**MINUTES**

**MONTANA HOUSE OF REPRESENTATIVES**
**52nd LEGISLATURE - REGULAR SESSION**

**COMMITTEE ON TAXATION**

**Call to Order:** By DAN HARRINGTON, CHAIR, on March 7, 1991, at 9:02 a.m.

**ROLL CALL**

**Members Present:**
Dan Harrington, Chairman (D)
Bob Ream, Vice-Chairman (D)
Ben Cohen, Vice-Chair (D)
Ed Dolezal (D)
Jim Elliott (D)
Orval Ellison (R)
Russell Fagg (R)
Mike Foster (R)
Bob Gilbert (R)
Marian Hanson (R)
David Hoffman (R)
Jim Madison (D)
Ed McCaffree (D)
Bea McCarthy (D)
Tom Nelson (R)
Mark O'Keefe (D)
Bob Raney (D)
Ted Schye (D)
Barry "Spook" Stang (D)
Fred Thomas (R)
Dave Wanzenried (D)

**Staff Present:** Lee Heiman, Legislative Council
Lois O'Connor, Committee Secretary

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**HEARING ON HB 790**

**Presentation and Opening Statement by Sponsor:**

**REP. THOMAS, House District 62, Stevensville,** gave the opening statement on behalf of **REP. MESSMORE, Sponsor, HB 790, House District 38, Great Falls.** He stated that HB 790 was brought about at the request of the **Governor.** This is another piece of the Governor's health care plan that has been proposed this session.

**Proponents' Testimony**:

**Hank Hudson, Coordinator on Aging, Governor's Office,** stated HB 790 is consistent with the goal of the Governor's Office to encourage families and family members to provide long term care services for their loved one. In the U. S., 70% of the long term care provided is provided by the family members. The intent of HB 790 is to encourage this type of care. It also encourages individuals to plan for long term health care which will, hopefully, reduce the dependance on the Medicaid program.

In the two years since the passage of the tax credit for elderly care, we have observed a growing interest in this credit, but we also observe very little utilization. The original estimate was that this tax credit would cost around $469,000 per year. Last year $17,000 in credits were claimed. For a number of reasons, this opportunity is not being utilized: (1) people haven't learned about it nor has it become common knowledge among people who prepare taxes or people preparing their own taxes; (2) there are certain restrictive natures in the program that would be corrected in HB 790.

One of the restrictive item to be changed would be the people whom you care for, for which you could claim the tax credit, had to be 70 years of age. HB 790 would lower that age to 65. It would also include family members who are disabled under the definition of social security. If you are caring for a disabled family member in your home, those expenses not covered by Medicare, Medicaid, or private insurance, would then be eligible for the credit. It would also correct an oversight in the original bill which said that an individual you are caring for couldn't have an income over $15,000. If you cared for a couple (your Mom and Dad) their income couldn't be more than $15,000. Our original intention was $15,000 for an individual and $30,000 for a couple.

The second approach of HB 790 is to expand those types of services and expenses that are eligible for the credit. It would expand the services to include personal care attendant services. These are services such as help with bathing, help with eating, supervision and help getting in and out of bed. These are the types of services most needed by families who are taking care of their loved ones.

This would also include costs for long term care insurance. If a family decided to buy long term care insurance, their expenses for the policy would be subject to the credit. If they paid for the expenses in a licensed long term care facility, these would also be included in the credit. This is an effort to encourage more families to become involved in providing these services.

**Bob Frazier, Governor's Health Care Committee,** introduced a copy of a report written by him on long term health care. **EXHIBIT 1**

**Fred Patton, American Association of Retired Persons,** stood in support of HB 790. He stated that one of the concerns they have is the quality of care. Being able to live in their homes and being cared for by their own relatives makes a difference. HB 790 makes the administration easier and covers the part of the bill that were left out the last time.

**Rose Hughes, Montana Health Care Association and Jim Aarons, Montana Hospital Association,** urged the committee's support.

**Opponents' Testimony**: None

**Questions From Committee Members**:

**REP. REAM** said the fiscal note was long and involved and asked if there was anyone present who could explain it. **Jeff Miller, DOR,** stated the fiscal note involves bringing together data from multiple sources and 16 different assumptions. They tried to identify the maximum amount that would be spent in all of the areas, and factored against that the various declining level of credit based on income levels. We then arrived at what the maximum amount of credit might be. Based on our experience with the previous program, which was substantially underutilized, less than 1%; they factored in a consideration stating that a person could double that. We then arrived at an estimated use of 2% of what they calculated as being maximum to arrive at the $15,000.

**Closing by Sponsor**:

**REP. THOMAS** stated the one thing the fiscal note is impossible to calculate in that there should be a substantial cost savings to the state. HB 790 does advocate people planning and taking care of their future need which includes nursing home care. More than six out of ten nursing home beds are paid for by the state through Medicaid. If more people are planning their future, we are enticing and encouraging them with the tax credit; then hopefully there will be a cost savings to the state. He submitted an amendment which will be dealt with in executive session. **EXHIBIT 2**

## HEARING ON HJR 24

**Presentation and Opening Statement by Sponsor**:

**REP. REAM, House District 54, Missoula,** provided written testimony on the revenue estimating process. **EXHIBIT 3**

The revenue estimating process has been a recent phenomenon in the Legislature starting in the !983 session. The idea behind HJR 24 is that we have always gone through the appropriations process. The Legislature acts on appropriations bills and accumulates the appropriations side of the equation by the actions on these various bill. The revenue side of the equation is more dependent on existing law and the revenues that are derived from existing tax law. Various factors change with time such as population increases, change in personal income, and all sorts of assumptions that affect these revenues. The revenue estimating process was an attempt to get a handle on all of the assumptions.

Last session we passed a bill that gave the Revenue Oversight Committee the revenue estimating responsibility. The Committee adopted certain assumptions, and those assumptions appear in HJR 24. The importance of the resolution is that we are getting closer to a revenue understanding in the different branches of government.

At the last Revenue Oversight Committee, three areas of uncertainty were discussed. They are: (1) income tax; (2) interest and rates; and (3) oil and gas revenues.

**Proponents' Testimony**:

**Terry Johnson, Legislative Fiscal Analyst Office,** provided written testimony. **EXHIBITS 4,5,6**

**Steve Bender, Office of Budget and Program Planning,** stated that the conclusions he reached are similar to those outlined by **Terry Johnson.**

Regarding income tax, there are some major changes going on. If you look at year to date collections, it makes one concerned. He is optimistic that the state will finish the year close to what they are asking. The underlying factors that influence income tax revenues are doing okay.

We must realize that the current prices we are seeing in oil and gas are significantly lower than those used in the revenue estimates before the Persian Gulf War. The questions are how much lower is the oil price going to be and what levels are they going to settle at next biennium? We recommended to the Revenue Oversight Committee to wait and see on the oil prices before we change the estimate.

Interest rates appear lower but those things can change dramatically and quickly if the federal reserve is convinced that the recession is over. Interest rates will come up. The interest rates are as low as they are going to get for the time being.

**Opponents' Testimony**: None

**Questions From Committee Members**:

**REP. REAM** said the underlying assumptions on income tax seem to be holding and asked **Steve Bender** to explain what factors go into the model for predicting this. **Mr. Bender** stated the normal income tax model will try to forecast the tax base. **Terry**

**Johnson** and he rely on is building up from employment forecast. They will use this to anticipate wage and salary income, personal income, and broader measure of income; and use that and assumed inflation rate as the major drivers of income tax forecasts.

**REP. ELLIOTT** said he was curious to know how accurate the forecasts are. **Terry Johnson** said he was going to dodge the question to a certain degree because in the revenue estimating process, there is a certain forecast prepared prior to a Legislative session. Then as the session proceeds, there are numerous types of bills passed that will affect the levels of revenue of the various components. There is never an official set of revenue estimates that we can go back to and track.

**Closing by Sponsor**:

**REP. REAM** clarified to the committee that the jump doubling the income tax is not a doubling of actual income tax. It is because of HB 28 and the changes that were made on the allocation of income tax revenue that went to the general fund for 1992-93. Before, much of it went to the school foundation program.

## EXECUTIVE ACTION ON HJR 24

**Motion/Vote**: **REP. O'KEEFE MOVED HJR 24 DO PASS.** Motion carried unanimously by voice vote.

## HEARING ON HB 614

**Presentation and Opening Statement by Sponsor**:

**REP. COBB, House District 42, Augusta,** stated HB 614 would raise $12.5 million per year from a three cent cigarette tax and $2.1 from the state equalization account. The money would provide children of low income families with health insurance.

There are two bills being introduced that deal with this problem. HB 614 in the funding bill and HB 522 is the actual implementation of the bill. He split the bills because he was concerned that if the committee didn't like the funding mechanism, at least the bill would be passed that allows donations to do so.

HB 522 allows SRS to purchase health insurance for low income children which is limited to preventive care. It costs approximately $30 per month to buy this insurance. Blue Cross and Blue Shield would run it for no administrative costs. The only information that SRS needs is your income, social security number, and how many children. If they qualify, it goes to the lowest income children.

HB 614 is the funding bill to HB 522. It is funded by a three cent cigarette tax and $15 per student out of the state equalization account to fund this mechanism. **REP. COBB** provided amendments for HB 614. **EXHIBIT 7**

__Proponents' Testimony__:

**Mike Malas, Concerned Citizen,** provided written testimony. **EXHIBIT 8**

**Paulette Kohman, Montana Council for Maternal and Child Health,** provided written testimony. **EXHIBIT 9**

**Jim Smith, Residential Child Care Association,** stated there is a situation where the program of HB 522 is good, but there will be significant opposition to the funding program in HB 614. If the opponents convince you that the funding mechanism is not the appropriate way to fund the program, then the committee has the power to craft an alternative funding mechanism. Programs like this are valuable and should be funded out of general fund revenues.

**Judith Carlson, Montana Chapter of the National Association of Social Workers,** urged the committees support of HB 614.

__Opponents' Testimony__:

**Jerome Anderson, Attorney, Tobacco Institute,** provided written testimony. **EXHIBIT 10**

**Dennis Winter, Phillip Morris,** stated Montanans will be deeply affected by this tax. He gave a visual presentation on the affects of the tax.

**Mark Staples, Montana Tobacco and Candy Wholesalers,** stated they would be one of the businesses affected by this tax. They recognize the obligation to pay taxes. They have had three increases in the last two years and four being introduced in this session. He presented written testimony on behalf of **Scott Leprouse, Sandy Bergsing, and Ed Buckner** who wanted to go on record in opposition to HB 614. **EXHIBITS 11,12,13**

**Dale Markovich, Butte Distributor,** stated that even three cents tax on a pack of cigarettes seems small, he is concerned that it could be the straw that breaks the camels back. On January 1, the federal excise tax went into affect have a negative impact on the industry. His business dropped 15% in the first two month of 1991. As a result, he has had to lay off two employees.

**Mike Parker, Penningtons Incorporated,** provided written testimony. **EXHIBIT 14**

**Dean Woodring, S.D.I. Wholesalers,** provided written testimony. **EXHIBIT 15**

**Steve Buckner, Montana Association of Tobacco and Candy Distributors,** provided written testimony. **EXHIBIT 16**

**Roger Tippy, R.J. Reynolds,** went on record in opposition to HB 614.

**John Delano, Phillip Morris,** provided written testimony. **EXHIBIT 17**

**Madalyn Quinlan, OPI,** stated HB 614 appropriates $2.1 million annually from the school equalization account. It would make more sense to make it a general fund appropriation to SRS. The reason being that the appropriation from the school equalization account is virtually the same as an appropriation from the general fund. The school equalization account is going to need a $220 million general fund appropriation in the biennium just to fund the foundation schedules. She stated that if the committee does decide to fund this bill through the use of the school equalization account, Section 20-9-343 should be amended which is the statute that defines the types of programs that can be funded by the school equalization account.

**Questions From Committee Members:**

**REP. RANEY** said the opponents made numerous references to what **Mike Males** had to say in his testimony and asked him if he had any responses to this. **Mr. Males** said the reason he calls this a user fee is because low income children do suffer the affects of tobacco consumption even though they are not active consumers. We know from scientific studies that blood and nicotine levels can be measured in passage smokers. Going through the Surgeon General's reports, he is impressed with their conservatism. They do not substantiate whether smoke in restaurants and public buildings cause health damage. They say that there is nothing to substantiate this, but there is evidence for the area that HB 614 addresses which is the health effects on children.

**Closing by Sponsor:**

**REP. COBB** stated that most of the money collected from the enactment of HB 614 is going directly to a service which is health care for low income children. This is a very important purpose. He needs $5 million and this is the best way he knew of to find it. He doesn't think it will break OPI and the schools.

**HEARING ON HB 757**

**Presentation and Opening Statement by Sponsor:**

**REP. KADAS, House District 55, Missoula,** stated currently,if you purchase a piece of property owned by the federal government, that has been repossessed under FHA, etc., taxes are not paid on that property until the beginning of the next tax year. HB 757 would require a person to begin paying property taxes from the point that ownership is taken. Because of this, it should generate some revenue.

**Proponents' Testimony:** None

**Opponents' Testimony:** None

**Questions From Committee Members:** None

**Closing by Sponsor:**

**REP. KADAS** said the DOR proposed an amendment and he asked them to respond to the bill. **Judy Rippingale, DOR,** stated that the Department feels HB 757 is an excellent bill, and she urged the committee's support. Currently, when a purchaser of property is foreclosed on by FHA or VA and they acquire a title on January 1, the exemption continues for the remainder of the year. HB 757 will exempt this past practice. **REP. KADAS** made no further closing statement.

**EXECUTIVE ACTION ON HB 757**

**Motion: REP. RANEY MOVED HB 757 DO PASS.**

**Discussion:**

**Lee Heiman, Legislative Council,** explained the amendment. On Page 2, line 6, strike "15-16-102 and insert, "subsection (2)".

**Motion: REP. REAM** moved the amendment to HB 757. Motion carried unanimously.

**Motion/Vote: CHAIR HARRINGTON MADE A SUBSTITUTE MOTION THAT HB 757 DO PASS AS AMENDED.** Motion carried unanimously by voice vote.

**Announcements:**

**CHAIR HARRINGTON** stated that HB 790, HB 614, HB 721, and HB 868 will go to the Income/Severance Tax Subcommittee and HB 757, HB 822, and HB 869 will go to the Property Tax Subcommittee.

**EXECUTIVE ACTION ON HB 447**

**Motion/Vote**: **REP. ELLIOTT MOVED HB 447 BE TABLED.** Motion carried 17 to 4 with **REPS. FAGG, THOMAS, GILBERT,** and **NELSON** voting no.

**EXECUTIVE ACTION ON SB 15**

**Motion/Vote**: **REP. ELLIOTT MOVED SB 15 BE CONCURRED IN.** Motion carried 16 to 5 with **REPS. O'KEEFE, MADISON, RANEY, WANZENRIED,** and **McCAFFREE** voting no. **REP. GILBERT** will carry SB 15.

**EXECUTIVE ACTION ON HB 332**

**Motion/Vote**: **REP. THOMAS MOVED HB 332 BE TABLED.** Motion carried 18 to 3 with **REPS. O'KEEFE, WANZENRIED,** and **McCAFFREE** voting no.

**EXECUTIVE ACTION ON HB 558**

**Motion**: **REP. O'KEEFE MOVED HB 558 DO PASS.**

**Motion:** **REP. O'KEEFE** moved to amend HB 558.

**Discussion**:

**Lee Heiman, Legislative Council,** explained the amendments. **EXHIBIT 18**

**Vote:** Motion on the amendments carried unanimously.

**Motion/Vote**: **CHAIR HARRINGTON MADE A SUBSTITUTE MOTION THAT HB 558 DO PASS AS AMENDED.** Motion carried unanimously.

**EXECUTIVE ACTION ON SB 202**

**Motion/Vote**: **REP. RANEY MOVED SB 202 BE CONCURRED IN.** Motion carried unanimously on a voice vote. **CHAIR HARRINGTON** will carry SB 202.

**EXECUTIVE ACTION ON HB 282**

**Motion:** **REP. O'KEEFE MOVED HB 282 DO PASS.**

**Motion:** **REP. O'KEEFE** moved to amend HB 282. **EXHIBIT 19**

**Vote:** Motion on the amendments carried unanimously.

**Motion/Vote:** **CHAIR HARRINGTON MADE A SUBSTITUTE MOTION THAT HB 282 DO PASS AS AMENDED.** Motion carried unanimously on a voice vote.

## ADJOURNMENT

**Adjournment:** 11:28 a.m.

Dan Harrington
DAN HARRINGTON, Chair

Lois O'Connor
LOIS O'CONNOR, Secretary

DH/lo

**HOUSE OF REPRESENTATIVES**

**TAXATION COMMITTEE**

**ROLL CALL** **DATE** 3/7/91

| NAME | PRESENT | ABSENT | EXCUSED |
|---|---|---|---|
| REP. DAN HARRINGTON | ✓ | | |
| REP. BEN COHEN, VICE-CHAIRMAN | ✓ | | |
| REP. BOB REAM, VICE-CHAIRMAN | ✓ | | |
| REP. ED DOLEZAL | ✓ | | |
| REP. JIM ELLIOTT | ✓ | | |
| REP. ORVAL ELLISON | | | |
| REP. RUSSELL FAGG | ✓ | | |
| REP. MIKE FOSTER | ✓ | | |
| REP. BOB GILBERT | ✓ | | |
| REP. MARIAN HANSON | ✓ | | |
| REP. DAVID HOFFMAN Hanson Px | ✓ | | |
| REP. JIM MADISON | ✓ | | |
| REP. ED MCCAFFREE | ✓ | | |
| REP. BEA MCCARTHY | | | |
| REP. TOM NELSON | ✓ | | |
| REP. MARK O'KEEFE | ✓ | | |
| REP. BOB RANEY | ✓ | | |
| REP. TED SCHYE | ✓ | | |
| REP. BARRY "SPOOK" STANG | ✓ | | |
| REP. FRED THOMAS | ✓ | | |
| REP. DAVE WANZENRIED | ✓ | | |
| | | | |
| | | | |

2:00 pm
3/7/91
mc

# HOUSE STANDING COMMITTEE REPORT

March 7, 1991



Mr. Speaker: We, the committee on Taxation report that House Joint Resolution 24 (third reading copy -- blue) do pass.

