TALLY DOES INCLUDE SUCCESSORS TO ACTIVE ACCOUNTS (AN ESTABLISHED BUSINESS WITH A NEW OWNER).

\*\*SOME NEW ENTERPRISES DO NOT IDENTIFY THEIR BUSINESS ACTIVITY WHEN REGISTERING WITH THE UNEMPLOYMENT INSURANCE PROGRAM. EVENTUALLY THESE BUSINESSES ARE PLACED UNDER A PROPER INDUSTRY CODE.

SENATE TAXATION

EXHIBIT NO. 7 p. 10

DATE 3/7/89

BILL NO. SB 445

## Excise Taxes are Regressive Taxes

Regressive taxes take more money out of the pockets of people who have lower incomes.

Progressive taxes take money out of your pocket in proportion to what you earn.

**ACCORDING TO THE CONGRESSIONAL BUDGET OFFICE,  
A FAMILY EARNING \$5,000 A YEAR OR LESS PAYS AN  
EFFECTIVE TAX RATE 15 TIMES GREATER THAN A FAMILY  
EARNING \$50,000 – ON FEDERAL EXCISE TAXES ALONE.**

WITNESS STATEMENT

NAME Thomas W. (Tom) Maddox SENATE BILL NO. 4 4 5

ADDRESS P. O. Box 1 2 3, Helena MT 59624 DATE 03/07/89

WHOM DO YOU REPRESENT? The Montana Association of Tobacco and Candy Distributors, Inc.

SUPPORT OPPOSE  AMEND

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

INDEX TO WITNESS' STATEMENT

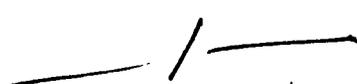
Page: Subjects:

- 1 Montana Association of Tobacco and Candy Distributors Inc. identification, description. Position: Opposed to SB445
- 2 Chart showing sales of Montana - taxed cigarettes have plunged to an all-time low. Figures from Department of Revenue
- 3 History of tobacco in Montana Territory and State — Economic
- 4 impact. Tobacco taxpayers benefit all Montanans.
- 4 Tobacco Employment and Income contributions to Economy of Montana
- 5 Montana is a poor "target" for taxing cigarettes and other tobacco.
- 7 Each one cent of tax yielding a smaller return for state.
- 8 Comments on fiscal note re: noncigarette tobacco tax
- 9 Comments on fiscal note re: cigarette tax; social impact adverse
- 10 Breakdown on cost components of noncigarette tobacco products
- 11 Cigarettes and impact on lower income people
- 12 How pregnant woman may qualify for prenatal, delivery, postnatal care
- 13 How is \$175 million program for qualified persons funded ?
- 14 More on administrative detail.
- 14 Opponents' position: ALL TAXPAYERS should continue funding — NOT just the minority who enjoy tobacco products.
- 15 Cartoon , edited for application to current adverse business legislation

This statement is presented on behalf of an association founded in 1949. Members are Montana family-owned small, independent businesses. They and their employees comprise a lifeline of essential products to retail stores in some 200 communities. Members of the Montana Association of the Montana Association of Tobacco and Candy Distributors are licensed by the state of Montana. They are charged with PREPAYING the state and federal taxes on cigarettes and other tobacco products before delivery to retail stores and vendors. These small businessmen and women are important partners with the state in the tobacco business. The state of course, as the "managing partner," enjoys by far the greatest benefit in dollars. The state gets as much as \$2 carton of cigarettes, and the wholesaler perhaps one-fourth as much. However, we understand that the state's overhead is greater. Seriously, the state recognized the importance of wholesalers in a formal way. In the preamble of codes, ( 16 -10-102 ) it states in part that the state shall (quote) "stabilize the sale of cigarettes and maximize and protect the state revenues from this source."

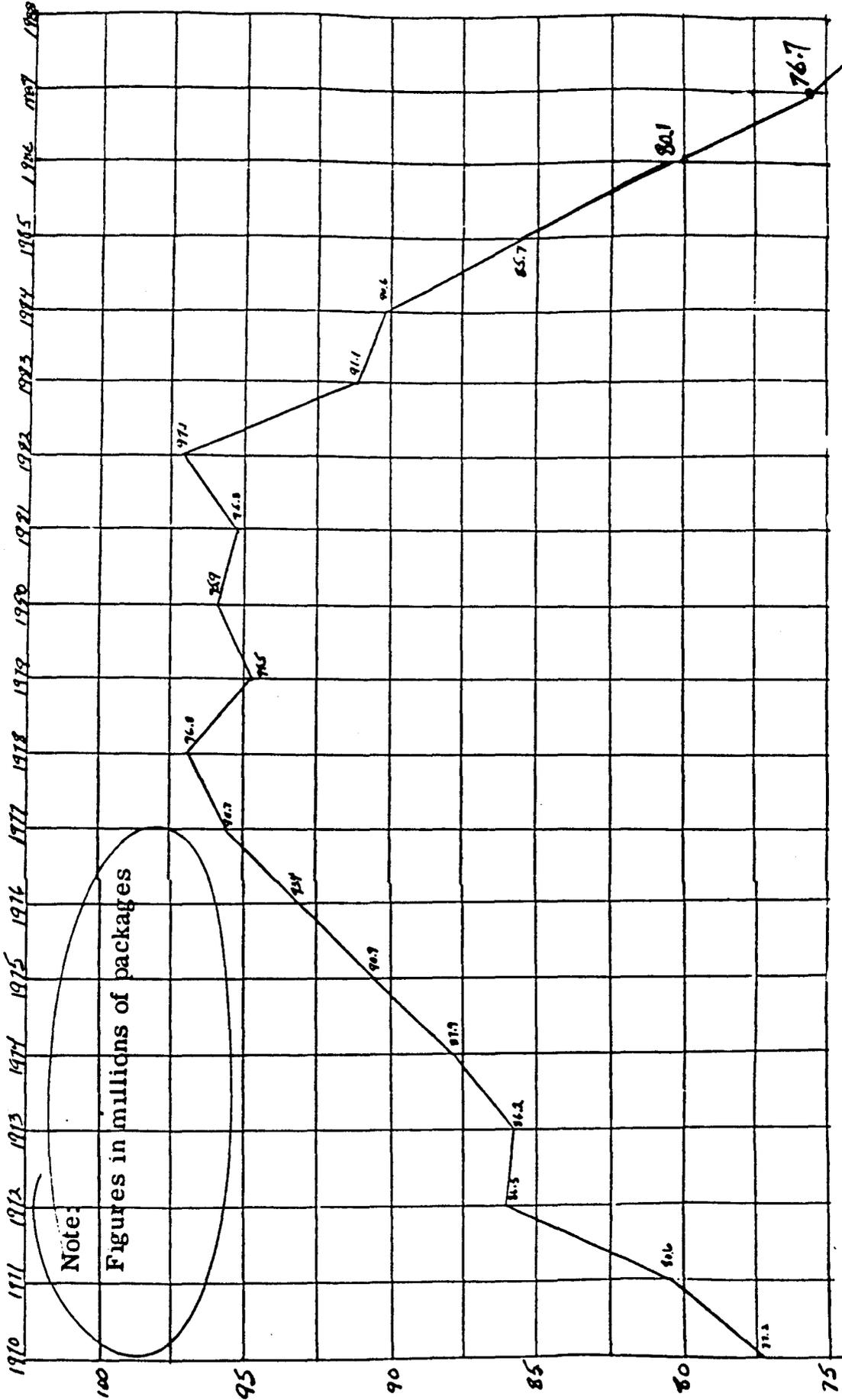
Our purpose here is to oppose SB445. When you have weighed the testimony, we hope that a majority will vote that SB445 DO NOT PASS.