Signed: ______________________
Dan Harrington, Chairman

2:00 pm
3-7-91
lmo

HOUSE STANDING COMMITTEE REPORT

March 7, 1991



Mr. Speaker: We, the committee on Taxation report that House Bill 757 (first reading copy -- white) do pass as amended .

Signed: Dan Harrington
Dan Harrington, Chairman

And, that such amendments read:
1. Page 2, line 6.
Strike: "15-16-102"
Insert: "subsection (2)"

2:09
3-7-91

HOUSE STANDING COMMITTEE REPORT

March 7, 1991



Mr. Speaker: We, the committee on Taxation report that Senate Bill 15 (third reading copy -- blue) be concurred in .

Signed: ______________________
Dan Harrington, Chairman

Carried by: Rep. GILBERT

2:00 pm
3-7-91
11M

# HOUSE STANDING COMMITTEE REPORT

March 7, 1991



Mr. Speaker: We, the committee on Taxation report that House Bill 558 (first reading copy -- white) do pass as amended .

Signed: ______________________
Dan Harrington, Chairman

And, that such amendments read:
1. Page 4, line 12.
Following: "prepared"
Insert: "by December 1"

2. Page 4, line 13.
Following: "each"
Insert: "regular"

2:00 pm
3/7/91
mo

HOUSE STANDING COMMITTEE REPORT

March 7, 1991



Mr. Speaker: We, the committee on Taxation report that Senate Bill 202 (third reading copy -- blue) be concurred in .

Signed: ______________________
Dan Harrington, Chairman

Carried by: Rep. Harrington

2:00 pm
3-7-91

HOUSE STANDING COMMITTEE REPORT

March 7, 1991



Mr. Speaker: We, the committee on Taxation report that House Bill 282 (first reading copy -- white) do pass as amended.

Signed: ______________________
Dan Harrington, Chairman

And, that such amendments read:
1. Title, line 7.
Following: "COUNTY;"
Insert: "TO REVISE THE METHOD OF COMPUTING THE STATE LAND EQUALIZATION PAYMENTS; TO PROVIDE FOR REDUCTION IN PAYMENTS WHEN THE FUNDS APPROPRIATED ARE NOT SUFFICIENT TO MAKE FULL EQUALIZATION PAYMENTS;"
Strike: "SECTION"
Insert: "SECTIONS"

2. Title, line 8.
Following: line 7
Insert: "77-1-501,"
Following: "77-1-502,"
Insert: "AND 77-1-504, MCA; REPEALING SECTION 77-1-503,"
Following: "DATE"
Insert: "AND AN APPLICABILITY DATE"

3. Page 2.
Following: line 1
Insert: "Section 1. Section 77-1-501, MCA, is amended to read:
"77-1-501. List of state lands by county. The department shall, before the first Monday of April of every year, prepare ~~and transmit~~ a statement ~~to the department of revenue or its agent in~~ that identifies each county in which the state ~~has~~ owns real property in excess of 6% of the total land area of the county and from which the state derives grazing, agricultural, or forest income. The statement shall contain the total number of acres owned by the state in that county and list the acres separately as grazing, agricultural, or forest land.""
Renumber: subsequent sections

4. Page 2, line 4.
Following: "(1)"
Insert: "(a)"

5. Page 2, line 5.
Strike: "classify and"

6. Page 2, lines 6 through 8.
Strike: "that" on line 6 through "county" on line 8
Insert: "due to each county in which the state-owned property in that county is in excess of 6% of the total land area for the county.

(b) The amount in lieu of tax payment for land owned by the state must be computed based upon an imputed value of state land, in the three categories listed in subsection (1)(d), that exceeds 6% of the total land area of the county as follows:

(i) The value per acre for each category is computed by multiplying the total statewide taxable value of the category by the statewide average mill levy for state, county, and school district levies for the year in which the payment is to be made divided by the statewide quantity of that category of land.

(ii) The amount of the payment in lieu of taxes is determined by multiplying the value per acre by the ratio that the number of state-owned acres of land of that category bears to the total amount of state-owned land in the county multiplied by the amount of state-owned land in the county in excess of 6% of the total land areas of the county.

(c) The total statewide taxable value and the statewide quantity of each category of land is the amount published in the most recent biennial report of the department of revenue. For the agricultural category, the department shall use the value and quantity of irrigated and nonirrigated land.

(d) As used in this section, the categories of land are:

(i) grazing land;
(ii) agricultural land; and
(iii) timberland."

7. Page 2, line 25 through page 3, line 7.
Following: "(2)" on line 25
Strike: the remainder of subsection (2) in its entirety
Insert: "If the funds appropriated for a fiscal year are insufficient to pay the full amount in lieu of tax payments, as calculated in subsection (1), the department shall prorate the payment to counties."

8. Page 3.
Following: line 7
Insert: "Section 3. Section 77-1-504, MCA, is amended to read:
"77-1-504. ~~Processing of county statements~~ Filing claims. ~~The department shall examine the statement returned by the agent of the department of revenue for accuracy, and in no case shall the state land equalization payment be approved unless the state exemption figure is deducted from the gross assessment figure in the statement.~~ The department shall, before November 1 of each year, prepare and file a claim with the department of administration for all counties who are eligible for state land equalization payments, and this claim shall show the amount of money each eligible county will receive."

NEW SECTION. Section 4. Repealer. Section 77-1-503, MCA, is repealed.

NEW SECTION. Section 5. Applicability. [This act] applies to tax years beginning after December 31, 1991."

Renumber: subsequent section

EXHIBIT 1
DATE 3-7-91
HB 790

# MYTHS & REALITIES

## Why Most of What Everybody Knows about Long-Term Care Is Wrong

*Joshua M. Wiener and Katherine M. Harris*

The place of long-term care on the national policy agenda has risen dramatically in recent years. Over the past year, *Newsweek* devoted a cover story to Alzheimer's disease, the *New York Times* ran a four-part story on long-term care, and Walter Cronkite narrated a special program on financing issues. Several key members of Congress in both houses have introduced legislation to overhaul the financing of long-term care. And long-term care is receiving equal billing with hospital and physician care in major reviews of health policy by the U.S. Bipartisan Commission for Comprehensive Health Care (the Pepper Commission), the White House Domestic Policy Council, and the Social Security Advisory Council.

As policymakers have hurriedly educated themselves about chronic disability, nursing homes, and home care, a body of conventional wisdom about long-term care has developed. Unfortunately, much of it is simply wrong. Of the many unfounded notions about long-term care currently in circulation, eight myths are especially prevalent.

*Joshua M. Wiener is a senior fellow in the Economic Studies program at the Brookings Institution, where he has conducted extensive research on long-term care. He is the coauthor, with Alice Rivlin, of* Caring for the Disabled Elderly: Who Will Pay? *(Brookings, 1988). Katherine M. Harris, who recently received a master's degree in economics from the University of Michigan, is a research assistant in the Economic Studies program at Brookings.*

### MYTH 1: THE LONG-TERM CARE ISSUE AFFECTS ONLY THE ELDERLY

It is true that long-term care disproportionately concerns people aged 65 and over. But great numbers of people under 65 are also affected, both as the chronically disabled and as caregivers.

First, not all disabled people are old. At least a quarter of all adults who have trouble performing such basic personal tasks as eating, bathing, and dressing are under age 65. Broader definitions of disability that include such tasks as doing housework, shopping, and managing money increase the figure to 46 percent. Although disability is much more prevalent among the over-65 population, there are many more people under the age of 65 than over. So even a low disability rate among those under 65 produces a significant number of nonelderly disabled.

Despite their numbers, we know little about the characteristics and service needs of disabled people under age 65. We do know that they tend to make less use of paid services, such as home care and nursing home care, than do the elderly. But we don't know why.

Second, long-term care issues affect not only disabled Americans themselves, but also their families. When aging parents require care, it is usually their children who are called upon to provide it. Almost two-thirds of unpaid caregivers to the disabled elderly are under 65. And coping with a disabled elderly relative is becoming an increasingly common experience, largely because people are living longer. In a national survey of voters of all ages, 47 percent said that someone in their family had already needed long-term care.

Because long-term care is an important family issue and not just a narrow interest of the elderly, public opinion polls reveal little evidence of tension between young and old about devoting resources to long-term care. Public opinion surveys, including those by the Daniel Yankelovich Group, consistently find that younger age groups support public spending for long-term care as much as, if not more than, older groups do. The consensus holds firm even when it comes to paying additional taxes.

Because long-term care is an issue involving the disabled of all ages and their relatives, equity would demand that the under-65 group be included in any future public program. Except to hold down costs, there is no good reason to limit initiatives to the elderly. Still, more research into how to serve the younger disabled population and how to support caregivers meaningfully is crucial to an effective and affordable program.

## Myth 2: In the Good Old Days Families Took Care of Their Elderly Parents at Home, but Now Families Just Dump Disabled Relatives into Nursing Homes

The second myth laments the collapse of the extended family and the selfishness of the current generation. The reality is that disability rates increase rapidly with age. In the good old days, elderly relatives rarely lived long enough to develop chronic disabilities. The quadrupling of the number of elderly people in institutions between 1950 and 1980 was due not to families abandoning disabled relatives, but to falling death rates. More than two-thirds of the increase can be explained solely by the jumps in the absolute number of older Americans and the disproportionate growth in the population aged 75 and older, who have the greatest long-term care needs. One sign that families are not abandoning their disabled relatives is that nursing home use rates actually fell a little between 1977 and 1985.

In fact, most disabled elderly Americans continue to live in their communities, assisted by their relatives. In 1982, for instance, only about 21 percent of the disabled elderly were in nursing homes. Of those who were not in nursing homes, nearly 90 percent received unpaid support, mostly from wives, daughters, and daughters-in-law. American families devote enormous time and energy to the care of disabled relatives. The costs are emotional and physical as well as financial. One study estimated that 27 million unpaid, informal care visits were made each week in 1980 by family and friends.

Without unpaid family caregivers, public spending on long-term care would far exceed current levels. Predictably, policymakers are examining ways to increase unpaid care. They are unlikely to be successful, simply because families are already doing so much.

## Myth 3: If Paid Home Care Is Provided, Families Will Stop Providing Unpaid Care

The fear that a government program of paid home care will reduce unpaid family care has paralyzed efforts to reform the long-term care delivery system. Policymakers do not want to pay for what is already provided at no cost to taxpayers.

Yet most studies suggest that when the disabled elderly receive paid home care, such as adult day care, skilled nursing services, personal care, and homemaker services, the unpaid care given by family members does not change significantly. According to William Weissert of the University of Michigan, of 53 findings in studies of the effect of paid home care on informal care, 41 were not statistically significant, 7 suggested a significant increase in unpaid support, only 4 suggested a significant decrease, and 1 was indeterminate.

A few of these studies are especially notable. An evaluation of a federally funded project, the Channeling Demonstration, found that providing a rich package of services caused only a small reduction in the percentage of disabled elderly receiving any informal care. It caused no significant change in visits per week from informal caregivers or in hours per day of care by the primary unpaid caregiver. A few types of help, principally homemaker services, had small but significant reductions, more by nonfamily than family caregivers. Another study, of California's Multipurpose Senior Services Pro-

*When aging parents require care, it is usually their children who are called upon to provide it. . . . American families devote enormous time and energy to the care of disabled relatives. The costs are emotional and physical as well as financial.*

Ex. 1
3-7-91
HB 790

ject, found a small reduction in informal care: for people living with others, a 10 percent increase in paid care led to a 1.2 percent decrease in informal care. The effect was smaller for an elderly person living with a child or with a sibling nearby. Recent studies of the Minnesota Pre-Admission Screening–Alternative Care Grants Program and the Chicago Five Hospital Program found that informal caregivers did not reduce support following the introduction of paid home care services. Finally, an analysis of the National Long-Term Care Survey by Raymond Hanley and Joshua Wiener of Brookings found no significant substitution effects between paid and unpaid care.

To be sure, these findings measure mostly local, short-run experience rather than long-run responses to a national public or private insurance entitlement. Even so, they sharply contradict the expectation that informal care will collapse if paid home care is available. The implications are twofold. First, policymakers can probably expand paid home care without triggering an explosion of costs due to cutbacks of unpaid care. (Costs may still be high, but for other reasons.) Second, policymakers should not create a paid home care program with the expectation that it will dramatically reduce the burden on caregivers. Families and friends will continue to provide almost as much care as they would have without paid services. What paid home care can do is give caregivers ~~a needed~~ respite and allow them to arrange their hours and tasks more efficiently. Families will welcome the relief, but their burdens will remain great.

## Myth 4: Very Few People Ever Use Nursing Homes, but Those Who Do Spend a Long Time There

Admission to a nursing home is, in fact, quite common. The lifetime risk at age 65 of spending some time in a nursing home is between 35 percent and 49 percent. But the stay may not be long-term: the lifetime risk at age 65 of spending more than one year in a nursing home is only about 22 percent.

Although many people justifiably fear the expense of a very long stay in a nursing home, relatively short stays are quite common. Estimates are that between 46 percent and 64 percent of nursing home stays are less than a year, and that between 26 percent and 45 percent are less than three months. The paradox is that, while long-stay patients are relatively few in number, they account for a huge proportion of nursing home patient-days. For example, according to Wiener and his former Brookings colleague Denise Spence, nursing home patients who stay longer than three years account for only about 20 percent of admissions but 70 percent of total patient-days.

Nonetheless, a nursing home stay, however brief, can be financially burdensome. A short stay in a nursing home will generate out-of-pocket costs that would be considered catastrophic if they were hospital or physician costs. A 75-day stay in a nursing home, for example, will cost more than the average hospital bill of

*A short stay in a nursing home will generate out-of-pocket costs that would be considered catastrophic if they were hospital or physician costs. A 75-day stay in a nursing home, for example, will cost more than the average hospital bill of $6,700 for treatment of pneumonia.*

$6,700 for treatment of pneumonia. For the 50 percent of short-stay patients who recover and return home, a relatively short nursing home stay can mean a lower income and fewer assets to pay for other emergencies.

An accurate picture of the risk of needing long-term care is crucial in assessing trade-offs in the design of insurance policies for long-term care. Proposals, like those advanced by the Pepper Commission, that cover only short nursing home stays will completely cover many admissions but only a small percentage of total nursing home patient-days. Thus, public costs will be relatively small. Conversely, social insurance proposals, such as Senator George Mitchell's, that cover only very long stays will cover few patients but a large percentage of nursing home patient-days. Thus, public costs will be relatively large.

## Myth 5: Home Care Can Reduce Long-Term Care Expenditure by Substituting for Expensive Nursing Home Care

Supporters of publicly funded home care often argue that these services will substitute for expensive nursing home care and thus actually reduce public long-term

care expenditures. But Peter Kemper, of the Agency for Health Care Policy and Research, and others have shown that in demonstration projects that offered expanded home care, total costs rose rather than declined, and nursing home use fell only slightly. For example, in the Channeling Demonstration, providing a wide range of home care services pushed up health and long-term care costs about 18 percent.

Older people's aversion to nursing homes explains this increase. Given a choice between nursing home care and nothing, many elderly people will choose nothing. But when the choice is expanded to include home care, many will choose home care. Thus, the costs associated with large increases in home care more than offset small reductions in nursing home use.

Expected cost saving is, therefore, not a valid reason to expand home care. Various strategies, however, may be able to limit a home care program's incremental cost. Among them are targeting services to the most severely disabled, making reduction of hospital admissions a priority, exploiting technological "fixes" (such as automatic alarm systems), and aggressively monitoring use levels.

Still, there are reasons other than cost saving to support a paid home care program. A home care program would improve the quality of life by addressing an unmet need of the elderly and would provide the type of care that they overwhelmingly want.

## Myth 6: Most Nursing Home Patients Pay Privately at Admission, but Are Welfare Recipients at Discharge

Probably the most widespread long-term care myth is that most people enter a nursing home as independent, private-pay patients, then, impoverished by the costs, turn to Medicaid, the federal-state health program for the poor, to pay for their care. Depleting one's income and assets down to Medicaid financial eligibility levels is known as "spending down." Given that the cost of a year in a nursing home often exceeds $30,000, it is hard to see how it could be otherwise. Nonetheless, recent studies consistently show that only a modest number of nursing home patients spend down to Medicaid. Conversely, many more patients are eligible for Medicaid at admission than previously thought.

While one simulation study of elderly Massachusetts residents suggests that 46 percent of those aged 75 and over living alone in the community would become eligible for Medicaid after only 13 weeks in a nursing home, no study of actual spend-down behavior has found an equivalent drain on resources. Many nursing home patients have relatively few resources to begin with. For example, a study using Michigan Medicaid claims data found that only a quarter of 1984 nursing home patients originally entered as private-pay patients. A Connecticut study, which linked multiple nurs-

3-7-91
HB 790

ing home stays, found that 21 percent of private-pay nursing home patients spent down at some time during their stay and that 38 percent of Medicaid nursing home patients were private-pay at admission. Because they tend to have long lengths of stay, spend-down patients accounted for a somewhat higher percentage of Medicaid patient-days.

In a third study, using the National Nursing Home Survey, Spence and Wiener found that only about 10 percent of private-pay nursing home patients spend down to Medicaid during a single stay. Even with adjustments for multiple stays, Spence and Wiener estimate that the proportion of private-pay patients who spend down to Medicaid eligibility is in the range of 15–25 percent. By contrast, fully 35 percent of patients were eligible for Medicaid at admission. A substantial portion of the latter group probably would have had too much income to qualify for Medicaid had they continued to live in the community. However, the high cost of nursing home care made them immediately eligible for Medicaid upon entry to the nursing home.

There are several other explanations for the modest spend-down rate. First, as noted earlier, many nursing home stays are relatively short. Thus, at an average cost of $80 a day, the total cost of a three-month stay is $7,200, an amount that is sizable but manageable for many elderly people. By contrast, two-thirds of the patients who stay more than three years depend in part on Medicaid to help pay for their care. Even among this group, however, just 20 percent spend down; most are eligible for Medicaid at admission. Second, private-pay patients may avoid relying on welfare by selling their assets, including their houses, and by accepting money from relatives for their care. Although they may deplete their assets, they may never end up on Medicaid.

These research findings highlight the trade-offs between goals against which proposals for long-term care must be evaluated. One goal is to prevent the elderly from having to spend all their life savings on nursing home or extensive home care. Even if patients do not end up on Medicaid, nursing home care still imposes a substantial financial burden that can financially cripple them and their relatives. This goal is most important to the middle and upper-middle classes, who have significant assets to protect.

A second goal is to prevent older people from having to depend on welfare in the form of Medicaid. Public charity always carries some stigma, and efforts to reduce taxpayer costs are likely to perpetuate a two-class system with inferior status for Medicaid patients. Since most Medicaid patients in nursing homes are eligible at admission, focusing on the spend-down group ignores the large majority of Medicaid patients, who are presumably in the middle class or below, with few assets. Keeping this group off welfare deserves greater public policy attention than it has received to date.

## Myth 7: Private Long-Term Care Insurance Can Solve the Problem of Long-Term Care Financing

Over the past few years the market for private long-term care insurance has grown rapidly, leading some policymakers to promote private insurance as the best way to finance protection against the catastrophic costs of long-term care at a time of government austerity. The reality is that only about 3 percent of the elderly currently have long-term care insurance. Even under optimistic assumptions about the future growth of the market, private insurance cannot do the whole job.

Studies done at Brookings, the Employee Benefit Research Institute, Families USA, and the Urban Institute all conclude that only a minority of the elderly can afford private long-term care insurance. Other studies have found that a higher percentage of the elderly can afford private insurance, but they have done so only by assuming that the policies were for limited coverage, by assuming that the elderly would use their assets as well as income to pay the premiums, or by excluding a large

*By the year 2000 virtually all the parents of the baby boom generation will be elderly; thus baby boomers will have to face long-term care as a real-life, intensely personal problem, no longer just something to read about in Newsweek.*

XI
HB 790

percentage of the elderly from the pool of people who might be interested in purchasing insurance.

Although there is room for substantial growth in private insurance, projections using the Brookings-ICF Long-Term Care Financing Model suggest that only limited segments of the population will be covered by the private sector. By 2018 insurance sold to those 65 and older may be affordable to 25–54 percent of the elderly, may finance 7–17 percent of total nursing home expenditures, and may reduce Medicaid expenditures and the number of Medicaid nursing home patients by 1–16 percent.

Why will private insurance have a modest role in financing nursing home and home care? First, as already noted, private insurance is so expensive that most older people cannot afford it. The Health Insurance Association of America reports that the average annual premium for the 15 best-selling policies with inflation protection is $1,395 if purchased at age 65, rising to $4,199 if purchased at age 79.

Second, although coverage has been improved substantially over the past few years, financial protection is still limited. For example, benefits are rarely fully indexed for inflation, home care is highly restricted, and policies usually do not cover very long nursing home stays or home care episodes.

Third, insurers are worried because the long interval between initial purchase and ultimate use of nursing home and home care involves great uncertainty and financial risk. A policy bought by a woman at age 65 may not be used until she is 85, a full 20 years later. During those 20 years, unforeseen changes in disability or mortality rates, nursing home and home care utilization patterns, inflation in service costs, or the rate of return on financial reserves can dramatically transform a profitable policy into an unprofitable one. Such uncertainty will likely lead insurers to limit the number of policies they sell.

While private long-term care insurance can and should play a much larger role than it does now, it is not a panacea. Private insurance will not prevent public expenditure for long-term care from increasing substantially over the next 30 years, nor will it provide financial protection for the great majority of elderly. Expansions of public programs or very deep subsidies for the purchase of private insurance are needed to protect the elderly against the catastrophic costs of long-term care.

## Myth 8: The United States Is the Only Developed Country besides South Africa That Fails to Provide Long-Term Care on a Social Insurance Basis

In an effort to shame Americans into action, advocates of reform sometimes charge that the long-term care financing system in the United States lags far behind those in the rest of the world. While it is true that South Africa and the United States are the only developed countries without national health insurance or a national health service, these programs principally cover acute care hospital and physician services rather than long-term care. There is, in fact, a great deal of diversity in the way countries provide long-term care.

In Germany and Switzerland, long-term care is delivered through a means-tested welfare program. The level of impoverishment required for eligibility, however, is usually less severe than it is in the United States. In France and Belgium, the social insurance program covers only the medical component of long-term care. The Netherlands and some provinces of Canada provide relatively comprehensive long-term care programs on a nonwelfare basis, although they require a fairly substantial level of cost sharing. Both countries, however, provide their universal entitlement in the context of a fixed appropriation rather than an open-ended financing program like Medicaid and Medicare. Japan has virtually no nursing homes or paid home care. Instead, nursing home patients tend to back up in acute care hospitals. (One financing characteristic that all these countries do share is the small role played by private long-term care insurance.)

While the U.S. system is by no means exemplary, it is not so different from those of other countries as to be beyond the pale. As we look for ways to reform the financing of long-term care in the United States, the experience of Canada offers some support to those who argue that long-term care can be provided on a universal, social insurance basis without expenditures skyrocketing.

## Conclusion

As policymakers grope for solutions, it is essential that they have a realistic picture of the problems of long-term care. To a large extent, the conventional view of long-term care is at odds with the research literature. While some of the prevailing myths lend support to desirable initiatives, policy prescriptions based on inaccurate assumptions are likely to be ineffective and inefficient. Myths deflect attention from the real problems of providing and paying for care of the disabled.

Accurately defining the problems and realistically evaluating options is all the more critical because the issue of long-term care is likely to become increasingly prominent over the next 10 years. For one thing, the population aged 75 and older — the oldest old — will grow 25 percent by the year 2000. Even more important, virtually all the parents of the baby boom generation will be elderly; thus baby boomers will have to face long-term care as a real-life, intensely personal problem, no longer just something to read about in *Newsweek*. The combination of the elderly and their adult children will make long-term care a political issue that neither the president nor Congress can ignore.

EXHIBIT 2
DATE 3-7-91
HB 790

Amendment to House Bill # 790
(RE: Revising Tax Credit for Elderly, et al.)
Introduced Copy

1. Page 2, line 16
Following: "~~services~~"
Insert: "home health agency services,"

Rationale: Services provided by home health agencies were inadvertently removed by the proposed legislation from the list of services and care that constitute elderly care expenses for which income tax credits would be available. The proposed amendment would reinsert home health agency services into the list.

EXHIBIT 3
DATE 3-7-91
HB HJR 24

REVENUE OVERSIGHT COMMITT
12/7/1991
Exhibit #3

# ESTIMATING REVENUES FOR THE 1992-93 FISCAL BIENNIUM

## A Report to the Revenue Oversight Committee


Prepared by David D. Bohyer, Montana Legislative Council

Additional Information Provided by
Terry W. Johnson, Office of the Legislative Fiscal Analyst
and
Steve Bender, Office of Budget and Program Planning


December 1990

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**BUDGET**: a plan or schedule adjusting expenses during a certain period to the estimated or fixed income for that period. (*Webster's New World Dictionary*, New World Publishing Co., 1976)

## RECENT HISTORY AND BACKGROUND OF REVENUE ESTIMATES

In developing a biennial budget for the state of Montana, estimating anticipated expenditures is a fairly straightforward process: total the appropriations authorized by the legislature and approved by the governor. Estimating revenues, however, is somewhat more difficult as the process requires someone to predict how, when, and to what degree the economy will perform at international, national and state levels.

Having the legislature establish a formal estimate of revenues originated in a house joint resolution introduced during the 48th Legislative Session. House Joint Resolution No. 33, introduced by Representative Jack Ramirez, et al., was one of the first formal attempts by the legislature as a whole to estimate state revenues for an ensuing biennium. After receiving the approval of the House on a vote of 89 to 5, the resolution was amended in the Senate and approved 50 to 0 on second reading, then killed.

In 1985, Representative Steve Waldron soloed as the sponsor of House Joint Resolution No. 9, again a resolution to estimate state revenues for the biennium. In addition, HJR 9 also recommended the adoption of a beginning general fund balance based on generally accepted accounting principles, or GAAP, and requested that the economic assumptions and revenue estimates contained in the resolution be used by the Governor's Office of Budget and Program Planning for the purpose of developing fiscal notes.

EXHIBIT 4
DATE 3-7-91
HB HJR-24

STATE OF MONTANA

*Office of the Legislative Fiscal Analyst*

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TERESA OLCOTT COHEA
LEGISLATIVE FISCAL ANALYST

March 5, 1991

TO: Legislative Finance Committee

FROM: Terry W. Johnson TWJ
Principal Fiscal Analyst

RE: Revenue Estimates for the General Fund and School Equalization Account

The Revenue Oversight Committee (ROC) is meeting on March 5 to consider the revenue estimate assumptions contained in House Joint Resolution 24. The committee has requested that I provide them with updated information on key revenue assumptions. Following is background on ROC's revenue estimating responsibilities and a summary of the information I will present to the committee.

House Joint Resolution 24 will be heard in the House Taxation Committee on March 7.

## REVENUE ESTIMATING PROCEDURE

Section 5-18-107(5), MCA, establishes the following procedure for the Revenue Oversight Committee's revenue estimating responsibilities:

> (5) (a) The committee shall estimate the amount of revenue projected to be available for legislative appropriation.
> (b) The committee shall introduce a house joint resolution setting forth the committee's current revenue estimate in each regular session and each special session in which a revenue bill is under consideration. The committee shall issue periodic reports to the legislature in regular session and in the interim between regular sessions, indicating the committee's current revenue estimate.
> (c) The committee's introduced version of the joint resolution and subsequent periodic reports constitute the legislature's current revenue estimate until final adoption of the joint resolution by both houses.
> (d) The committee may request the assistance of the staffs of the legislative council, the office of the legislative fiscal analyst, the legislative auditor, the department of revenue, and any other agency that has information regarding any of the tax or revenue bases of the state.

Section 5-12-302(6), MCA, states: "The legislative fiscal analyst shall...assist the revenue oversight committee in performing its revenue estimating duties under 5-18-107(5)."

During the past interim, ROC met several times to discuss reports prepared by LFA staff concerning revenue estimating methodologies. In November 1990, it solicited information from industry representatives and university economists on key economic assumptions. In early December, the committee requested the Office of Budget and Program Planning (OBPP) and the LFA to present their recommendations for each assumption. Based on these recommendations, ROC then adopted assumptions for each economic variable. These adopted assumptions are contained in House Joint Resolution 24. Since these assumptions, in most cases, were consistent with LFA recommendations, the revenue estimates contained in the Budget Analysis, 1993 Biennium reflect the assumptions adopted by the ROC. A list of these assumptions is attached.

Since these assumptions were adopted in early December, some economic developments have occurred that will affect revenue collections in fiscal 1991 and may affect projected collections during the 1993 biennium. Three key areas are discussed below.

**OIL PRICES**

Under the ROC assumptions and in the LFA revenue estimates, Montana oil prices were estimated to be $23.73, $21.60, and $21.23 per barrel for calendar years 1991, 1992, and 1993. These estimates were based on Wharton Econometrics' November forecasts. The Executive Budget is based on estimated prices of $25.70, $22.01, and $20.62 for these same years.

The latest Montana Oil and Gas Journal (March 1) reports that prices in central and northwest Montana are approximately $17.75 per barrel for

40 degree gravity crude. Table 1 shows the average price of Montana oil (as reported on severance tax returns) in calendar year 1989 and 1990.

**TABLE 1**
**Montana Oil Prices**

| Quarter | Price/Barrel Quarterly | Price\Barrel Annual |
|---|---|---|
| A 1989:1 | $15.90 | |
| A 1989:2 | 17.99 | |
| A 1989:3 | 16.66 | |
| A 1989:4 | 17.85 | $17.10 |
| A 1990:1 | 19.14 | |
| A 1990:2 | 15.27 | |
| A 1990:3 | 23.18 | |
| E 1990:4 | 30.44 | 22.01 |

Oil prices have been very volatile during the last eight months. In August, prices increased from $17 per barrel to over $40 per barrel. In October, Wharton Econometrics predicted refinery acquisition prices would be $34.38 per barrel in calendar 1991 and $25.62 per barrel in calendar 1992. Today, it is predicting $19.88 per barrel in calendar 1991 and $21.88 per barrel in calendar 1992. Such wide variations make predicting future prices difficult. However, based on current oil prices, it appears fiscal 1991 oil-related revenue[1] will be $3.2 million less than the revenue estimate and fiscal 1992 and 1993 revenues $6.7 million less. These revised estimates are based on the following prices: CY91-$18.73; CY92-$20.73; CY93-$21.23. As you'll note, the largest change is in calendar year 1991 prices. Calendar year 1992 projected prices are only $.87 less than the original estimates and calendar year 1993 prices are unchanged.

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[1]Includes severance tax, royalties, local government severance

Exhibit # 4
3-7-91 HJR 24

I have made only minor revisions to calendar year 1992 and calendar year 1993 oil prices for the following reasons. OPEC ministers are meeting in mid-March to discuss oil prices and the current OPEC target price is $21 per barrel. According to the <u>National Oil and Gas Journal</u> newsletter (February 18, 1991), many industry experts predict that national oil prices will increase to $20 or above in mid-1991 and 1992.

If oil prices were to remain at $17.75 per barrel throughout the 1993 biennium, estimated oil-related revenues would decrease by approximately $20.2 million from the current revenue estimate.

## INTEREST RATES

The Board of Investments is responsible for investing all state funds, including the treasurer's cash account and permanent coal tax trust. The earnings from these accounts are deposited to the general fund and/or SEA. Short-term interest rates as adopted by the ROC were expected to be 7.6 percent in fiscal 1991, 7.7 percent in fiscal 1992, and 8.1 percent in fiscal 1993. The Executive Budget revenue estimates are based on short-term interest rates of 7.6 percent, 8.1 percent, and 8.4 percent for these years.

Current interest rates for short-term securities (such as 3 month and 6 month treasury bills) are averaging 6.25 percent. Each one percent (100 basis points) change in short-term rates affects general fund and SEA revenues by approximately $2.5 million per year. Although rates have been declining, Wharton Econometrics and other leading economists expect rates to "bottom-out" by mid-summer and then begin to rise as the economy recovers from the current economic recession.

## PERSONAL INCOME TAX

Personal income tax is the single largest source of revenue to the general fund. During the 1993 biennium, it is estimated to comprise

EXHIBIT 4
DATE 3-7-91
HB HJR-24

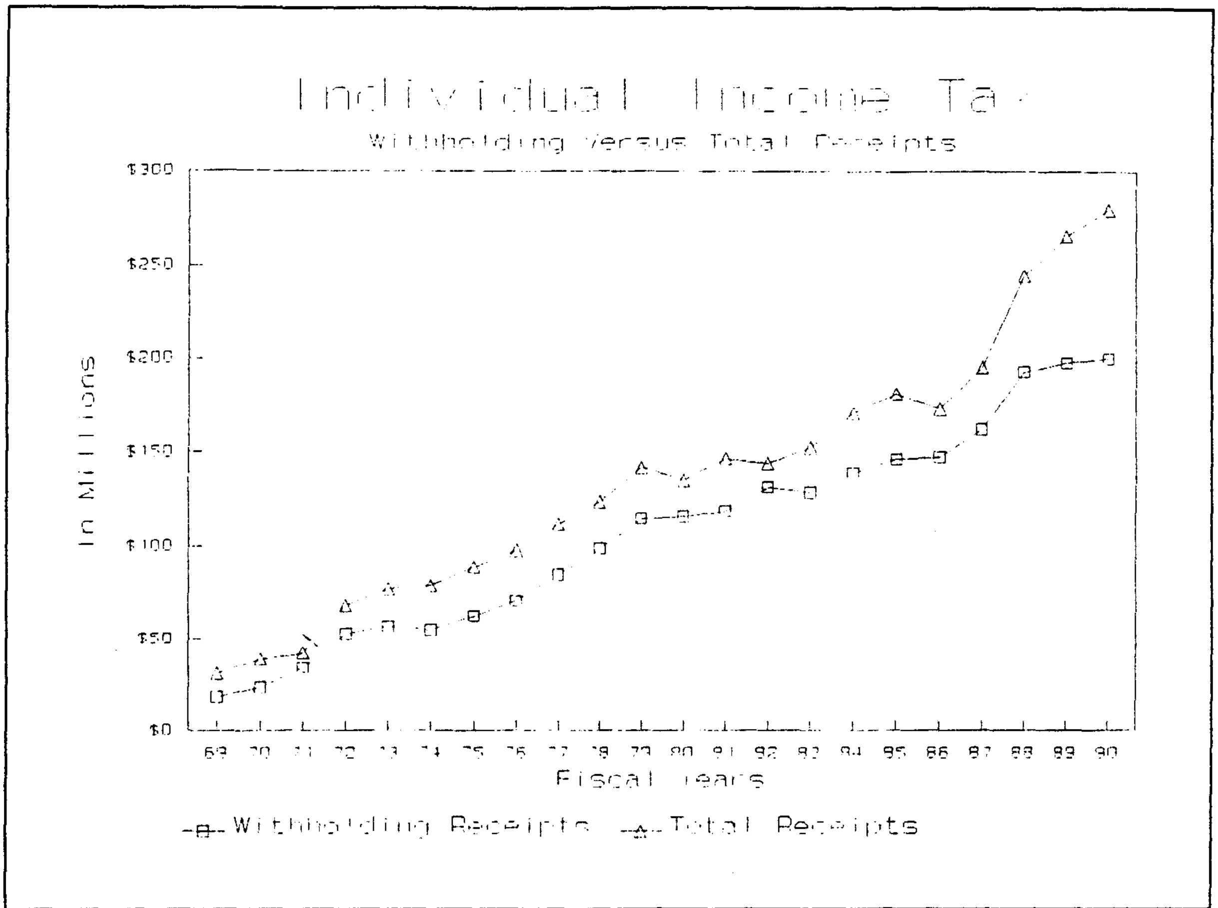
The LFA's income tax forecasts for the 1993 biennium were based on slow growth in wage and salary income and employment. With the current national recession, Montana's economy may be sluggish due to the recession, continuing shifts in employment from basic industries to service sectors, and the problems the timber industry is experiencing.