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SALES OF MONTANA - TAXED CIGARETTES HAVE PLUNGED TO ALL-TIME LOW

— SALES UNDER FIRST TAXING YEAR 1949 —



LEGISLATIVE TAXATION  
 EXHIBIT NO. 8 p. 2  
 DATE 3/17/89  
 BILL NO. SB 449

71.4

LOW 71.4 MILLION PACKS )  
 TREND CONTINUING DOWN )

Chart and figures provided by Montana Department of Revenue

## T O B A C C O   I N   M O N T A N A

### Rooted in History

The Lewis and Clark expedition crossed the Continental Divide near present-day Butte in August 1805 and came face-to-face with 60 mounted warriors. The explorers reached for tobacco and a pipe to communicate their peaceful intentions. Before smoking, Lewis wrote in his journal, the Indians sat in a circle and pulled off their moccasins, a custom indicating "a sacred obligation of sincerity".

Fur traders and prospectors followed and shortly there were ready markets for tobacco goods at the first trading posts and settlements.

Although America's first commercial crop is not grown in Montana, busy wholesale and retail tobacco operations in the state have long been dynamic economic forces.

### Growing Through the Economy of the Big Sky Country

A study by Chase Econometrics, published in 1985, examined the contribution of tobacco in 1983 to the national economy and the economies of 50 states.

One Chase finding demonstrates the magnitude of the golden leaf's effect on the state's economy. An estimated 1.6 percent of all Montana's private sector jobs are related to tobacco. That's the equivalent of one in every 62 jobs of all kinds.

Almost a third of these jobs are directly related to tobacco industry activity. The rest result from the multiplier or ripple effect as tobacco workers, their employers and essential suppliers spend their dollars for goods and services of other industries. These tobacco dollars thus support additional jobs that generate other incomes and spending flows -- because Montanans enjoy America's tobacco.

For instance, Chase traced the effect of tobacco worker spending on demand for the basics, such as housing, cars, food and clothing, whose consumption in turn leads to a broad range of demands for intermediate goods. Chase found Montana, 44th state in population, disproportionately high among states in induced effects on employment in mining, primarily oil and natural gas, in agriculture, in construction and in wholesale and retail trade. In just the four sectors, tobacco employee dollars supported 2,111 jobs, with more than \$31.1 million in wages and benefits. The

induced effect in all sectors was 3,317 jobs and more than \$53.656 million in compensation.

In all, tobacco sales and the paychecks of tobacco companies and their suppliers generated or supported 4,929 jobs and some \$78.9 million in incomes in Montana in 1983. The job figure is equal to more than half the entire population of Miles City.

**Paying Taxes to Benefit All Montanans**

Nationally and in most states, tobacco is more heavily taxed than any consumer product. In fiscal year 1987, more than \$9.7 billion in excise taxes on cigarettes and other tobacco products was pumped into federal, state and local coffers. This tax money helps pay for everything from vocational training to public libraries.

In fiscal 1987, the U.S. Treasury received 16 cents for every pack of cigarettes sold in Montana. The state collected another 16 cents in excise tax per pack.

Montana also imposes excises on other tobacco products. In fiscal 1987 these netted the state \$720,332.

**Cigarette Tax Facts FY 1987**

Federal tax .....	16¢
State tax .....	16¢
Total taxes per pack .....	32¢

**1983 Tobacco Employment and Income Contributions to the Economy of Montana**

**Industry & Suppliers**

**Wholesaling**

Jobs .....	163
Income .....	\$3,518,830

**Retailing/vending**

Jobs .....	699
Income .....	\$7,692,970

**Tobacco Industry Suppliers**

Jobs .....	751
Income .....	\$14,023,700

**Induced by Employee Spending**

Jobs .....	3,317
Income .....	\$53,653,400

Total Tobacco-related Effects  
 Jobs ..... 4,929  
 Income ..... \$78,888,500

Cigarette Sales & Taxes FY 1987

Packs sold ..... 76,700,000  
 State tax net collection ..... \$11,999,000  
 Federal tax collection ..... \$12,272,000  
 Weighted avg. price per pack ..... 115.3¢  
 Taxes as percent of avg. price before taxes .. 38%

(71,400,000  
 IN 1988)

Sources:

Chase Econometrics: The Economic Impact of the Tobacco Industry on the United States Economy in 1983, 150 Monument Road, Bala Cynwyd, PA 19004.