While income tax collections through the end of February ($188.3 million) are higher than for the same period in fiscal 1990 ($188.0 million), the revenue estimate for this fiscal year is $20.9 million higher than actual collections in fiscal 1990. In order to achieve the fiscal 1991 estimate, collections during the next four months will need to exceed fiscal 1990 collections by $20.6 million.

This is possible, since a growing portion of income tax collections are received in April and May. Since the enactment of the Federal Tax Reform Act of 1986, tax receipt patterns have changed significantly. Prior to federal tax reform, income tax collections from withholdings on wages accounted for about 90 percent of total collections. Since federal tax reform, withholdings have dropped to 71 percent of total collections, with payments on other types of income now contributing 29 percent of the total as the following graph shows.

Most of the tax payments on this type of income is paid in April. Last year, we received $65.3 million (or 23.4 percent of total collections) in April-May. If collections continue at anticipated levels this April-May, we will meet the fiscal 1991 revenue estimate. However, if tax collections from these more volatile income sources are less than anticipated, total collections for fiscal 1991 will fall below projections. Attached are a series of graphs showing income tax collection patterns. Graphs #2 and #3 show the large amount of estimated and current year tax received in April and May. Graph #1 shows that year-to-date collections from withholdings on wage and salary

Exhibit # 4
3-7-91 HJR 24




Since April and May are the key months for receipt of taxes on this type of income, it appears premature to revise estimates for either fiscal 1991 or the 1993 biennium. A slight change in income tax revenue estimates has a significant impact on biennial revenues. For example, a 1 percent downward revision in collections would reduce 1993 biennial general fund revenues by $6.3 million.

The Executive Budget has slightly higher total revenue estimates for personal income tax than the LFA. It anticipates $1.5 million more in fiscal 1991 and $9.5 million more during the 1993 biennium than the LFA estimates.

Exhibit # 4
3-7-91 HJR 24

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**SUMMARY**

Based on current oil prices, it appears oil-related tax revenues will be approximately $9.9 million below the LFA estimates for fiscal 1991, 1992, and 1993.

As discussed above, it appears premature to revise revenue assumptions for interest rates and personal income tax collections at this point. While these key revenue elements are currently lower than anticipated, developments in the next several months will have a significant impact on the 1993 biennium levels. We will be watching these revenue sources closely and will report to the Finance Committee and ROC on developments.

Traditionally, the legislature has tried to maintain a sufficient ending fund balance as a "cushion" against inevitable variations in revenue collections due to changing economic conditions. The National Association of Budget Officers (NASBO) recommends an ending fund balance of 5 percent of annual expenditures. Five percent of the annual general fund and SEA spending levels contained in the revised Executive Budget is $43.5 million.

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Enclosure

cc: Legislative Leadership

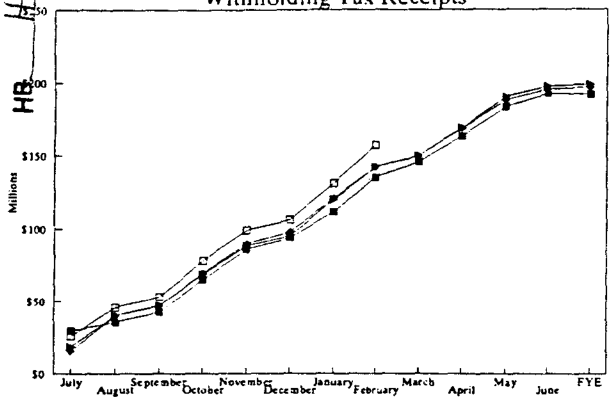
Exhibit # 4
3-7-91 HJR 24

# ECONOMIC ASSUMPTIONS

| YEAR | ASSUMPTION | CY/FY 1990 | CY/FY 1991 | CY/FY 1992 | CY/FY 1993 |
|---|---|---|---|---|---|
| | MT Population July 1 (Thousands) | 800 | 800 | 804 | 808 |
| | MT Population >=16 July 1 (Thousands) | 608 | 609 | 613 | 617 |
| | MT Population 18-24 July 1 (Thousands) | 71 | 67 | 64 | 61 |
| CY | MT Nonfarm Employment (Thousands) | 294.800 | 295.300 | 298.900 | 301.000 |
| CY | MT Personal Income (Billions) | $11.833 | $12.471 | $13.041 | $13.712 |
| CY | MT Nonfarm Wage & Salary Income (Billions) | $5.676 | $5.941 | $6.226 | $6.509 |
| CY | U.S. Corporate Profits Before Taxes (Billions) | $297.700 | $303.400 | $310.300 | $306.600 |
| CY | CPI Percent Change | 5.56% | 5.73% | 3.97% | 4.59% |
| FY | Short-Term Interest Rate | 8.12% | 7.59% | 7.71% | 8.13% |
| FY | Long-Term Interest Rate | 9.35% | 9.41% | 9.48% | 9.61% |
| CY | Prime Interest Rate | 9.95% | 9.81% | 10.00% | 10.00% |
| FY | Treasury Cash Average Balance (Millions) | $327.724 | $266.596 | $238.918 | $219.369 |
| FY | TRANS Issue (Millions) | $0.000 | $0.000 | $0.000 | $0.000 |
| FY | Individual Income Tax Audits (Millions) | $9.428 | $8.930 | $9.431 | $9.954 |
| FY | Corporation Tax Audits (Millions) | $8.369 | $8.109 | $8.239 | $8.174 |
| CY | Total Oil Production (Million Barrels) | 18.558 | 17.809 | 17.196 | 16.525 |
| CY | Montana Oil Price ($/Barrel) | $20.982 | $23.729 | $21.600 | $21.227 |
| FY | Statewide Taxable Valuation (Millions) | $1,884.550 | $1,564.317 | $1,587.654 | $1,616.398 |
| CY | Total Coal Production (Million Tons) | 34.822 | 34.473 | 34.356 | 34.818 |
| CY | Montana Coal Price (CSP/Ton) | $7.409 | $7.362 | $7.434 | $7.456 |
| FY | Coal Tax Credits (Millions) | $7.141 | $4.996 | $2.449 | $0.000 |
| CY | Total Natural Gas Production (M MCF) | 45.168 | 45.622 | 47.304 | 47.437 |
| CY | Montana Natural Gas Price ($/MCF) | $1.564 | $1.773 | $1.907 | $2.097 |
| CY | Copper Production (M lbs) | 111.061 | 135.762 | 137.863 | 130.776 |
| CY | Gold Production (M ozs) | 0.357 | 0.348 | 0.345 | 0.347 |
| CY | Silver Production (M ozs) | 6.430 | 6.449 | 6.454 | 6.457 |
| CY | Lead Production (M lbs) | 11.651 | 11.665 | 11.674 | 11.739 |
| CY | Zinc Production (M lbs) | 31.986 | 32.029 | 32.421 | 32.602 |
| CY | Molybdenum Production (M lbs) | 13.000 | 14.100 | 10.900 | 9.300 |
| CY | Palladium Production (M ozs) | 0.185 | 0.200 | 0.222 | 0.290 |
| CY | Platinum Production (M ozs) | 0.057 | 0.061 | 0.067 | 0.088 |
| CY | Copper Price | $1.031 | $1.046 | $1.038 | $1.042 |
| CY | Gold Price | $400.675 | $400.675 | 400.675 | $400.675 |
| CY | Silver Price | $4.775 | $4.775 | $4.775 | $4.775 |
| CY | Lead Price | $0.209 | $0.209 | $0.209 | $0.209 |
| CY | Zinc Price | $0.502 | $0.502 | $0.502 | $0.502 |
| CY | Molybdenum Price | $3.104 | $3.119 | $3.112 | $3.115 |
| CY | Palladium Price | $132.725 | $132.725 | $132.725 | $132.725 |
| CY | Platinum Price | $453.253 | $453.253 | $453.253 | $453.253 |
| FY | Forest Receipts (Millions) | $7.582 | $11.150 | $7.753 | $7.705 |
| FY | Permanent Trust Gains/Losses (Millions) | $1.685 | $1.195 | $1.195 | $1.195 |
| FY | Common School Trust Gains/Losses (Millions) | $1.394 | $1.231 | $1.231 | $1.231 |
| FY | Resource Ind. Trust Gains/Losses (Millions) | $0.339 | $0.339 | $0.339 | $0.339 |
| FY | Park Acq. Trust Gains/Losses (Millions) | $0.084 | $0.054 | $0.054 | $0.054 |
| FY | Liquor Unit Sales (Millions) | 4.883 | 4.780 | 4.680 | 4.582 |
| FY | Wine Unit Sales (Millions) | 0.121 | 0.100 | 0.083 | 0.067 |
| FY | Liquor Cost Per Unit | $4.890 | $4.977 | $5.066 | $5.156 |
| FY | Wine Cost Per Unit | $3.262 | $3.258 | $3.372 | $3.483 |
| FY | Liquor Division Budget (% Change) | 0.51% | 0.00% | 0.00% | 0.00% |
| FY | Cigarette Packs (Millions) | 69.568 | 68.874 | 68.068 | 67.156 |
| FY | Tobacco Value (Millions) | $7.145 | $7.626 | $8.053 | $8.490 |
| FY | Insurance Premiums Growth (% Change) | 1.89% | 1.89% | 1.89% | 1.89% |
| FY | Insurance Premiums Tax Credit | $2.151 | $3.231 | $4.311 | $5.391 |
| FY | Police & Firemen Retirement (Millions) | $6.076 | $6.213 | $6.391 | $6.479 |
| CY | Telephone Taxable Income (Millions) | $223.653 | $234.185 | $241.724 | $250.770 |
| CY | Kilowatt Hours Produced (Millions) | 22,674.000 | 22,664.000 | 22,682.000 | 22,663.000 |
| FY | Barrels of Beer (Millions) | 0.704 | 0.702 | 0.706 | 0.711 |
| CY | Freight Line Earnings (Millions) | $21.206 | $21.757 | $21.768 | $21.699 |
| FY | Liters of Wine (Millions) | 5.203 | 5.036 | 4.907 | 4.785 |
| FY | Video Machine Net Income (Millions) | $112.635 | $126.079 | $139.382 | $150.333 |
| FY | Statewide Vehicle Value (Millions) | $1901.204 | $1905.049 | $1935.412 | $1986.326 |
| [illegible] | [illegible] Lottery Sales | $26.917 | $32.080 | $38.478 | $44.817 |

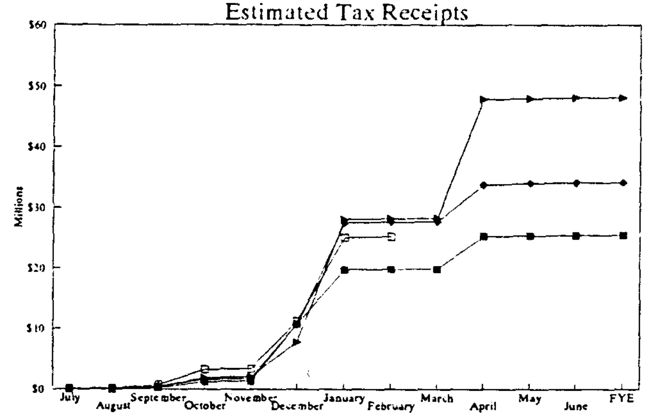
EXHIBIT 4
DATE 3-7-91
HB HJR-24

## INDIVIDUAL INCOME TAX DATA
Withholding Tax Receipts



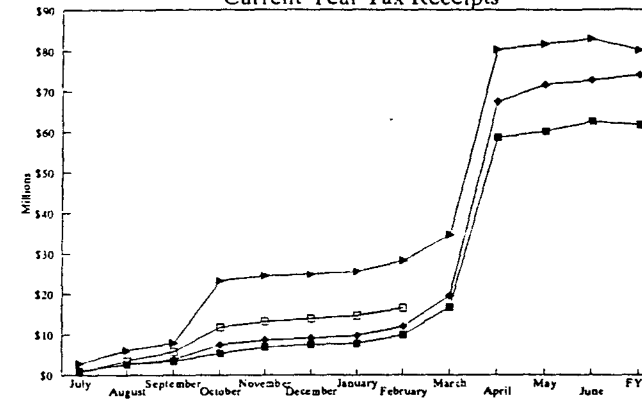

Fiscal 1988 Fiscal 1989 Fiscal 1990 Fiscal 1991

## INDIVIDUAL INCOME TAX DATA
Estimated Tax Receipts



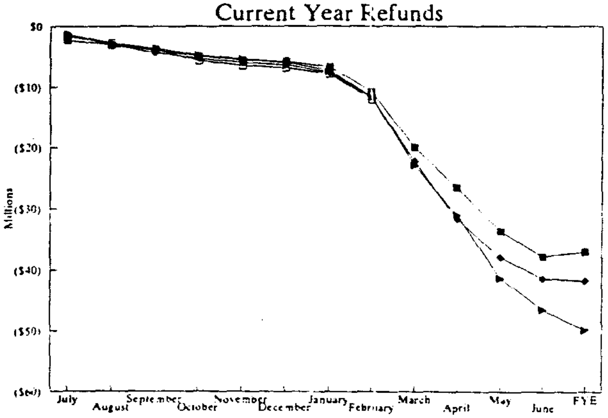

Fiscal 1988 Fiscal 1989 Fiscal 1990 Fiscal 1991

## INDIVIDUAL INCOME TAX DATA
Current Year Tax Receipts



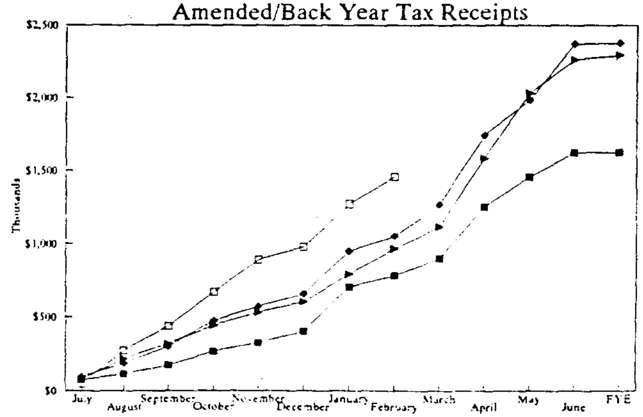

Fiscal 1988 Fiscal 1989 Fiscal 1990 Fiscal 1991

## INDIVIDUAL INCOME TAX DATA
Current Year Refunds



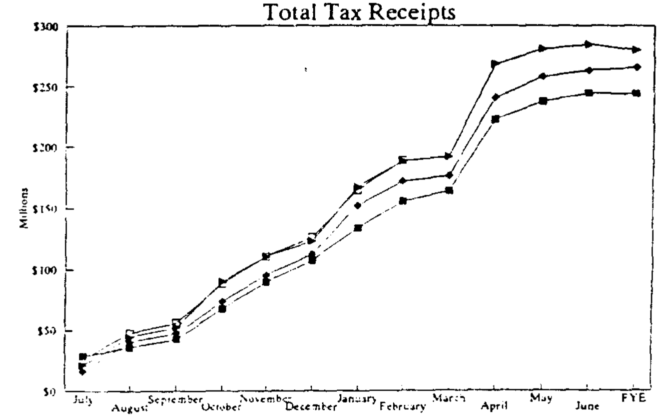

Fiscal 1988 Fiscal 1989 Fiscal 1990 Fiscal 1991

## INDIVIDUAL INCOME TAX DATA
Amended/Back Year Tax Receipts




Fiscal 1988 Fiscal 1989 Fiscal 1990 Fiscal 1991

## INDIVIDUAL INCOME TAX DATA
Total Tax Receipts




Fiscal 1988 Fiscal 1989 Fiscal 1990 Fiscal 1991

EXHIBIT 5
DATE 3-7-91
HJR 24

# Office of Legislative Fiscal Analyst
# General Fund Summary
# 1993 Biennium (In Millions)

03/04/91 10:23 AM

| | | |
|---|---|---|
| **Ending Fund Balance (6/30/93)** | | **$98.524 *** |
| Revenue Adjustments To HJR 24 | | 0.359 |
| Medicaid Reimbursements (MDC) | (2.060) | |
| Medicaid Reimbursements (Audit) | 2.419 | |
| Medicaid Adjustments | | (11.386) |
| Supplemental Adjustments | | (4.205)** |
| HB 2 Subcommittee Action | | (64.335) |
| Current Level | (17.683) | |
| Budget Modifications | (46.652) | |
| Revenue Bills (See Attached) | | 0.819 |
| Pay Plan | | 0.000 |
| Miscellaneous Appropriations | | (0.798) |
| HB 142 Postsecondary Education | (0.054) | |
| SB 37 Youth Detention Services | (0.744) | |
| Foundation Program (Over 0/0) | | 0.000 |
| **Ending Fund Balance** | | **$18.978** |

* Includes $4.5 million feed bill.

** In addition to amount included in HB 3, as introduced.

This summary reflects subcommittee action on HB 2 and supplementals through February 27, 1991. The fiscal impact of tax bills and miscellaneous appropriation bills is included in this summary after committee action in the first house is completed.

# Office of Legislative Fiscal Analyst
# General Fund Summary
# 1993 Biennium (In Millions)

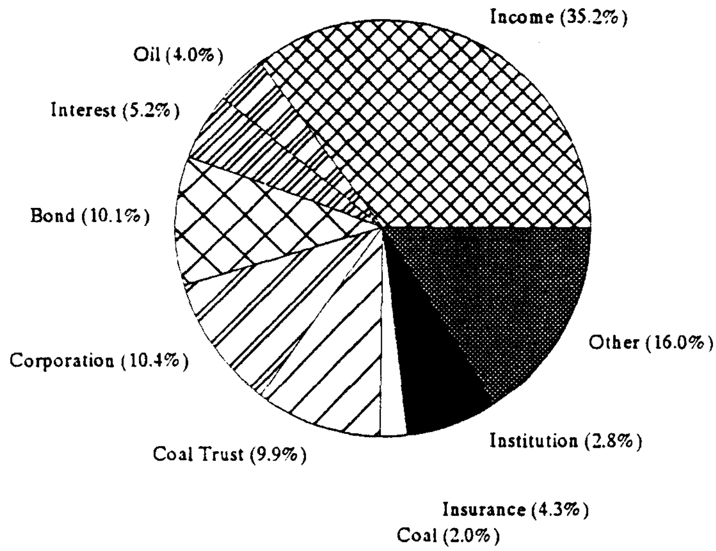
03/04/91 10:23 AM

## Revenue Bills

| | | | |
|---|---|---|---|
| Passed Both Houses | HB 53 | Petroleum License Fees | 0.040 |
| Signed By Governor | HB 66 | Beekeepers | 0.023 |
| | HB 77 | Highway Patrol Retirement | (1.285) |
| Passed Both Houses | HB 175 | Kindergartens | (0.140) |
| | HB 192 | Transporting Logs | 0.127 |
| | HB 431 | Teacher Certification Fees | 0.059 |
| | HB 453 | Judge's Retirement Contrib. | (0.014) |
| | HB 462 | Revise Calculation of ANB | 1.500 |
| | HB 494 | Drivers' Reinstatement Fee | (0.413) |
| | HB 577/734 | Military Pay & Benefits | (0.127) |
| | HB 671 | Subdivision Act Amendments | 0.120 |
| | HB 723 | Veterans' License Plates | 0.009 |
| | HB 896 | Revise Fire Marshall Law | 0.001 |
| | SB 26 | In-State Investment | 0.525 |
| | SB 80 | Overweight Vehicle Penalties | 0.009 |
| | SB 82 | School Transportation | (0.217) |
| Passed Both Houses | SB 83 | DFWP Interest | (0.060) |
| | SB 105 | Medical Facility Construction | (0.750) |
| | SB 116 | Cigarette Tax | 0.000 |
| Signed By Governor | SB 150 | State Grazing Leases | 0.098 |
| | SB 191 | Clarify Motor Vehicle Laws | 0.012 |
| | SB 192 | Highway Patrol Retirement | 0.420 |
| | SB 228 | Increase Judicial Salaries | 0.705 |
| | SB 253 | Opencut Mining Act | (0.031) |
| | SB 275/278 | Repeal Nuisance Taxes | (0.025) |
| | SB 318 | Identifying Pickup Campers | 0.070 |
| | SB 323 | Revising Motor Vehicle Dealer Law | 0.163 |
| | | Total Revenue Bills | 0.819 |

EXHIBIT 6
DATE 3-7-91
HB HJR-24

# General Fund Revenue Analysis
*Contribution By Major Component FY 90–91*




# General Fund Revenue Analysis
*Contribution By Major Component FY 92–93*

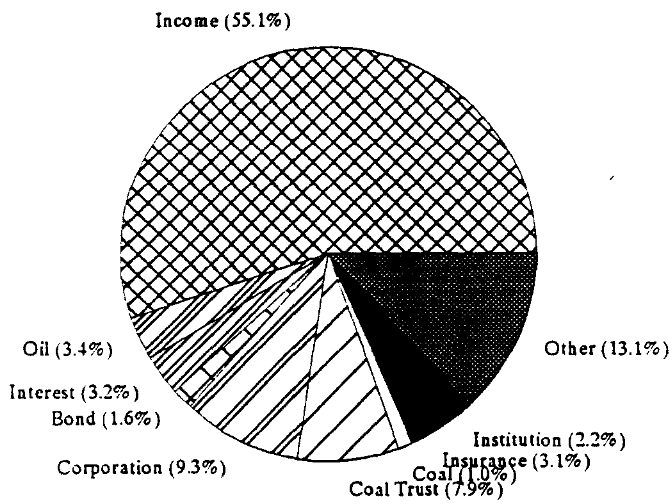
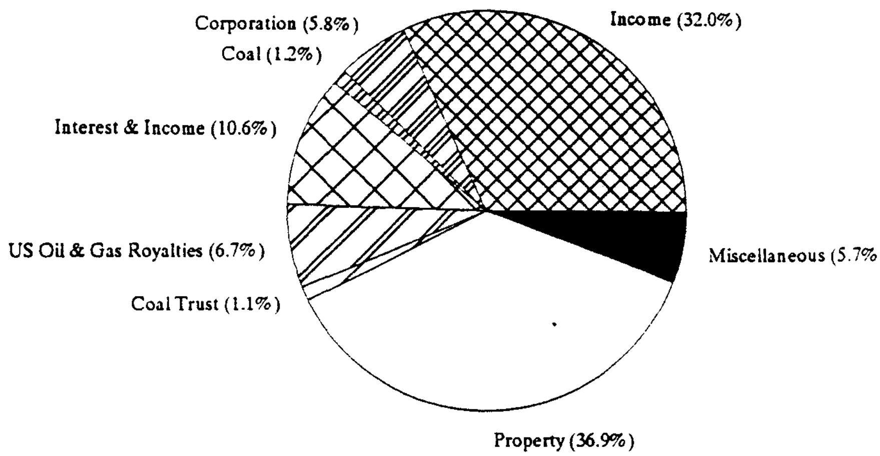
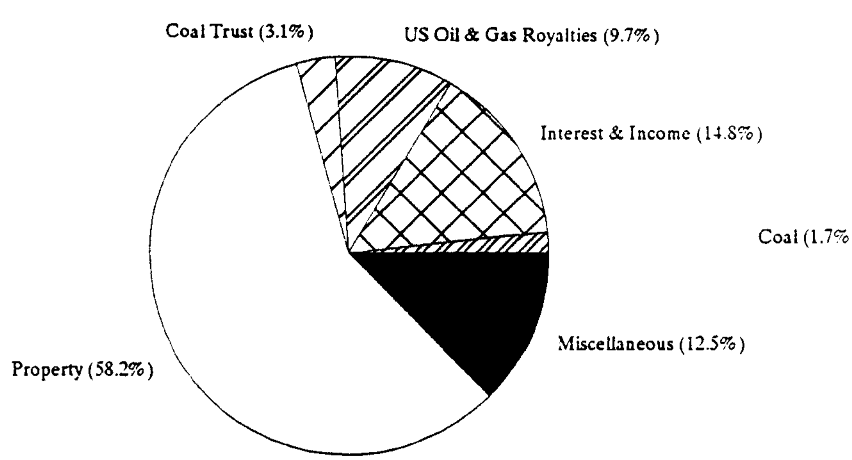


Exhibit # 6
3-7-91 HJR 24

# Foundation Program Revenue Analysis
*Contribution By Major Component FY 90–91*



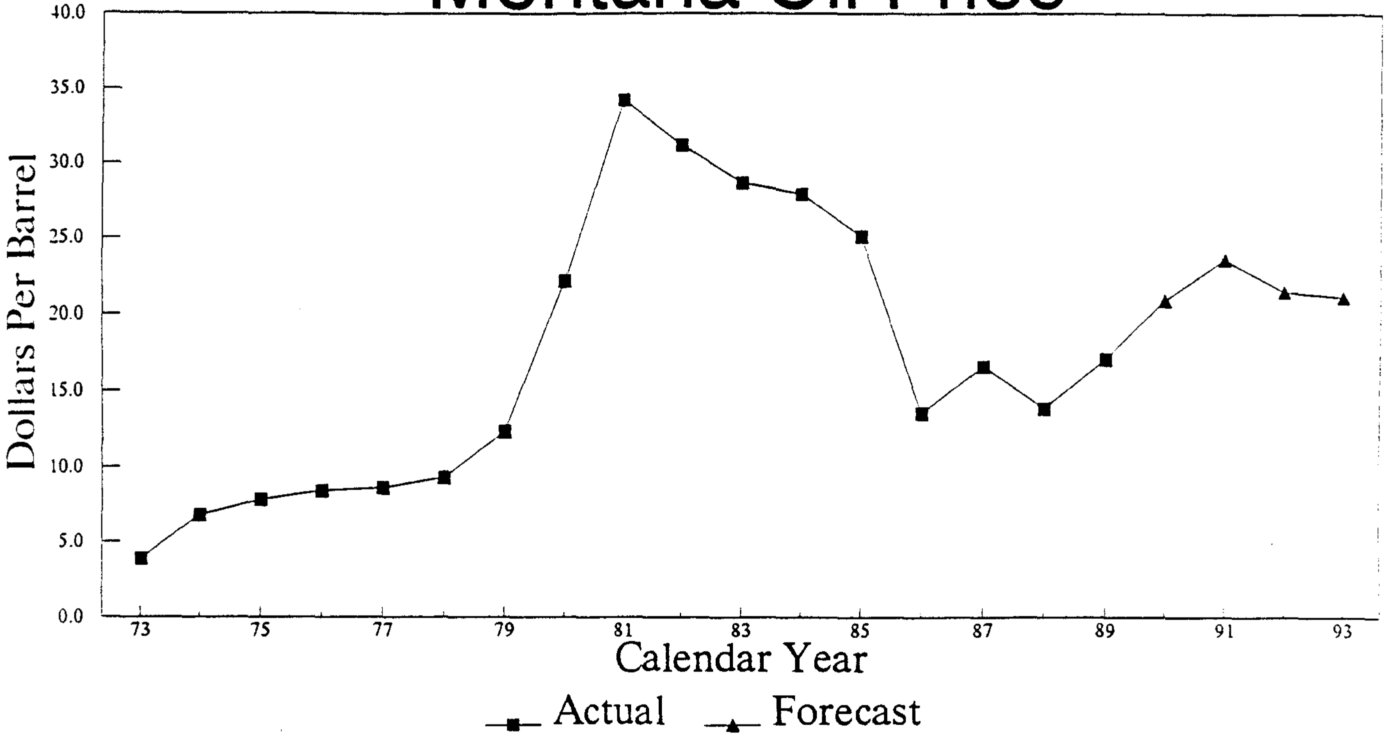

# Foundation Program Revenue Analysis
*Contribution By Major Component FY 92–93*



[redacted]

Exhibit # 6
3-7-91 HJR 24

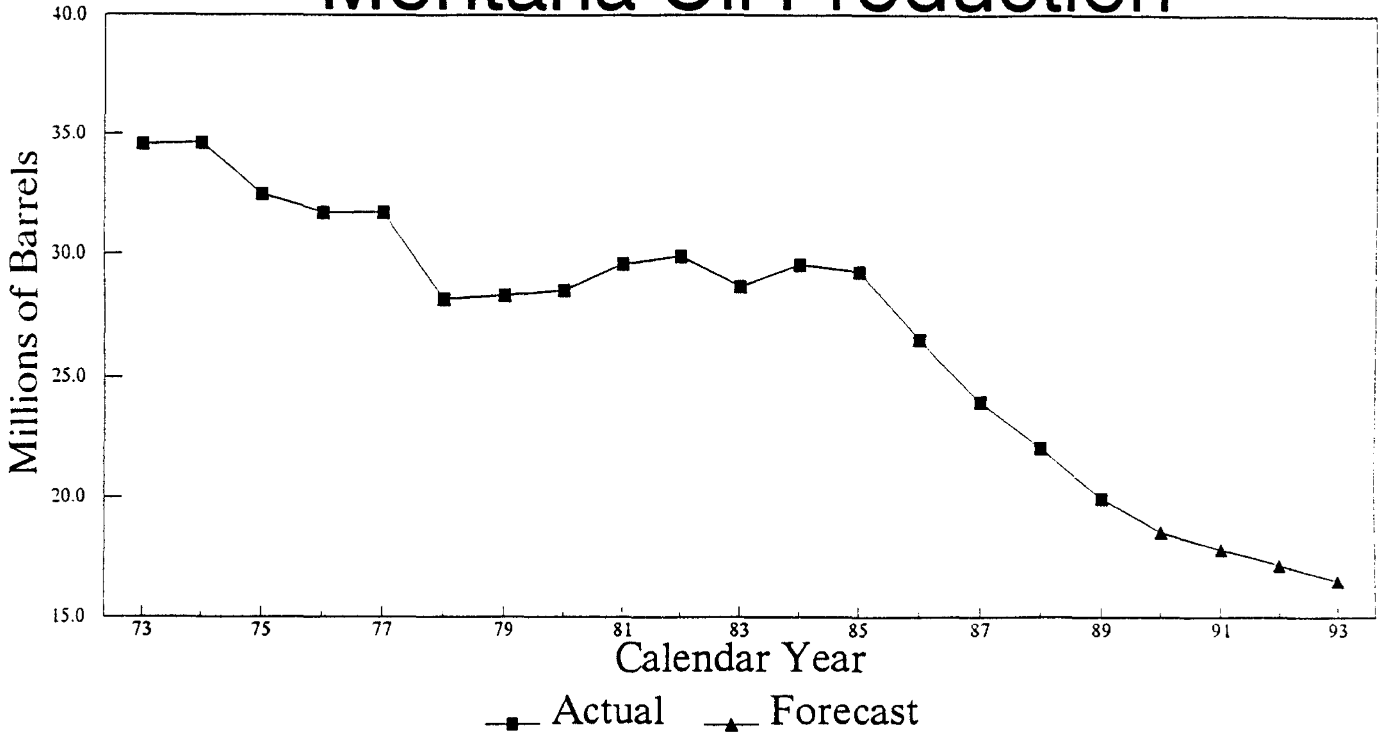
# Montana Oil Price




| | CY | Severance Tax Barrels | Percent Change Barrels | Severance Tax Price | Percent Change Price |
|---|---|---|---|---|---|
| A | 73 | 34.558 | NA | 3.843 | NA |
| A | 74 | 34.629 | 0.21% | 6.814 | 77.31% |
| A | 75 | 32.460 | −6.26% | 7.845 | 15.13% |
| A | 76 | 31.698 | −2.35% | 8.411 | 7.21% |
| A | 77 | 31.725 | 0.09% | 8.582 | 2.03% |
| A | 78 | 28.164 | −11.22% | 9.253 | 7.82% |
| A | 79 | 28.337 | 0.61% | 12.279 | 32.70% |
| A | 80 | 28.539 | 0.71% | 22.250 | 81.20% |
| A | 81 | 29.639 | 3.85% | 34.317 | 54.23% |
| A | 82 | 29.944 | 1.03% | 31.311 | −8.76% |
| A | 83 | 28.695 | −4.17% | 28.804 | −8.01% |
| A | 84 | 29.602 | 3.16% | 28.066 | −2.56% |
| A | 85 | 29.318 | −0.96% | 25.243 | −10.06% |
| A | 86 | 26.525 | −9.53% | 13.518 | −46.45% |
| A | 87 | 23.961 | −9.67% | 16.631 | 23.03% |
| A | 88 | 22.064 | −7.92% | 13.843 | −16.76% |
| A | 89 | 19.957 | −9.55% | 17.098 | 23.51% |
| F | 90 | 18.558 | −7.01% | 20.982 | 22.72% |
| F | 91 | 17.809 | −4.04% | 23.729 | 13.09% |
| F | 92 | 17.196 | −3.44% | 21.600 | −8.97% |
| F | 93 | 16.525 | −3.90% | 21.227 | −1.73% |