The Tobacco Institute: The Tax Burden on Tobacco, Vol. 22, 1987, 1875 I Street NW, Washington, DC 20006.

All job numbers represent full-time equivalent employment as calculated by Chase Econometrics. The concept tends to understate the number of persons employed because some tobacco employment is seasonal, requiring part-time workers. Many individuals in distribution and retailing are also involved with products other than tobacco.

All tax data are for the year ending June 30, 1987, except average retail price, taxes as a percent of pre-tax average retail price and the sales tax rate, which are as of November 1, 1987.

The Tobacco Institute  
 May 1988

Montana Association of

# Tobacco and Candy Distributors

1777 LeGrande Cannon Blvd., P.O. Box 1 2 3, Helena, MT 59624 Telephone (406) 442-1582

Tom Maddox,  
Executive Director

Continuing testimony on Senate Bill 4 4 5

Senate Bill 445 proposes to increase the state tax on cigarettes 31.23 per cent. It proposes to increase state tax on other tobacco products 100 per cent. For cigarettes, if enacted, it would mean a 90 per cent state tax increase within six years. In that time, federal cigarette tax has increased 100 per cent.

THIS IS A PREDATORY SALES TAX. Webster says a PREDATOR DESTROYS. By exorbitant taxing, some anti-tobacco people seek to destroy an industry. This is a predatory tax — for Montana state revenues, for Montana businesses, directly and indirectly concerned, for their employees and for their families.

In 1988 Montana's governor pledged for a tobacco-free Montana. In this legislature, one bill is advancing to enactment to allow all indoor public places to be 100 per cent smoke-free. Another bill would make schools tobacco-free. Other bills propose even greater tax on cigarette sales. And the impact of still another would virtually dry up Montana business of providing cigarettes, other tobacco products, and collateral products to Montana's seven Indian reservations. Every session since '72, more and more restrictions have been enacted.

Are these predatory tactics working?

Just look at the chart and figures on sales and even the fiscal note on 445.

SALES OF STATE-TAXED CIGARETTES FELL TO AN ALL TIME LOW IN 1988. The sales of 71.4 million packs fell below even the sales of the first year of taxing. The first tax was 2 cents. SB445 proposes a state tax more than 2000 per cent of that first tax.

WE OPPOSE SB445 BECAUSE IT PROPOSES TO TAX MORE ~~AND MORE OF SB445~~  
LESS AND LESS. Here's one example:

In 1982, state tax was 12 cents a pack. One cent of tax netted \$941,667.

In 1987, tax was increased to 16 cents. One cent of tax netted \$749,937.

MORE TAX — 33.3 PER CENT MORE TAX. LOSS OF RETURN OF \$1.9 MILLION on one cent of tax. It's actually worse than that. An econometric study would show an even greater effective loss resulting from increasing the tax; a loss of state purchasing power in the time frame, higher labor costs, on and on.

It's getting worse. A few years ago the state cash register was ringing in more than \$1 million a month in tobacco revenues; for '84, '85 and '86. For the latest month — February cigarette revenues fell to one of the LOWEST IN YEARS, to about \$600,000.

MONTANA'S LOSS IN THIS AREA IS FAR BELOW THE NATIONAL TREND.

It is clear that, in view of our state's dependence upon tobacco revenue for repayment of great indebtedness for having grossly overbuilt the state's physical plant, MONTANA SHOULD NOT DEPEND ON TOBACCO FOR MORE TAX REVENUE. It isn't there. It's clear the state has injured badly, if not killed, the golden goose of the mid-century. Earmarking tobacco for uses, other than building debt, is NOT the right thing to do.

The fiscal note tells us that if you'll double the tax on tobacco products, you'll net double the revenue. That just does NOT happen. Consumers resist increased sales taxes, selective or general. If this legislature imposes on top of this one, sales will be further depressed.

SENATE TAXATION  
 a general sales tax p. 8  
 EXHIBIT NO. \_\_\_\_\_  
 DATE 3/7/89  
 BILL NO. SB 445

We would be happy to accept the projection of nearly 10 per cent increase for next year over our '87 volume, but hard facts make that projection unbelievable. If the legislature imposes a 100 per cent tax increase and a general sales tax, a projection of more than a 10 or 20 per cent drop in sales would be more believable.

Some of the fiscal notes we have studied in this session reminds me of employees who tried to pad their expense accounts. Some got away with it.

Fiscal notes tend to reflect the hopes of some of those who are pro-tax or are looking for more pay. Fiscal notes are tools, susceptible of being used to "sell" more taxes.

Not to be overlooked are federal taxes on noncigarette tobacco products.

In 1987 the federal government collected \$63.5 million on other tobacco products. In 1988 the federal government increased taxes on pipe smoking tobacco, effective January 1, 1989. Now some members of congress are recommending further federal tax increases.

With declining sales, federal and state governments' double taxing is trying to get more and more from less and less.

---

Note: "Other tobacco products" include pipe smoking tobacco, cigars, chewing tobacco (Beechnut, or Redman etc.), dry snuff and moist tobacco (Copenhagen, Kodiak, Skoal etc.)

— 8 —

(See separate sheet for other tobacco products )

SB 445 proposes an increase in cigarette taxes of 31.23%. This equates to 21 cents a pack of 20 cigarettes, or to 27 cents a pack of 25 cigarettes.

The state computes the minimum legal cost for cigarettes at wholesale ~~SENATE TAXATION~~ mail.

The basis for state computations is the carton, reflecting most sales. EXHIBIT NO. 8 p. 9 DATE 3/7/89

SB445 proposes to increase the carton cost for a major brand to \$16.55 SB 445 This compares to the present cost computed at . . . 12.38 An increase of 1.17

There is a national downward trend in cigarette sales of 2 per cent. For Montana sales of taxed cigarettes are trending downward at a greater rate.

The Montana trend is appearing in the year to year statistics on annual per capita consumption of cigarettes. For 1987, this figure was 91.7 packs a person average. This is below the national average of 120 packs.

In projecting revenue, we are certain a tax increase will reduce sales. Proponents — the anti-smokers among them — tell you this doesn't happen. But the record shows that it does, and this makes them happy.

If SB426 is enacted it will allow designation of an entire indoor public place. This would increase the momentum of Montana's downward trend.

If HB346 is enacted it will allow schools to be tobacco-free. This will further depress use of both cigarettes and other tobacco products.

Every session since the early 1970s, there have been bills to restrict smoking in Montana. In 1988 the governor pledged to make Montana "tobacco-free."

If you are looking for a growing, reliable source of state revenue to cope with Montana's growing costs of government, education and indebtedness, cigarettes and other tobacco products may not be the source to exploit.

If you want to destroy a segment of Montana business, then a predatory tax may be what you want. Webster says a predator destroys. By exorbitant taxing, some persons would destroy a business in striving for a tobacco-free Montana.



Applicant:

Consultec Inc.:

Doctor:

SENATE TAXATION  
Social Rehabilitation  
Services EXHIBIT NO. 8 p. 12

DATE 3/7/89

BILL NO. S. SB 445

Pregnant woman applies with county Welfare office, to become eligible for assistance. She is given an identification number.

Obstetrician signs agreement to accept "going" fee. He is given a "provider number"

coordinates the program as the responsible state agency.

Woman selects doctor of her choice.

Doctor provides prenatal care; delivery; postnatal care

S. R. S. obtains general funds from the legislature as "seed" for greater funds from counterpart federal agency. This develops \$175 million a year.

Woman receives doctor's services

Doctor submits bill to Consultec Inc.

Consultec Inc.  
2100 Last Chance Gulch, Helena, checks billing, doctor provider number, woman's eligibility number, and informs S. R. S. payment in order.

S. R. S. receives Consultec Inc. OK; instructs state auditor to pay doctor.

Doctor is paid by state.

Currently payment is from General Fund.

Consultec Inc. wants more money

Doctors want more money

S. R. S. wants more money

LEGISLATURE NOW HAS SB 4 4 5, REQUESTING MORE MONEY

--- FROM SALES OF CIGARETTES AND OTHER TOBACCO ITEM

CIGARETTE TAX AND OTHER TOBACCO PRODUCTS TAX TODAY IS EARMARKED / COMMITTED TO LONGRANGE BUILDING.

QUESTION: SHOULD CURRENT TAX SOURCE BE DIVERTED?

I asked many persons about the Montana - federal program to help pregnant women who qualify. Most had no knowledge of it. I went to the Lewis and Clark County welfare office and learned how women apply and become eligible for prenatal care, delivery and postnatal care. Sources there were not informed as to other working details. I called on the SRS in the Capitol area. From this, I developed a schematic sheet showing the flow of how this program works. A copy is in your packet.

Now the money comes in part from the general fund; with even more from the counterpart federal agency. Altogether, I'm told it is a \$175 million (m) annual program. All the money COMES FROM ALL TAXPAYERS AT THIS TIME. All taxpayers share the load. The program is positive. It helps some of those who need help. What is being done is commendable — on the whole. (I do question one aspect; outside contracting with a for-profit middle corporation.)

The process — paying doctors, paying the “go-between” private agency, county, and state Medicaid people — apparently wants more money. We believe that, if doctors, the monitoring agency, government employees want more money, and their cause is just, ALL TAXPAYERS SHOULD CONTINUE TO HELP PAY.

WE DO NOT BELIEVE THE PROPOSED SOURCE OF REVENUE—TOBACCO— IS A PROPER SOURCE. OUR REASONS INCLUDE TOBACCO REVENUE IS ALREADY COMMITTED TO THE STATE BUILDING DEBT. THE FUTURE OF THIS WORTHY CAUSE JUSTIFIES CONTINUING FUNDING FROM GENERAL FUND APPROPRIATIONS; OR POSSIBLY BEING STREAMLINED TO LOWER COSTS.

RE: SB 4 4 5 -- HOW DOES IT WORK ADMINISTRATIVELY

A young woman is pregnant. She needs help -- counseling and financial help. How does she get help?

She goes to her county's welfare office. She is qualified as eligible for medicaid, and provided an eligibility card with an identification number. She may select any doctor who has signed an agreement to charge government-prescribed fees. Each such physician has a provider number. The woman may receive prenatal care, the delivery service and postnatal care.

The doctor submits his provider number and itemized billing to CONSULTEC INC., 2100 North Last Chance Gulch, Helena, Montana (442-1837). The state's Social and Rehabilitation Services Department (SRS) has contracted with this corporation to process such claims. Certified claims go to SRS for ordering payment to the participating doctor, by the state auditor's office.

There are two sides to the question: Should an independent company act as a middleman or jobber for welfare services and payment processing? Or should the process be handled within the SRS and related state agencies?

COSTS ARE CURRENTLY STATED AS \$175 MILLION A YEAR. HOW IS ALL THIS FUNDED?

Federal taxpayers and state taxpayers pay the bottom line -- P L U S the expense of "overhead" and handling tax monies.

A reliable SRS source provided the \$175 million figure for one year's cost.

For 1990 the federal government would pay 71.19 per cent of the costs; the state of Montana 28.81 per cent. For 1991: 71.28 per cent and 28.72. In other words the Montana state taxpayers pay the state share of about 28 or 29 cents, to recover the federal taxes Montanans pay to the extent of about 71 or 72 cents, to develop one dollar, and this happens at the rate of \$175 million a year.

Apparently, the introduction of SB445 reflects anticipated greater expenses to continue -- or perhaps expand -- this commendable program.

HOWEVER, THE PROGRAM SHOULD BE FUNDED NOW AND IN THE FUTURE BY ALL TAXPAYERS. IT SHOULD NOT BE FUNDED BY A MINORITY OF MONTANANS BY INCREASING THE BURDEN OF A SELECTIVE SALES TAX. NOT BY A TAX WHICH IS CONCEDED BY ALL INFORMED PERSONS TO BE THE MOST REGRESSIVE, UNFAIR TAX OF ALL.