Exhibit # 6
3-7-91 HJR 24

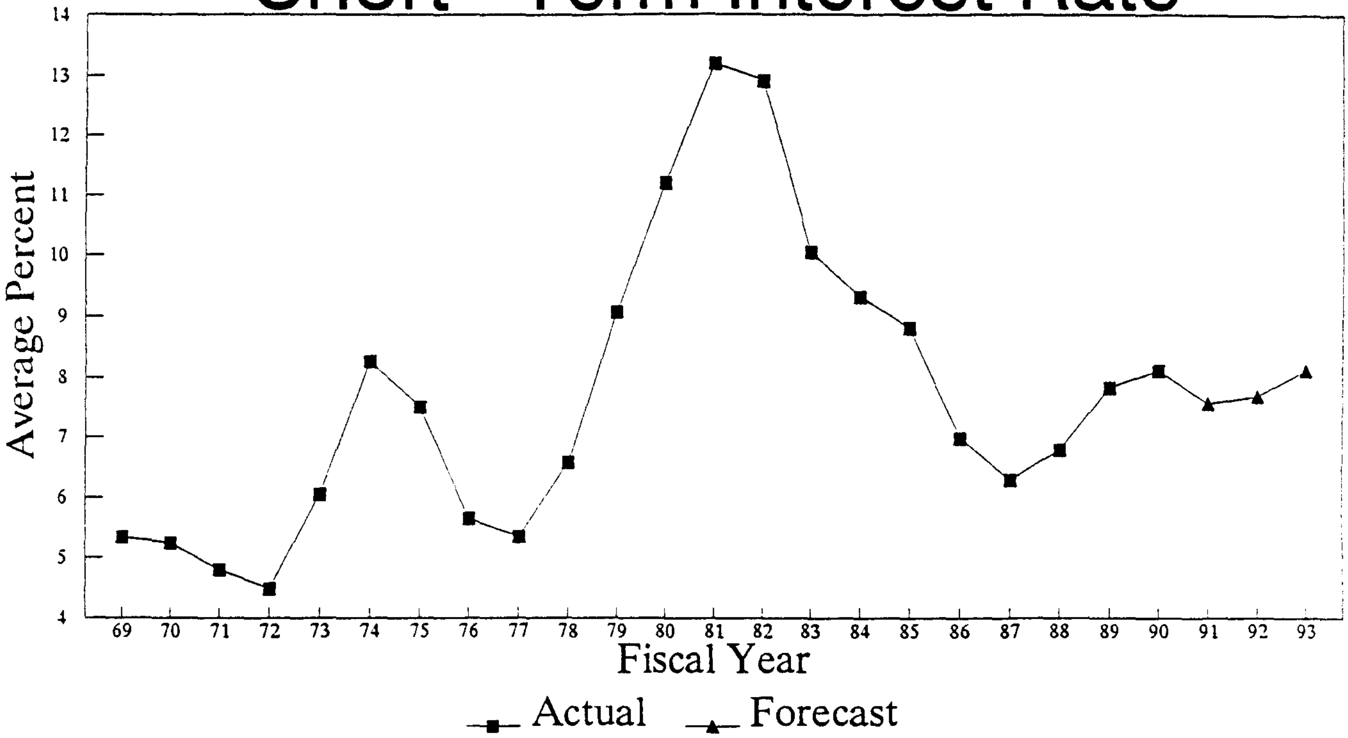
# Montana Oil Production




| | CY | Severance Tax Barrels | Percent Change Barrels | Severance Tax Price | Percent Change Price |
|---|---|---|---|---|---|
| A | 73 | 34.558 | NA | 3.843 | NA |
| A | 74 | 34.629 | 0.21% | 6.814 | 77.31% |
| A | 75 | 32.460 | −6.26% | 7.845 | 15.13% |
| A | 76 | 31.698 | −2.35% | 8.411 | 7.21% |
| A | 77 | 31.725 | 0.09% | 8.582 | 2.03% |
| A | 78 | 28.164 | −11.22% | 9.253 | 7.82% |
| A | 79 | 28.337 | 0.61% | 12.279 | 32.70% |
| A | 80 | 28.539 | 0.71% | 22.250 | 81.20% |
| A | 81 | 29.639 | 3.85% | 34.317 | 54.23% |
| A | 82 | 29.944 | 1.03% | 31.311 | −8.76% |
| A | 83 | 28.695 | −4.17% | 28.804 | −8.01% |
| A | 84 | 29.602 | 3.16% | 28.066 | −2.56% |
| A | 85 | 29.318 | −0.96% | 25.243 | −10.06% |
| A | 86 | 26.525 | −9.53% | 13.518 | −46.45% |
| A | 87 | 23.961 | −9.67% | 16.631 | 23.03% |
| A | 88 | 22.064 | −7.92% | 13.843 | −16.76% |
| A | 89 | 19.957 | −9.55% | 17.098 | 23.51% |
| F | 90 | 18.558 | −7.01% | 20.982 | 22.72% |
| F | 91 | 17.809 | −4.04% | 23.729 | 13.09% |
| F | 92 | 17.196 | −3.44% | 21.600 | −8.97% |
| F | 93 | 16.525 | −3.90% | 21.227 | −1.73% |

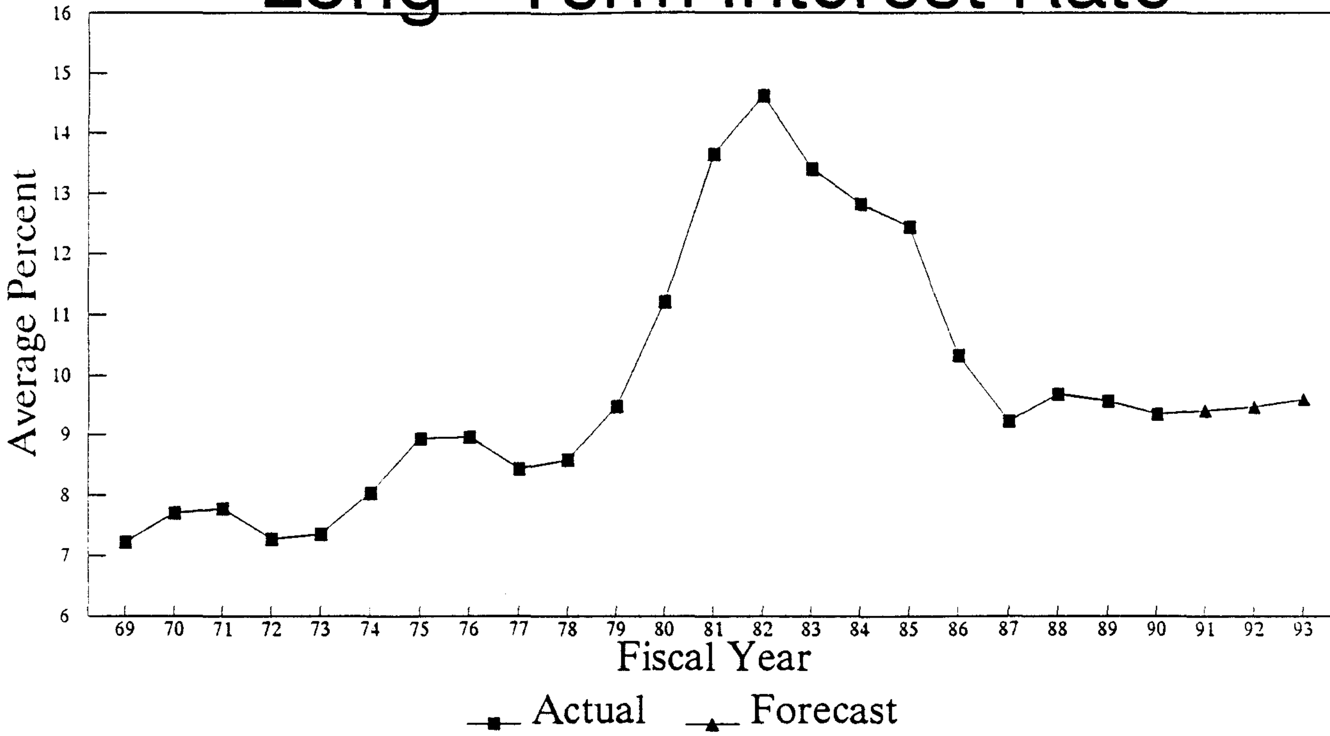
EXHIBIT
DATE 3-7-91
HB HJR-24

# Short-Term Interest Rate




| | FY | Averge Short-Term | Averge Long-Term |
|---|---|---|---|
| A | 69 | 5.34 | 7.22 |
| A | 70 | 5.25 | 7.71 |
| A | 71 | 4.81 | 7.79 |
| A | 72 | 4.48 | 7.28 |
| A | 73 | 6.06 | 7.35 |
| A | 74 | 8.27 | 8.05 |
| A | 75 | 7.51 | 8.94 |
| A | 76 | 5.66 | 8.96 |
| A | 77 | 5.35 | 8.43 |
| A | 78 | 6.59 | 8.59 |
| A | 79 | 9.09 | 9.48 |
| A | 80 | 11.22 | 11.23 |
| A | 81 | 13.21 | 13.65 |
| A | 82 | 12.92 | 14.63 |
| A | 83 | 10.08 | 13.42 |
| A | 84 | 9.34 | 12.84 |
| A | 85 | 8.83 | 12.47 |
| A | 86 | 7.00 | 10.33 |
| A | 87 | 6.30 | 9.23 |
| A | 88 | 6.80 | 9.68 |
| A | 89 | 7.85 | 9.57 |
| A | 90 | 8.12 | 9.35 |
| F | 91 | 7.59 | 9.41 |
| F | 92 | 7.71 | 9.48 |
| F | 93 | 8.13 | 9.61 |

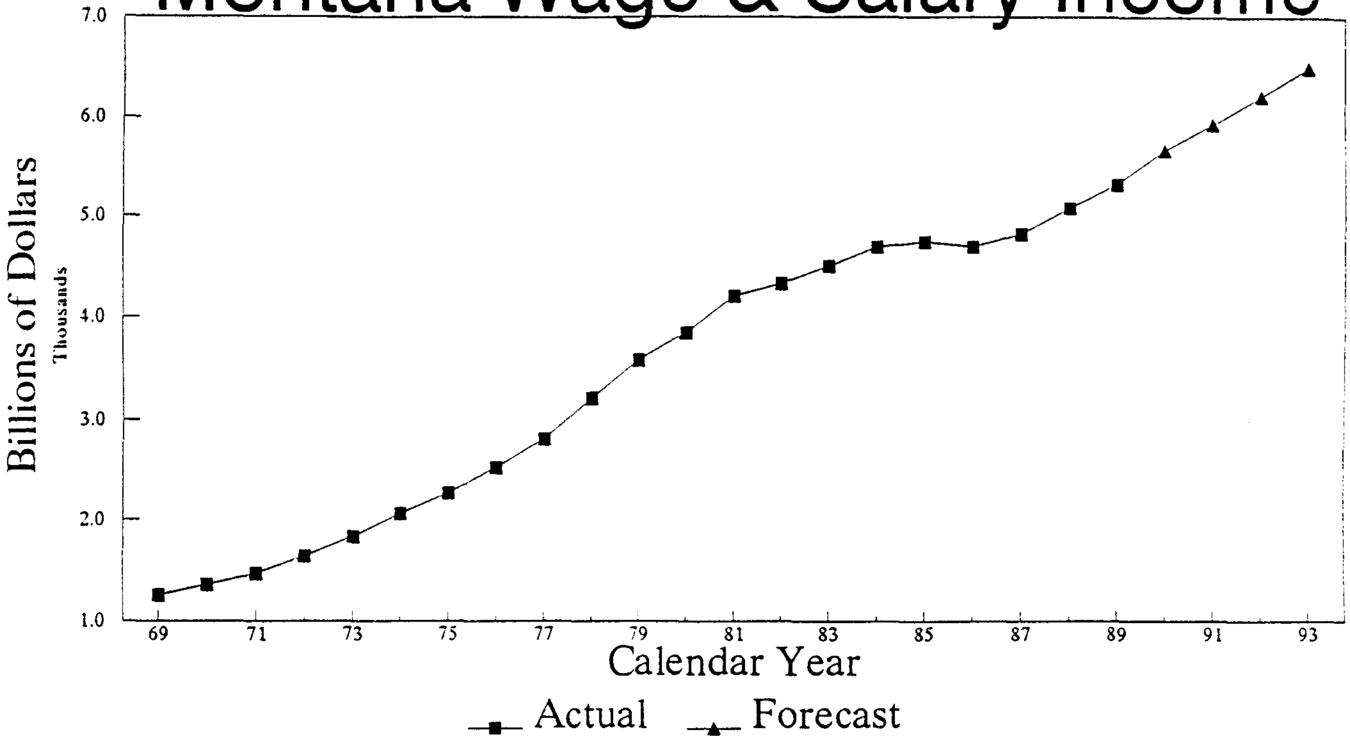
# Long-Term Interest Rate




| | FY | Averge Short-Term | Averge Long-Term |
|---|---|---|---|
| A | 69 | 5.34 | 7.22 |
| A | 70 | 5.25 | 7.71 |
| A | 71 | 4.81 | 7.79 |
| A | 72 | 4.48 | 7.28 |
| A | 73 | 6.06 | 7.35 |
| A | 74 | 8.27 | 8.05 |
| A | 75 | 7.51 | 8.94 |
| A | 76 | 5.66 | 8.96 |
| A | 77 | 5.35 | 8.43 |
| A | 78 | 6.59 | 8.59 |
| A | 79 | 9.09 | 9.48 |
| A | 80 | 11.22 | 11.23 |
| A | 81 | 13.21 | 13.65 |
| A | 82 | 12.92 | 14.63 |
| A | 83 | 10.08 | 13.42 |
| A | 84 | 9.34 | 12.84 |
| A | 85 | 8.83 | 12.47 |
| A | 86 | 7.00 | 10.33 |
| A | 87 | 6.30 | 9.23 |
| A | 88 | 6.80 | 9.68 |
| A | 89 | 7.85 | 9.57 |
| A | 90 | 8.12 | 9.35 |
| F | 91 | 7.59 | 9.41 |
| F | 92 | 7.71 | 9.48 |
| F | 93 | 8.13 | 9.61 |

Exhibit # 6
3-7-91 HJR 24

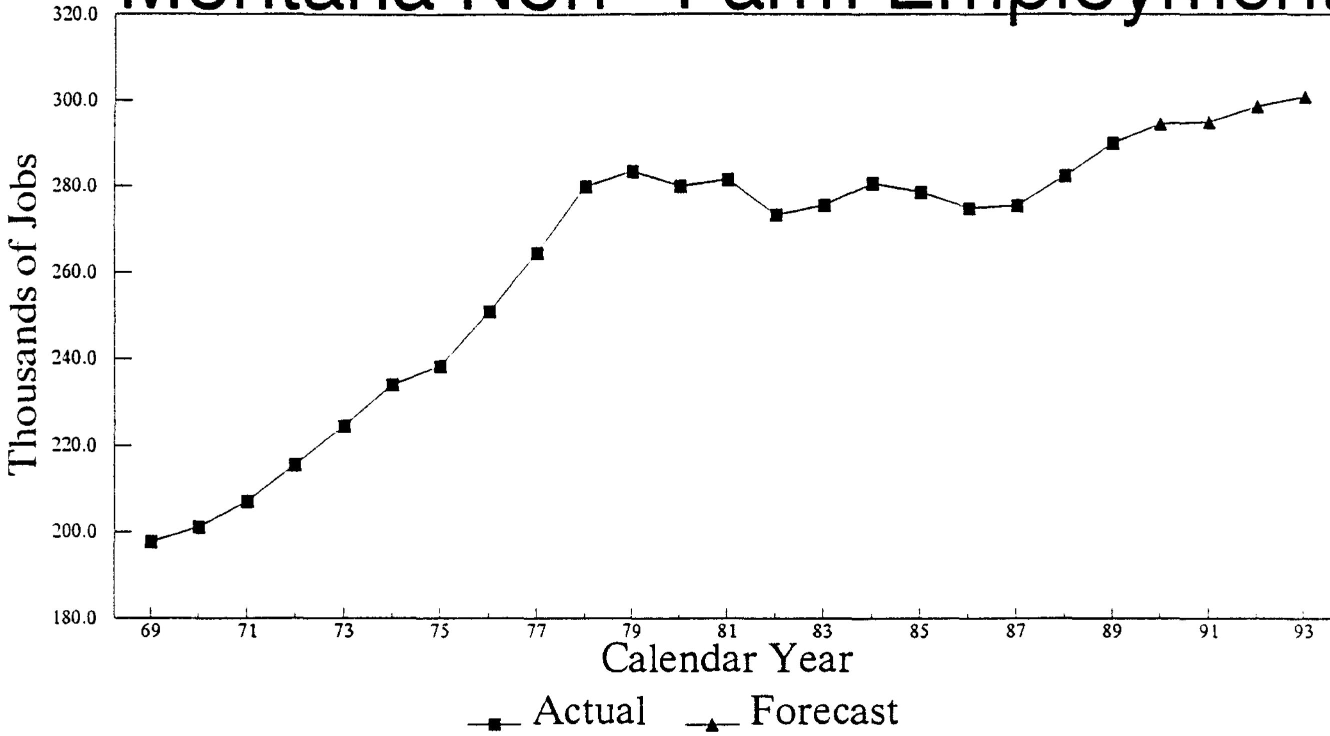
# Montana Wage & Salary Income




| | CY | Montana Personal Income | Percent Change Personal | Montana Wage&Sal. Income | Percent Change Wage&Sal. |
|---|---|---|---|---|---|
| A | 69 | 2226.095 | | 1259.333 | |
| A | 70 | 2459.435 | 10.48% | 1358.985 | 7.91% |
| A | 71 | 2613.661 | 6.27% | 1470.691 | 8.22% |
| A | 72 | 3044.809 | 16.50% | 1640.168 | 11.52% |
| A | 73 | 3580.328 | 17.59% | 1837.878 | 12.05% |
| A | 74 | 3866.476 | 7.99% | 2065.305 | 12.37% |
| A | 75 | 4221.699 | 9.19% | 2266.550 | 9.74% |
| A | 76 | 4543.154 | 7.61% | 2518.970 | 11.14% |
| A | 77 | 4951.869 | 9.00% | 2805.484 | 11.37% |
| A | 78 | 5859.822 | 18.34% | 3209.329 | 14.39% |
| A | 79 | 6428.461 | 9.70% | 3583.736 | 11.67% |
| A | 80 | 7039.551 | 9.51% | 3858.892 | 7.68% |
| A | 81 | 7858.105 | 11.63% | 4220.470 | 9.37% |
| A | 82 | 8118.020 | 3.31% | 4340.394 | 2.84% |
| A | 83 | 8503.906 | 4.75% | 4521.138 | 4.16% |
| A | 84 | 8922.334 | 4.92% | 4714.358 | 4.27% |
| A | 85 | 9092.290 | 1.90% | 4764.534 | 1.06% |
| A | 86 | 9587.581 | 5.45% | 4711.331 | −1.12% |
| A | 87 | 9979.768 | 4.09% | 4832.286 | 2.57% |
| A | 88 | 10361.148 | 3.82% | 5092.167 | 5.38% |
| A | 89 | 11341.579 | 9.46% | 5336.400 | 4.80% |
| F | 90 | 11832.556 | 4.33% | 5676.187 | 6.37% |
| F | 91 | 12470.605 | 5.39% | 5941.054 | 4.67% |
| F | 92 | 13041.216 | 4.58% | 6226.144 | 4.80% |
| F | 93 | 13711.575 | 5.14% | 6508.997 | 4.54% |