The basic program is a responsibility of A L L society -- NOT to be imposed upon a minority -- perhaps 29 per cent, who purchase cigarettes, or who enjoy other tobacco products.

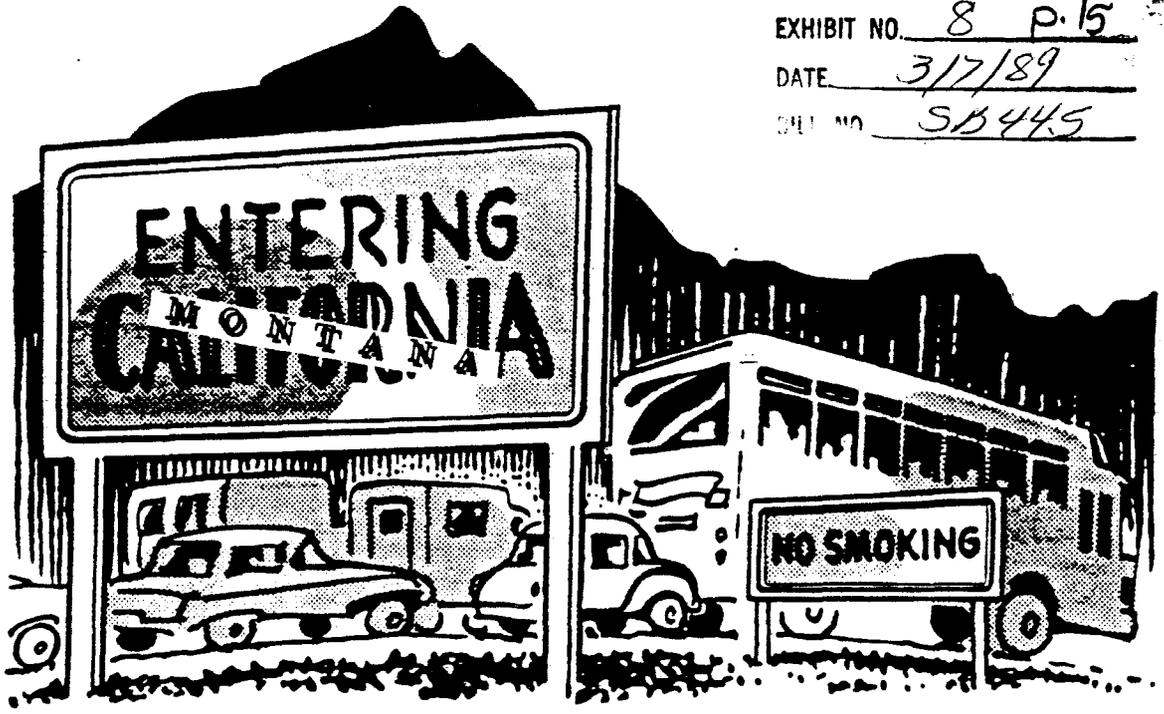
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SENATE TAXATION

EXHIBIT NO. 8 p. 15

DATE 3/7/89

BILL NO. SB 445



*W. A. H. E.*  
Sacramento Bee



**S**ervice **D**istributing, **I**nc.**WHOLESALE FOOD SERVICE** 

CANDY, CIGARS, CIGARETTES

LIVINGSTON  
P.O. Box 1280  
303 N. 10th  
Livingston, MT 59047  
(406) 222-2200BOZEMAN  
P.O. Box 1887  
109 E. Mendenhall  
Bozeman, MT 59715  
(406) 586-9183  
MT WATS 1-800-221-0508Senator Bob Brown  
Capital Station  
Helena, Mt. 59620

Senator Brown,

I am one of the owners of our family owned business in Bozeman. There are 29 employees of Service Distributing including myself, and over one-half of our sales and profits are from cigarettes and tobacco products. During the last five years we have diversified our product assortment greatly and will continue to do so, but cigarettes and tobacco remain an integral part of our business and hundreds of other businesses throughout the state.

With every increase in tax on cigarettes and tobacco products, the amount sold in Montana has historically gone down. The result has been a lesser return per cent of tax for the state. This decrease in sales would be devastating to our business and many other businesses. It would definitely result in lost jobs for our employees.

Senate Bill 445 proposes to tax cigarettes and other tobacco products to pay doctors more money for prenatal care of pregnant women who qualify for medicaid and for delivery of their babies. This commendable program is presently being funded from the general fund with all of the taxpayers sharing the load. The program benefits all of the taxpayers in Montana, and it should continue to be funded by all of us. It should not be funded by the small minority of smokers in this state who are typically in the lower economic classes and can least afford it.

If this program does require more money, it should continue to receive it through the general fund and not through special earmarked legislation. Please vote AGAINST SB445 for the benefit of our state.

Sincerely,

*Alex Buckner*

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

SB 445  
3-7-89

NAME: Roger Tippy DATE: 3/7/89

ADDRESS: P.O. Box 543 Helena, MT 59624

PHONE: 442-4451

REPRESENTING WHOM? RJ Reynolds Tobacco Co

APPEARING ON WHICH PROPOSAL: \_\_\_\_\_

DO YOU: SUPPORT? \_\_\_\_\_ AMEND? \_\_\_\_\_ OPPOSE?

COMMENT: \_\_\_\_\_

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

## ESTIMATED TAX

PRESENT LAW - Section 15-30-241 MCA

1. The present law requires every individual except farmers, ranchers, and stockmen to declare and pay an estimated tax if his net income is not subject to withholding. There is no threshold amount under the present law.
2. Two declarations a year are required by the present law. The first is due on or before April 15 of the taxable year and the second is due on or before October 15 of the taxable year.
3. Extensions of time for filing can be granted by the department but can be no longer than six months.
4. Under present law an individual who fails to file a declaration of estimated tax is not subject to any penalties.
5. Since there are no penalties to enforce the present law, estimated taxes are filed on a voluntary basis.

PROPOSED LAW

1. The proposed bill requires every individual except farmers, ranchers and stockmen who have a tax liability of more than \$400.00 after subtracting out any withholding and credits to file estimated tax payments.
2. Four declarations a year are required and conform to the federal quarterly filing dates (April 15, June 15, September 15 of the taxable year and January 15 of the following taxable year). A provision for fiscal year taxpayers allows for quarterly estimated payments beginning after the fiscal year begins.
3. The payment is required to be either 1) 100% of the individuals prior year tax liability or 2) 90% of the individuals current year estimated tax.

SENATE TAXATION

EXHIBIT NO. 10 p 2

DATE 3/7/89

BILL NO. SB 445

4. Penalties are provided for in the proposed bill for not filing and the underpayment of the quarterly estimate taxes. A penalty of 10% of the underpayment with a minimum of \$5.00 per installment and interest at 9% per annum is proposed. The calculation of the underpayment and period of time for interest is tied to the federal provisions.
  
5. Part-year residents, newly retired and disabled individuals are excluded from having to file estimated payments.

Amendment to SB 424

LC 1702/01

1. Page 1, line 13  
Following: "Declaration"  
Insert: "and payment"

2. Page 1, line 14  
Following: "stockmen"  
Insert: "as defined at section 6654 (i) (2) of the Internal Revenue Code of 1986, as amended,"

3. Page 1, line 21  
Following: "estimated"  
Strike: "current year"

4. Page 1, line 21  
Following: "tax,"  
Strike: "less any withholding and credits,"  
Insert: "as calculated in 15-30-241 (2) (a) or (b),"

5. Page 1, line 24  
Following: "the"  
Strike: "individual"  
Insert: "estimated tax"

6. Page 1, line 24  
Following: "shall"  
Insert: "be either"

7. Page 1, line 25  
Following: "(a)"  
Insert: "100 per cent of the individual's prior year Montana income tax. If married filing jointly the joint income tax liability must be declared. Or,  
(b) 90 per cent of the individual's current year Montana income tax estimated as follows:  
(i)"

8. Page 2, line 2  
Following: "for the"  
Insert: "current"

9. Page 2, line 2  
Following: "year"  
Strike: "and"  
Insert: "; (ii)"

## SENATE TAXATION

EXHIBIT NO. 10 P4DATE: 3/7/89BILL NO. SB445

10. Page 2, line 4

Strike: "(b)"

Insert: "(iii)"

11. Page 2, line 6

Following: "entitled"

Strike: "; and"

Insert: "."

12. Page 2, line 8

Strike: "(c)"

Insert: "(3) Every individual required to declare his estimated tax must"

Renumber subsequent subsections

13. Page 2, line 13

Following: "due"

Insert: ", calculated as directed in either 15-30-241(2)(a) or (b),"

14. Page 4, line 15

Following: "tax"

Insert: "and penalty and interest for underpayment of installment"

15. Page 5, line 18

Strike: "Quarterly"

Insert: "For calendar year taxpayers, quarterly"

16. Page 5, line 19

Following: "of the"Strike: "subsequent"

17. Page 7, Line 3

Following: "fails to"Strike: "pay the tax"

Insert: "do so"

18. Page 7, Line 4

Following: "subject to"Strike: "penalty and interest as provided in [section 3]"

Insert: "a penalty of 10% of the underpayment, but not less than \$5 per installment, and interest at the rate of 9% per year. To calculate the amount of the underpayment and the period of time for interest to be paid the provisions of subsections 6654 (b) (1), (2) and (3) of the Internal Revenue Code of 1986, as amended, apply.

(6) Except as provided in [section 3] the penalty and interest for underpayment of estimated tax must be added to the

tax due under 15-30-103."

19. Page 7, line 13

Following: "Section 3."

Insert: "Exception to assessment of"

20. Page 7, line 14

Following: "(1)"

Strike: "An underpayment of tax results when the total of the estimated tax installments provided for in 15-30-242 is smaller than the lesser of the following:"

Insert: "A taxpayer is subject to the penalty and interest provided for in [section 2] only if the amount of an installment paid, if any, is less than:"

21. Page 7, line 18

Following: "(a)"

Insert: "25% of"

22. Page 7, line 19

Following: "(b)"

Insert: "25% of"

23. Page 7, line 21

Strike: Line 21 through 24.

24. Page 7, line 25

Strike: "(3)"

Insert: "(2) (a) No penalty shall be imposed under section (1) with respect to any underpayment for newly retired or disabled individuals.

(i) By newly retired or disabled individuals is meant taxpayers who became disabled or who retired after having attained age 62 in the taxable year for which estimated payments were required to be made or in the taxable year preceding such taxable year.

(b) No penalty or interest shall be imposed under section 1 with respect to any underpayment to the extent the Director of the Department of Revenue determines that by reason of casualty, disaster or other unusual circumstance the imposition of such addition to tax would be against equity and good conscience."

Renumber subsequent subsections

25. Page 8, Line 1

Following: "tax"

Strike: "."

Insert: ", except as provided in 15-30-149(4)."

STATEMENT OF INTENT

A statement of intent is required for this bill because the department of revenue is granted authority to adopt rules for the administration and enforcement of the quarterly estimation of Montana individual income taxes. The legislature intends that the rules adopted by the department correspond as closely as possible with rules adopted by the Internal Revenue Service for the quarterly estimation of federal income taxes. The rules adopted by the department should, at a minimum, address the following:

- (1) the definition of estimated tax;
- (2) procedures for determining which taxpayers, including part-year nonresident taxpayers, are required to pay estimated individual income taxes;
- (3) procedures and installment schedules for the payment of estimated taxes, including short period returns;
- (4) reporting form and required information from the taxpayer when filing an estimated tax payment;
- (5) procedure for the payment of estimated taxes in advance;
- (6) procedure for amending an estimated tax declaration;
- (7) payment of penalties and interest for failure to pay estimated tax when due;