EXHIBIT 6
DATE 3-7-91
HB HJR-24

# Montana Non-Farm Employment




| | CY | Non-Farm Wage&Sal. Employment | Wholesale Retail Employment | Services Employment | Percent of Total |
|---|---|---|---|---|---|
| A | 69 | 197.7 | 47.0 | 32.1 | 40.01% |
| A | 70 | 201.3 | 48.1 | 33.7 | 40.64% |
| A | 71 | 207.1 | 50.1 | 35.3 | 41.24% |
| A | 72 | 215.4 | 53.5 | 37.3 | 42.15% |
| A | 73 | 224.4 | 56.3 | 40.4 | 43.09% |
| A | 74 | 234.0 | 58.8 | 42.4 | 43.25% |
| A | 75 | 238.2 | 59.1 | 44.3 | 43.41% |
| A | 76 | 251.1 | 63.6 | 47.8 | 44.36% |
| A | 77 | 264.8 | 67.0 | 49.4 | 43.96% |
| A | 78 | 280.4 | 72.2 | 52.6 | 44.51% |
| A | 79 | 283.9 | 73.5 | 54.2 | 44.98% |
| A | 80 | 280.4 | 72.3 | 55.1 | 45.44% |
| A | 81 | 281.8 | 72.9 | 56.1 | 45.78% |
| A | 82 | 273.7 | 71.9 | 56.3 | 46.84% |
| A | 83 | 276.0 | 73.6 | 57.8 | 47.61% |
| A | 84 | 281.1 | 75.9 | 59.6 | 48.20% |
| A | 85 | 279.1 | 74.6 | 60.6 | 48.44% |
| A | 86 | 275.4 | 72.6 | 62.1 | 48.91% |
| A | 87 | 276.0 | 72.7 | 65.0 | 49.89% |
| A | 88 | 282.9 | 74.7 | 68.0 | 50.44% |
| A | 89 | 290.5 | 77.6 | 71.6 | 51.36% |
| F | 90 | 294.8 | 80.0 | 74.1 | 52.27% |
| F | 91 | 295.3 | 78.5 | 75.4 | 52.12% |
| F | 92 | 298.9 | 78.8 | 76.6 | 51.99% |
| F | 93 | 301.0 | 78.6 | 77.6 | 51.89% |

House BILL NO. 614

INTRODUCED BY Cobb

A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING AN APPROPRIATION FOR THE PURCHASE OF HEALTH INSURANCE FOR THE CHILDREN OF CERTAIN LOW-INCOME FAMILIES AS AUTHORIZED BY [LC 220]; INCREASING CIGARETTE TAXES AND APPROPRIATING A PORTION OF THE PROCEEDS TO THE CHILDREN'S HEALTH INSURANCE FUND; APPROPRIATING MONEY FROM THE STATE EQUALIZATION AID ACCOUNT IN THE STATE SPECIAL REVENUE FUND TO THE CHILDREN'S HEALTH INSURANCE FUND; AMENDING SECTIONS 16-11-111, 16-11-119, AND 17-5-408, MCA; AND PROVIDING EFFECTIVE DATES AND A TERMINATION DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

**Section 1.** Section 16-11-111, MCA, is amended to read:

"16-11-111. Cigarette sales tax. There is hereby levied, imposed, and assessed and there shall be collected and paid to the state of Montana upon cigarettes sold or possessed in this state the following excise tax which shall be paid prior to the time of sale and delivery of cigarettes: ~~18~~ 21 cents on each package containing 20 cigarettes and, when packages contain more or less than 20 cigarettes, then a tax on each cigarette equal to 1/20th the tax on a package containing 20 cigarettes."





**Section 2.** Section 16-11-119, MCA, is amended to read:

"16-11-119. Disposition of taxes -- retirement of bonds. All moneys collected under the provisions of 16-11-111, less the expense of collecting all the taxes levied, imposed, and assessed by said section, shall be paid to the state treasurer and deposited as follows: ~~70.89%~~ 60.76% in the long-range building program fund in the debt service fund type and, ~~29.11%~~ 24.95% in the long-range building program fund in the capital projects fund type, and 14.28% in the children's health insurance fund established in [section 4 of ____ Bill No. ____] [LC 220]."

**Section 3.** Section 17-5-408, MCA, is amended to read:

"17-5-408. Percentage of income, corporation license, and cigarette tax pledged. (1) (a) The state pledges and appropriates and directs to be credited as received to the debt service account 9.8% for fiscal year 1990 and 8.7% for fiscal year 1991 of all money received from the collection of the individual income tax and 11% for fiscal year 1990 and 10.5% for fiscal year 1991 of all money, except as provided in 15-31-702, received from the collection of the corporation license and income tax as provided in 15-1-501, and such additional amount of said taxes, if any, as may at any time be needed to comply with the principal and interest and reserve requirements stated in 17-5-405(4).

(b) No more than the percentages described in



INTRODUCED BILL
HB 614

subsection (1)(a) of such tax collections may be pledged for the purpose of 17-5-403(2). The pledge and appropriation herein made shall be and remain at all times a first and prior charge upon all money received from the collection of said taxes.

(2) The state pledges and appropriates and directs to be credited to the debt service account ~~70.89%~~ 60.76% of all money received from the collection of the excise tax on cigarettes which is levied, imposed, and assessed by 16-11-111. The state also pledges and appropriates and directs to be credited as received to the debt service account all money received from the collection of the taxes on other tobacco products which are or may hereafter be levied, imposed, and assessed by law for that purpose, including the tax levied, imposed, and assessed by 16-11-202. Nothing herein shall impair or otherwise affect the provisions and covenants contained in the resolutions authorizing the presently outstanding long-range building program bonds. Subject to the provisions of the preceding sentence, the pledge and appropriation herein made shall be and remain at all times a first and prior charge upon all money received from the collection of all taxes referred to in this subsection (2)."

NEW SECTION. **Section 4.** Appropriation. There is appropriated $2.1 million for each fiscal year of the biennium ending





EXHIBIT 7
DATE 3-7-91
HB 614

June 30, 1993, from the state equalization aid account, provided for in 20-9-343, to the children's health insurance fund, established in [section 4 of ___Bill No.___] [LC 220]. ~~an amount equal to $30 per ANB, as defined in 20-1-101 and calculated pursuant to 20-9-311, for the purposes of determining the current year's foundation program allowance for all elementary and high school districts in a county, up to a maximum of $2.1 million.~~ The money appropriated by this section does not include money in the public school fund established by Article X, section 2, of the Montana constitution.

NEW SECTION. **Section 5.** Coordination instruction. If ___Bill No.___ [LC 220] is not passed and approved, including a section creating the children's health insurance fund and making a statutory appropriation of the proceeds of that fund to the department of social and rehabilitation services for the purpose of purchasing health insurance for children of low-income families, then [this act] is void.

NEW SECTION. **Section 6.** Effective and Applicability dates. (1) [Sections 1 through 4] are effective July 1, 1991.

(2) [Sections 5, 7, and this section] are effective on passage and approval.

(3) The tax increase provided in (Section 1) applies to [illegible] assessed by [illegible] wholesalers on or after July 1, 1991

NEW SECTION. **Section 7.** Termination. [This act] terminates June 30, 1993.

-End-

EXHIBIT 8
DATE 3-7-91
HB 614

TO: HOUSE TAXATION COMMITTEE — 7 March 1991
FROM: MIKE MALES
RE: TESTIMONY IN SUPPORT OF HB 614

House Bill 614, proposing to raise cigarette taxes by 3 cents per pack to provide funding for health insurance for the children of certain low income families, is the most important tobacco tax measure before you this session. If implemented, HB 614 would be Montana's first use of tobacco taxes relevant to the health damage tobacco causes.

The health damage cigarette smoking by parents and other adults does to children is the forgotten issue in a tobacco health debate which has too often focused simply on adult concerns. For example, House approval of a bill to limit smoking in state buildings is beneficial due to the irritation caused by others' smoking cited by 60% of the public, but such "passive" smoking in employment and public settings has not been shown to cause actual health damage to adults.

However, studies are conclusive that the one proven effect of "passive smoking" is on the health of young children. As the Surgeon General's 1986 report, *The Health Consequences of Involuntary Smoking*, notes:

> In general, the evidence on active smoking in combination with the dosimetry of involuntary smoking leads to the conclusion that the effects of ETS [environmental tobacco smoke] on a population will be substantially less than the effects of active smoking. <u>The effects of ETS on infants and young children are an important exception</u> [emphasis added]. -- page 36

Dozens of studies have now established serious health damage to children caused by parental smoking. As summarized in the above report, these include low birth weight, "increased frequency of hospitalization for bronchitis and pneumonia," "increased frequency of acute respiratory illnesses and infections, including chest illnesses...bronchitis, tracheitis, and laryngitis," "chronic respiratory symptoms," "chronic cough and phlegm," "chronic middle ear effusions," chronic and acute asthma, reduced lung capacity, and higher risk of cancer, including leukemia and lung cancer, compared to children of nonsmoking parents (page 107). Parental smoking may also induce a "pre-addictive" effect, since blood levels of addictive nicotine can be measured in their children, and 75% of all youths who smoke have parents who smoke.

The reason is that "sidestream smoke is characterized by significantly higher concentrations of many of the toxic and carcinogenic compounds found in mainstream smoke, including ammonia, volatile amines, volatile nitrosamines, certain nicotine decomposition products, and aromatic amines" (page 169). Children have higher rates of respiration and metabolism than adults as well as lower body weight, multiplying the effects of constant, concentrated "passive" cigarette smoke damage.

In Montana, there are some 40,000 children exposed to parental smoking in their own homes, many of whom will suffer increased illness as a result. Many of these children, in turn, are from low-income families which have both higher smoking rates and less ability to afford health insurance and whose treatment must therefore be covered by publicly-funded health programs. The revenues from HB 614 are modest in light of the problem and place the financial burden where it should be -- on those whose smoking causes the problem. HB 614 is not a "sin tax" but simply justifiable compensation to the state by cigarette smokers for the damage they cause children's health. Thank you.

Ex. 8
3-7-91
HB 614

## Facts on Passive Smoking

* Involuntary smoking can cause lung cancer in nonsmokers.

* The children of parents who smoke have an increased frequency of hospitalization for brochitis and pneumonia during the first year of life when compared with the children of nonsmokers.

* The children of parents who smoke have an increased frequency of a variety of acute respiratory illnesses and infections, including chest illnesses before 2 years of age and physician-diagnosed brochitis, tracheitis, and laryngitis, when compared with the children of nonsmokers.

* Chronic cough and phlegm are more frequent in children whose parents smoke compared with children of nonsmokers.

* Undiluted sidestream smoke is characterized by significantly higher concentrations of many of the toxic and carcinogenic compounds found in mainstream smoke, including ammonia, volatile amines, volatile nitrosamines, certain nicotine decomposition products, and aromatic amines.

* Environmental tobacco smoke can be a substantial contributor to the level of indoor air pollution concentrations of respirable particles, benzene, acrolein, N-nitrosamine, pyrene, and carbon monoxide.

* Measured exposures to respirable suspended particulates are higher for nonsmokers who report exposure to environmental tobacco smoke.

* The main effects of the irritants present in environmental tobacco smoke occur in the conjunctive of the eyes and the mucous membranes of the nose, throat, and lower respiratory tract. These irritant effects are a frequent cause of complaints about poor air quality due to environmental tobacco smoke.

* Smoking policies may have multiple effects. In addition to reducing environmental tobacco smoke exposure, they may alter smoking behavior and public attitudes about tobacco use. Over time, this may contribute to a reduction in smoking in the United States. To the present, there has been relatively little systematic evaluation of policies restricting smoking in public places or at the workplace.

* On the basis of case reports and a small number of systematic studies, it appears that workplace smoking policies improve air quality, are met with good compliance, and are well accepted by both smokers and nonsmokers. Policies appear to be followed by a decrease in smokers' cigarette consumption at work and an increase in enrollment in company-sponsored smoking cessation programs.

* Laws restricting smoking in public places have been implemented with few problems and at little cost to State and local government.

* Public opinion polls document strong and growing support for restricting or banning smoking in a wide range of public places. Changes in attitudes about smoking in public appear to have preceded legislation, but the interrelationship of smoking attitudes, behavior, and legislation are complex.

Source: The U.S. Surgeon General's report, "The Health Consequences of Involuntary Smoking"

Ex 8
3-7-91
HB 614

Friday, September 7, 1990

# Smoking parents double cancer risk for their children

BOSTON (AP) — Non-smokers who grew up with smoking parents face double the usual risk of lung cancer, according to a study that provides new evidence of the dangers of secondhand smoke.

The report estimates that 17 percent of all lung cancer in the United States among people who never smoked cigarettes results from their exposure to smokers during childhood and adolescence.

"Here is another piece of evidence that smoke from other people's cigarettes is harmful to your health. This is the first finding that indicates that exposure early in life may be particularly important," said Dr. Dwight T. Janerich of Yale School of Medicine, who directed the study.

The Environmental Protection Agency estimates that about 25,000 of the more than 150,000 new cases of lung cancer annually occur among non-smokers, and 40 percent of them, or 10,000 people, never smoked. If the latest estimate is correct, this means that about 1,700 cases each year are caused by childhood exposure to other people's cigarette smoke.

"It makes a strong case that exposure to secondhand smoke as a child increases your risk as an adult. This is quite convincing," commented Dr. Stanton Glantz of the University of California, San Francisco.

The study, published in Thursday's New England Journal of Medicine, was based on a survey of 191 non-smokers in New York state who were diagnosed with lung cancer during the early 1980s. Researchers calculated their lifetime exposure to cigarette smoke and compared it with that of healthy non-smokers.

The researchers added up each person's "smoker-years." This is the years they lived in a house multiplied by the number of smokers there. For instance, someone who lived at home for 18 years with two smoking parents had exposure of 36 smoker-years.

The study found that exposure of 25 or more smoker-years during childhood and adolescence doubles the risk of lung cancer. Twenty-seven percent of the cancer victims had this level of exposure, compared with 15 percent of the healthy comparison group.

Household exposure of less than 25 exposure-years while growing up did not appear to increase the risk of lung cancer.

Exposure to a spouse's smoke made up less than a third of total household exposure on average, and it was not linked with an increased risk. Dr. Alfred Munzer, a spokesman for the American Lung Association, said this might be explained by the fact that spouses who work spend relatively few waking hours together at home, so their exposure to smoke is short.

EXHIBIT 4
DATE 3-7-91
HB 614


# Montana Council for Maternal and Child Health

MCMCH

The Voice of the Next Generation in Montana's State Capitol

2030 11th Ave., Suite 10 | Helena, MT 59601 | (406) 443-1674


## TESTIMONY FOR THE HOUSE TAXATION COMMITTEE
## Supporting HB 614, Health Insurance for Low-Income Children
## Date: Thursday, March 7, 1991

The Montana Council for Maternal and Child Health. a non-profit public policy research, education, and advocacy organization, supports HB 614, as a partial solution to the problem of inadequate access to health care for women and children in Montana.

The companion bill, HB 522, provides for outpatient care policies which include well-child care and immunizations. These policies, while not comprehensive, will provide some basic health care for poor children not eligible for Medicaid. Preventive measures like these are the least expensive way to maintain children's health.

This legislature has before it a set of bills dealing with preventive health care services for children: HB 614 and HB 522 deal with uninsured children whose family income is above the Medicaid limits, currently 133% of the Federal poverty guideline for pregnant women and children under 6 years old; HB 976 and SB 151 increase the Medicaid eligibility limits for pregnant women and infants to 185% of the federal poverty guideline; SB 371 mandates well-child and immunization coverage in existing health insurance policies; and HB 376 significantly improves the state immunization program and funds additional supplies of vaccine for public health clinics.

Passage of HB 614 assures that funding for preventive health care for uninsured children will be stable during the initial phases of this public-private project. Cigarette taxes are an appropriate mechanism for this funding, for they can be rapidly implemented and revenue can be quickly available for purchase of insurance policies.

Cigarette taxation is also appropriate because cigarette smoke is a major contributor to childhood disease. Children of mothers who smoke during pregnancy are born earlier and weigh less than those of non-smoking mothers. Children of smoking parents have significantly more respiratory disease and miss more school due to illness than their peers. If a 3 cent increase in the cigarette tax reduces smoking by parents, children's health will be improved across the board.

Please recommend "do pass" for HB 614.

Paulette Kohman

Paulette Kohman
Executive Director

EXHIBIT 10
DATE 3-7-91
HB 614

## COMMENTS IN OPPOSITION TO HOUSE BILL 614

### The Cigarette Sales Tax is a Rapidly-Diminishing Revenue Source

Sales of cigarettes in Montana peaked in 1982 when tax-paid cigarette sales totaled 97.1 million packs. Since then, tax-paid sales of cigarettes have dropped to 69.5 million packs in 1990--a 29 percent decrease. This drop has occurred over an eight-year period, during which the federal tax was doubled from 8¢ to 16¢ per package and the state tax was increased in two increments (in 1983 and then again in 1989) from 12¢ to 18¢ per pack. The U.S. Congress has recently again increased the federal cigarette tax by 4¢ a package this year and another 4¢ a package next year for a total increase of 8¢ per pack. This places the ultimate level of the federal tax at 24¢ per package.