Heard	Bill #	Title	State Funds for Schools FY90	Local Schools FY90	Total Education Impact FY90
2/9	SB339	Individual income tax changes and tax changes for subchapter 5 corporations (In Committee)	(143,000)	-0-	(143,000)
2/15	SB374	Property tax phase-in for improvements to real property or other improvements (Tabled 2/15)	-0-	(107,000)	(158,000)
2/15	SB379	Change classification of 1-ton trucks for motor vehicle taxation (Passed out of Committee 3/2)	(21,000)	(38,000)	(119,000)
2/15	SB380	Exclude social security number and tier 1 benefits from adjusted gross income in computing individual income tax (In Committee)	(757,000)	-0-	(757,000)
2/16	SB392	Exempt certain motion picture property from property taxation (In Committee)	(2,000)	(3,000)	(5,000)
3/1	SB451 <sup>4</sup>	Governor's personal property proposal (In Committee)	(706,000)	(216,000)	(922,000)
3/1	HB35	Change personal property assessment on livestock, "coal and oil hauling" trucks, etc. (In Committee)	(31,000)	(62,000)	(93,000)
2/1	HB4 <sup>3</sup>	Lowers tax for some coal (Signed by Governor)	(6,000)	(14,000)	(20,000)
		TOTAL	(5,760,000)	(9,433,000)	(15,193,000)

\*An additional 7.9963 mills necessary to offset this loss or 6.61% income tax surcharge  
\*An additional 10.3884 mills necessary to offset this loss or 8.58% income tax surcharge

1 (Approximately 3.8% of coal tax royalties go to foundation program)  
2 (Due to retroactive date, local school district revenues will be reduced by \$552,000 in FY 89)  
3 (87,096 in 1992; (44,916) in 1993)  
4 (5,015,529 in 1992; (7,062,447) in 1993. This legislation does not provide for a reimbursement to statewide levies. Reimbursements to local jurisdictions are not adequate to compensate for losses incurred from the reduction in property tax revenues

\* at 1.9m/mill  
at 2.3m/1% general income tax charge

School Impact  
3-7-89



As of March 3, 1989  
NANCY KEENAN OPI SCHOOL IMPACT REPORT

SENATE TAXATION

Heard	Bill #	Title	State Funds for Schools FY90	Local Schools FY90	Total Education Impact FY90
1/12	SB11	Private coal royalty to be saved as federal and state (In Committee) (Transmitted to House)	(61,000)	-0-	(61,000)
1/5	SB17	Property tax less on old cars (Passed Senate; in House 3/1)	(33,000)	(59,000)	(92,000)
1/9	SB50	Refund property tax if proprietor moves out of state (Tabled 1/11)	no fiscal information	no fiscal information	no fiscal information
1/16	SB90	Repeals an unconstitutional bill (Passed out of Committee 1/16) (In House 3/1)	no fiscal information	no fiscal information	no fiscal information
1/19	SB97	Exempting certain class 14 property and additions or expansions to class 14 & 4 (In Committee)	(224,000)	(470,000)	(694,000)
1/24	SB118	Revise property tax protest laws (Transmitted to House 2/10) (In Committee)	no fiscal information	no fiscal information	no fiscal information
1/25	SB137	Election to forego carryback of NOL's of corporations (Committee Report--do pass) (Transmitted to House) (In Committee)	no fiscal information	no fiscal information	no fiscal information
1/25	SB184 <sup>2</sup>	Eliminate tax on livestock and agricultural products (Transmitted to House) (In Committee)	(1,030,000)	(1,689,000)	(2,719,000)
2/1	SB220	Discount for payment of entire property tax bill in November (Indefinitely postponed)	(2,746,000)	(6,896,000)	(9,642,000)
2/2	SB230	Allow property taxes to be paid in monthly installments (In Committee)	no fiscal note	no fiscal note	no fiscal note
2/2	SB282	Credit for employer payment of employee dependent care assistance (Transmitted to House) (In Committee)	-0-	-0-	-0-

(826,000)

School Impact  
3-7-89



SENATE TAXATION

As of March 3, 1989  
NANCY KEENAN OPI SCHOOL IMPACT REPORT

Heard	Bill #	Title	State Funds for Schools		Local Schools		Total Education Impact	
			FY90	FY91	FY90	FY91	FY90	FY91
1/11	SB2	Clears up 105 interpretation (Passed out of Committee 2/17) (Transmitted to House) (In Committee)			7,689,000	7,689,000	7,689,000	7,689,000
2/11	HB55	Estimation of Unclaimed Property Assessments (Signed by Governor)		no fiscal information			no fiscal information	
1/10	SB65	Similar to SB2 (Passed out of Committee 2/17) (Transmitted to House) (In Committee)			7,689,000	7,689,000	7,689,000	7,689,000
2/28	SB410	Revising tax on metal mines (In Committee)	-0-	-0-	421,000	397,000	421,000	397,000
<b>TOTAL:</b>			-0-	-0-	15,799,000	15,775,000	15,799,000	15,775,000

School Impact  
3-7-89



As of March 3, 1989  
NANCY KEENAN DPI SCHOOL IMPACT REPORT

HOUSE TAXATION

Heard	Bill #	Title	State Funds for Schools FY90	Local Schools FY91	Total Education Impact FY90	FY91
1/12	HB4 <sup>1</sup>	Lowers tax for some coal (Will act on 1/18) (Signed by Governor)	(6,000)	-0-	(6,000)	(14,000)
1/10	HB10	Oil tax cuts education trust fund (Tabled 1/11)	no fiscal note	no fiscal note	no fiscal note	no fiscal note
1/4	HB15	Exempt motorboats 5 HP or less (Tabled 1/12)	(9,000)	(14,000)	(23,000)	(23,000)
1/4	HB30	Changing tax on "old vehicles" (Tabled)	no fiscal information	no fiscal information	no fiscal information	no fiscal information
1/11	HB35	Change personal property assessment tax on livestock, "coal & oil hauling trucks," etc. (Referred to Senate Tax)	(31,000)	(62,000)	(93,000)	(93,000)
1/13	HB90	Exempt trucks, etc. from property tax (Amended for recreational & comm.) (Passed out of Committee 1/17) (Referred to S Agriculture) (Passed 3rd Reading in Senate)	(16,000)	(28,000)	(44,000)	(44,000)
1/17	HB95	Exempt lottery prizes from state income tax (Adverse Committee Report)	(27,000)	-0-	(27,000)	(108,000)
1/24	HB181	Method to appropriate coal tax proceeds to public school trust fund (In Committee)	no fiscal note	no fiscal note	no fiscal note	no fiscal note
1/31	HB208	Prepayment of property taxes by hard-rock mine exploration developers. (Adverse committee report adopted)	no fiscal note	no fiscal note	no fiscal note	no fiscal note
1/26	HB280	Revising definition of "income" to increase property tax relief (In Committee)	(141,000)	(243,000)	(384,000)	(884,000)
2/2	HB293	Credit for household and dependent care based on I.R.C. (In Committee)	(690,000)	-0-	(690,000)	(724,000)
2/7	HB415 <sup>2</sup>	Exempt hand-held tools, etc., from property taxation (In House - 2nd Reading 3/2)	(223,000)	(609,000)	(832,000)	(832,000)

Heard	Bill #	Title	State Funds for Schools		Local Schools		Total Education Impact	
			FY90	FY91	FY90	FY91	FY90	FY91
2/7	HB451	Standard deduction in addition to deduction for house and dependent care (In House)	(50,000)	(50,000)	-0-	-0-	(50,000)	(50,000)
3/1	HB586	Fraternal organizations tax exemption (In Committee)	(62,000)	(62,000)	(122,000)	(1,22,000)	(184,000)	(184,000)
3/2	HB641	Local tax exemption for industrial parks (In Committee)			no fiscal note			no fiscal note
2/1	SB17	Property tax less on old cars (In Committee)	(33,000)	(33,000)	(59,000)	(59,000)	(92,000)	(92,000)
3/2	SB90	Repeals an unconstitutional bill (In committee)			no fiscal information			no fiscal information
TOTAL			(1,288,000)	(1,556,000)	(1,137,000)	(1,492,000)	(2,425,000)	(3,048,000)

\*An additional 1.2763 mills necessary to offset this loss or 1.05% income tax surcharge.

\*An additional 1.6042 mills necessary to offset this loss or 1.33% income tax surcharge.

1(87,096) in 92; (44,916) in 93

2Retroactive date reduces FY89 state funds for schools by 223,000 and local school district revenue by 608,000.

\* at 1.9m/mill  
at 2.3m/1% general income tax charge



School Impact  
3-7-89

HOUSE TAXATION

As of March 3, 1989  
NANCY KEENAN OPI SCHOOL IMPACT REPORT

Heard	Bill #	Title	State Funds for Schools FY90	FY91	Local Schools FY90	FY91	Total Education Impact FY90	FY91
1/12	HB55	Estimation of unclaimed property assessments (Signed by Governor)		no fiscal information			no fiscal information	
1/20	HB125	Revise property tax freeze-inflation, mandated costs, voted charge (In Committee)	5,533,000	11,537,000	11,804,000	24,612,000	17,337,000	36,149,000
2/3	HB236 <sup>1</sup>	Amending constitution to dedicate 7.5% of coal severance tax to public school fund (In House - 2nd Reading 3/2)	-0-	-0-	-0-	-0-	-0-	-0-
2/3	HB435	Allow county electors to remove tax freeze for taxing units in county. (In Committee)		no fiscal note			no fiscal note	
2/9	HB494	Raising smokeless tobacco tax to aid school foundation program (Tabled)	724,000	809,000	-0-	-0-	724,000	809,000
2/14	HB588	Revise fee in lieu tax on boats and include other motorized vessels (In Committee)		no fiscal information			no fiscal information	
3/2	HB634	Replacing 2% tax on light vehicles with a fee in lieu of tax (In Committee)	1,840,000	1,620,000	3,249,000	2,860,000	5,089,000	4,480,000
		TOTAL:	8,097,000	13,966,000	15,053,000	27,472,000	23,150,000	41,438,000

<sup>1</sup>In FY92, the foundation program would receive 95% of the interest earned on the investment of the dedicated amount.

DATE March 7, 1989

COMMITTEE ON Taxation

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppo
<del>Alice Burden</del>	Service Distributing	445		X
TOM MADDUX	MT. Assn. of Tobacco <del>Execs</del>	445		X
STROMB ANDERSON	TOBACCO INSTITUTE	445		X
Roger Tippy	RJ Reynolds Tobacco Co	445		X
DENNIS WINTERS	MT. MKT. Development	445		
JOHN DELANO	Philip Morris	"		X
GENE PHILLIPS	SMOKELESS TOBACCO Council	445		X
Tom McGraw	US <del>WMA</del>	423	X	
GENE PHILLIPS	PACIFIC POWER	423	X	
Robert <del>McIntosh</del> <del>John M.A.</del>	Physicians <del>Ob-ops</del>	445	X	
DENNIS BURR	MON. TAXPAYERS	423 <sup>424</sup>	✓	
Karen Landers	Montana Council for Mat and Child Health	445	✓	
Tom Hopgood	Mont. Assoc. Realtors	423		✓
John <del>Albe</del>	MOA	423	✓	
John <del>Vick</del> <del>Walter</del>	Physicians <del>on MA</del>	445	✓	
JOHN EBZEVY	NERCO Inc.	423	✓	
MIKE HOLLAND	MT SOCIETY OF CPA'S	423 <sup>424</sup>	✓	
TOM BILDEAU	MEA	423 <sup>424</sup>	X	
Terry <del>Myrow</del>	MTA	423 <sup>424</sup>	X	
Robert <del>Allard</del>	Office of the Treasurer	423 <sup>424</sup>	X	
Kay Foster	Self + OSSAC	445	X	
Kay Foster	Bidding Chamber	423		✓
JOHN LAHR	MPC- ENTECH	423	X	