The graph attached to these comments dramatizes this drop in sales. The drop has been continuous. We believe it has been accelerated by the increases in the sales taxes on cigarettes--the federal tax doubling in 1983 and the Montana tax being increased in 1983 and 1989. The 1983 federal tax increase was a 100 percent increase, and the Montana tax has been increased by 33 1/3 percent since 1980. The latest federal tax increase, totaling 8¢ per package of cigarettes, places the federal tax at 24¢ per package, which amounts to a 200 percent increase since 1980.

HB 614 seeks to increase the state cigarette sales tax from 18¢ to 21¢ per pack--a 3¢ per package increase. This would amount to another 17 percent increase in this tax.

Any increase in this selective sales tax will further accelerate decreases of taxed sales of cigarettes. This, in turn, will result in substantial reductions in the tax revenues, which are allocated toward the payment of obligations incurred by the Long-Range Building Program.

### Present Revenues from Sales Taxes on Cigarettes and Other Products are Dedicated to the Long-Range Building Program Fund

Presently, all monies collected from the cigarette tax are deposited in the Long-Range Building Program Fund. Approximately 70 percent of the money is then allocated for debt service, and approximately 30 percent of the funds are allocated to the Capital Projects Fund. Essentially, the collections go for debt reduction and maintenance costs, all associated with the Long-Range Building Program.

In 1989, the cigarette tax was increased by 2¢ per package to provide funds for the construction of a veterans nursing home to be located in Glendive. Those monies have not yet been expended. The project is awaiting matching federal funds. Legislation is now pending before this legislature to preserve this money for this purpose and to continue earmarking the 2¢ to insure funding for maintenance and other costs at the facility.

HB 614 apparently seeks to preserve the amounts of revenue now going into the Long-Range Building Program Fund by allocating what apparently purports to be a sufficient percentage of the proposed collections to maintain a sufficient level of payments to that account. The amount going to that account, however, will be reduced by the amount of reduction in taxed sales of tobacco products that will be experienced because of the tax increases. At the time that these comments were prepared, no fiscal note was available, analyzing the effects of this bill. However, we do have the benefit of a fiscal note prepared for SB 353 that estimates collections under the present law of cigarette taxes for fiscal year '94 to be $8,644,129 for the debt service account and $3,212,871 for the Capital Project Fund. These collections will decrease substantially year by year.

As you can see by the chart attached to these comments, cigarette tax increases have been followed by reductions in taxed sales. This phenomena has not only been experienced in Montana but also elsewhere. In California, for instance, during the first year after its sales tax on cigarettes was increased on January 1, 1989, from 10¢ to 35¢ per package, taxed sales of cigarettes plunged by a significant 13.8 percent. The tax increase called for in HB 614 is not as much as the California increase, and, therefore, the resulting impact on Montana tax sales perhaps would not be as great. Taxed sales in Montana in 1988 totaled 72.5 million packs. The 2¢ increased followed in 1989, and in 1990, taxed sales were reduced by 4 percent to 69.5 million packages. Continual reductions of this nature can severely reduce the amount of monies available for debt service and for the Capital Projects Fund in the Long-Range Building Program.

One of the reasons for the decrease in taxed sales of cigarettes that is experienced in Montana is the capability of Montana purchasers obtaining untaxed cigarettes on Indian reservations and at federal facilities. Montana citizens can also obtain cigarettes in Wyoming and Idaho where the tax rate would be less. With regard to sales of cigarettes on Indian reservations, according to a 1985 study by the Advisory Council on Intergovernmental Relations, tax-exempt sales on Montana's Indian reservations represented 17.4 percent of all cigarette sales in the state--tops in the nation for that year. We believe that such sales have increased over time. One reason for keeping our cigarette taxes at present levels is to compete as successfully as possible with these untaxed sales.

Clearly, revenues dedicated to the Long-Range Building Program would be substantially reduced because of the tax increases proposed in HB 614.

## Montanans do not Favor Excise Taxes or Their Increase

We all know that Montanans do not favor tax increases. We know that Montanans do not favor selective sales taxes. We know that Montanans do not favor increases in selective sales taxes.

The most recent opportunity that Montanans have had to demonstrate their dislike of selective sales tax increases was in the last general election. Initiative 115, which sought to impose a tax increase on cigarettes, as well as other tobacco products, was defeated by 59 percent of the Montana electorate. Voters in 54 of Montana's 56 counties voted it down. The election results are attached to this statement, as well as a map showing the counties in which the tax was defeated.

The purpose to be accomplished by the bill may appear to be laudatory. Yet the bill is destructive of the principal purpose for collection of cigarette tax revenues--payment of the Long Range Building Fund's long-term debt, as well as building maintenance costs. In fact, as the collections are reduced because of the tax increase, the amount available from year to year for diversion into the special fund set up under the bill's provisions will dwindle away.

We submit that the legislature should be very careful in tinkering with the cigarette tax. As we have said before in these comments, cigarettes are a rapidly-declining source of tax revenues. If tax collections from this source become insufficient to meet the money requirements of the Long-Range Building Program Fund, then monies will have to be appropriated for this purpose from the General Fund, which, in turn, will require revenues from other sources.

## The Cigarette Sales Tax is Discriminatory

Supporters of HB 614 are principally interested in the bill because of its provision that monies be set aside to be deposited in a children's health insurance fund. In this regard, the bill sets aside a segment of Montana's population for special treatment--the payment of a discriminatory sales tax.

There is no logical basis for selecting a third of Montana's adult population and requiring them to ante up money for an obligation that is really the obligation of _all_ of the tax payers of this state.

## The Children's Health Insurance Fund

HB 614 must be coordinated with HB 522, which would grant authority to the Department of Social and Rehabilitation Services to purchase health insurance for children of low-income families. Broad

EXHIBIT 10
DATE 3-7-91
HB 614

authority is granted to the department in this regard, even to the extent that the department is specifically not required to request bids for such coverage. The establishment of eligibility requirements, as we understand HB 522, would be left solely to the discretion of the department. In truth, the proposal seems to be wide open with no strings attached.

The fiscal note for HB 522 indicates that there would be General Fund requirements in the total amount of $5,320,755. HB 614 provides only $1,576,083.60 for the insurance fund. Thus, without monies from other sources, the program called for in HB 522 could die on the vine, and if this cigarette tax proposal is passed, the tax increase would be in place without serving any particular purpose.

Given the current budget situation and the difficulties this legislature faces in funding already established programs, it would seem that the additional monies the program would require from the General Fund would simply not be available.

Summary

1. Montanans have rejected an increase in the cigarette sales tax in the past election.

2. The proposed tax increase would reduce the revenues now available to the Long-Range Building Program Fund.

3. The tax is self-defeating--the tax increase would cause reductions in taxed sales and thus in revenues.

4. The cigarette tax is a selective sales tax, and an increase in this tax would simply exacerbate its discriminatory nature.

Jerome Anderson
Representing The Tobacco Institute

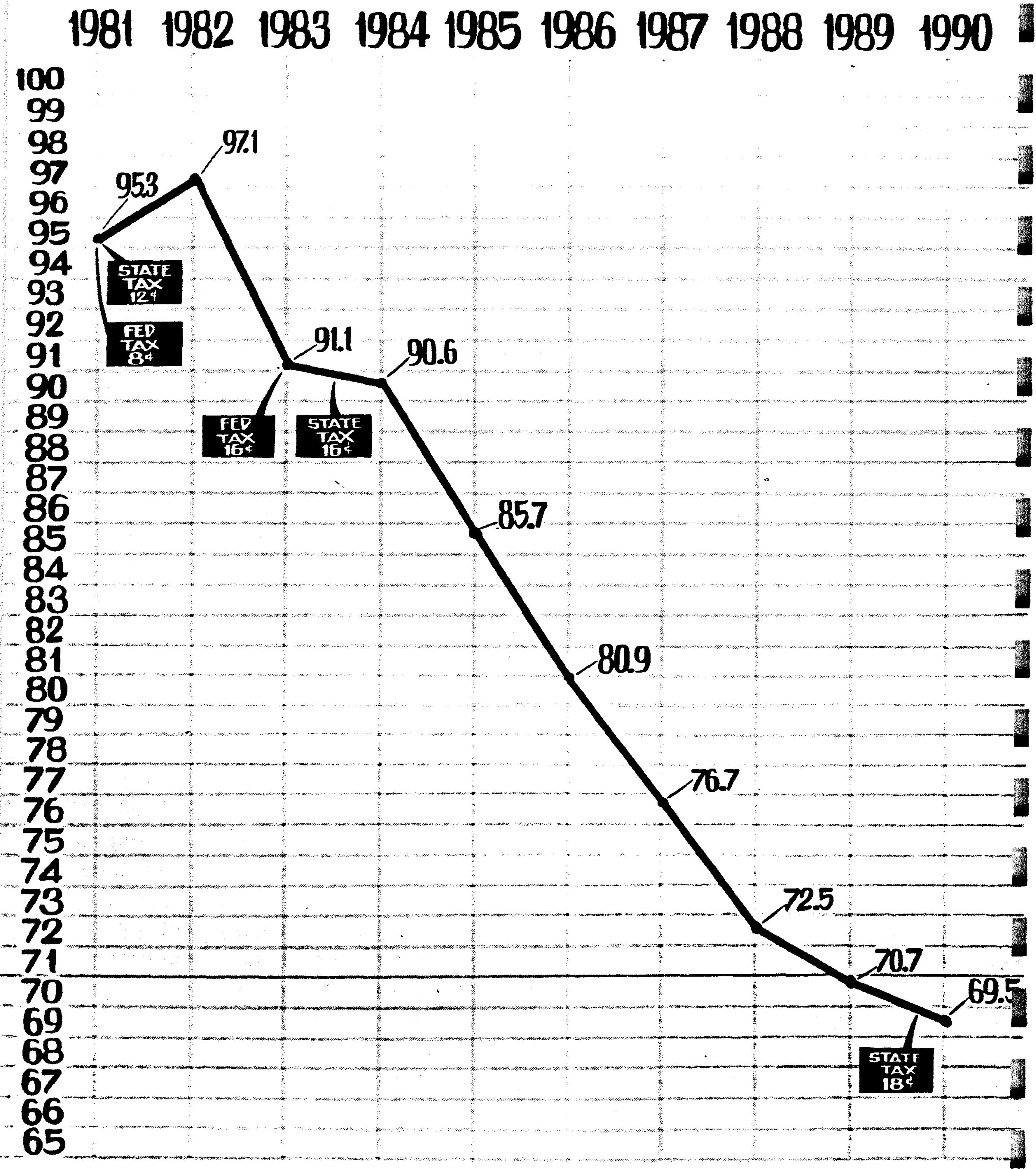
Mark Staples
Representing Montana Association of
Tobacco and Candy Distributors

John Delano
Representing Phillip Morris Ltd.

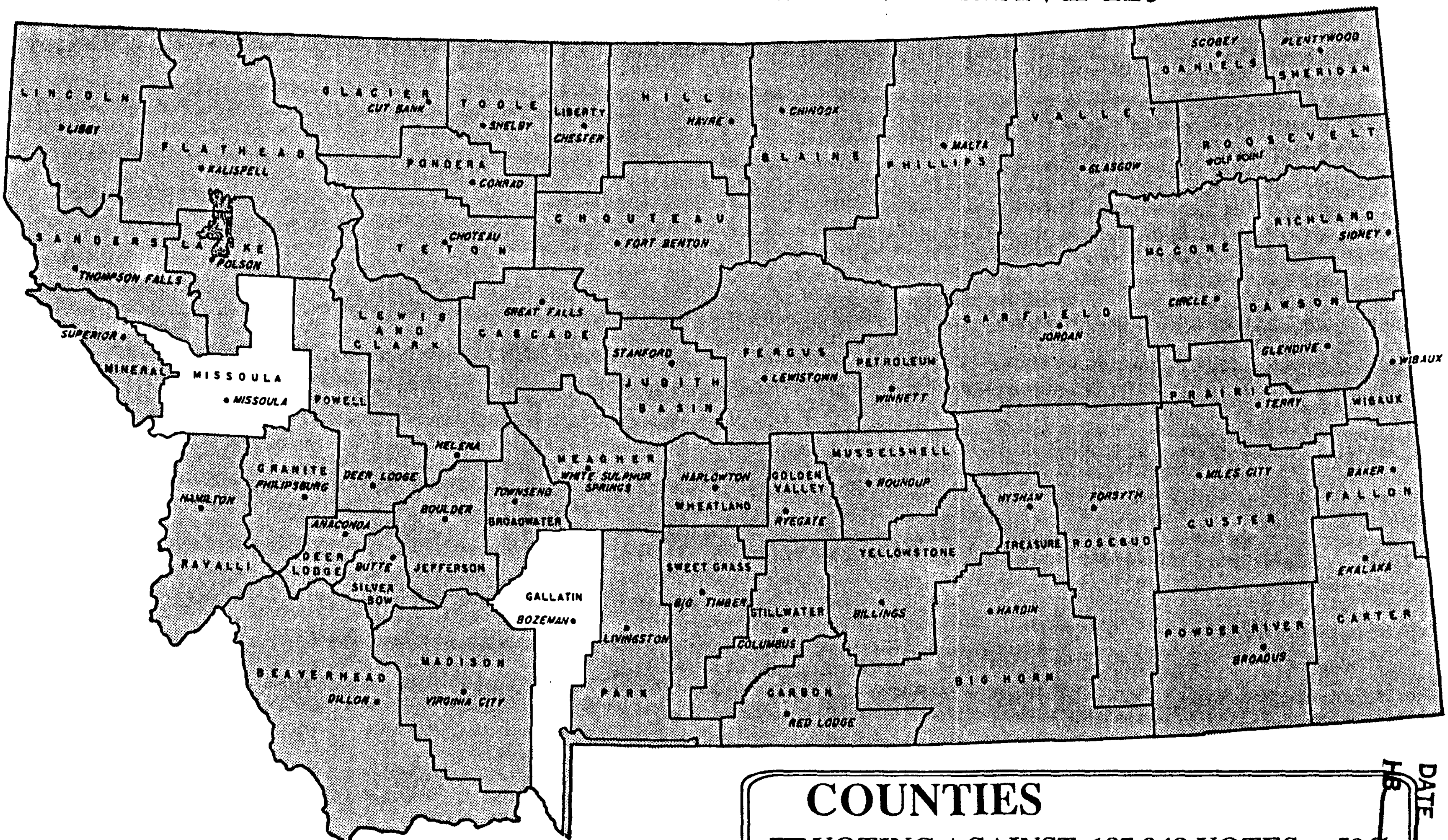
Roger Tippy
Representing R.J. Reynolds Tobacco Co.

Gene Phillips
Representing The Smokeless Tobacco Council

# CIGARETTE SALES IN MILLIONS OF PACKS 1981-1990



# COUNTIES VOTING AGAINST INITIATIVE 115




## COUNTIES

- VOTING AGAINST 187,948 VOTES -- 59%
- VOTING FOR 130,221 VOTES 41%

DATE 3-7-9
HB 614

EXHIBIT 11
DATE 3-7-91
HB 614

TESTIMONY OF SCOTT LEPROUSE, PRESIDENT
D AND R VENDING - BOZEMAN
BEFORE THE HOUSE TAXATION COMMITTEE
ON MARCH 7, 1991
OPPOSING HOUSE BILL 614

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE. MY NAME IS SCOTT LEPROUSE. I AM THE PRESIDENT OF D AND R VENDING, INC. OF BOZEMAN, MONTANA. WE OWN AND SERVICE VENDING MACHINES IN PARK, JEFFERSON, GALLATIN, AND MADISON COUNTIES, AND I HAVE 8 FULL-TIME EMPLOYEES TO HELP WITH THIS BUSINESS.

MOST OF MY MACHINES ARE 15 TO 20 YEARS OLD AND ANY TIME THERE IS A PRICE CHANGE, WE HAVE TO CHANGE THE EQUIPMENT INSIDE THE MACHINE IN ORDER FOR IT TO ACCEPT THE APPROPRIATE AMOUNT OF MONEY NOW REQUIRED TO PAY FOR THE CIGARETTES. WITH THE CONTINUOUS AND RECENT TAX INCREASES, PRICES OF CIGARETTES HAVE GONE UP SO OFTEN THAT WE CAN'T GET THE EQUIPMENT PAID FOR FROM THE LAST CHANGE BEFORE THE PRICE GOES UP AGAIN.

PROFITS DO NOT INCREASE AS THESE TAX INCREASES COME THIS FAST BECAUSE YOU SIMPLY CAN'T PASS THAT COST ALONG TO THE CONSUMER THAT QUICKLY, SO YOU END UP EATING A GREAT DEAL OF THESE TAX INCREASES, AT LEAST FOR A SIGNIFICANT PERIOD OF TIME, UNTIL YOU CAN JUSTIFY INCREASING THE PRICE ONE MORE COIN, WHICH IS A QUARTER. THUS, THE MINIMUM MARGINS IN THIS BUSINESS ARE INCREASINGLY DIFFICULT TO MAINTAIN.

MEANWHILE, BOTH THE MAJOR RETAILERS AND CONVENIENCE STORES CAN RAISE THEIR PRICES WHATEVER AMOUNT OF CENTS ARE APPROPRIATE TO COVER IT AND THEY CAN DO IT IMMEDIATELY, THEREBY FURTHER DAMAGING

Ex. 11
3-7-91
HB 614

THE NUMEROUS VENDING BUSINESSES THROUGHOUT MONTANA AND DRIVING MORE PEOPLE TO BUY CARTONS RATHER THAN SINGLE PACKS.

FOR THESE REASONS AND THOSE STATED BY ALL THE OTHER OPPONENTS, I'M OPPOSED TO THIS LEGISLATION, WHICH WOULD DAMAGE THE INDUSTRY AS A WHOLE AND PUT THE VENDING SEGMENT OF IT AT A FURTHER DISADVANTAGE. THANK YOU.

EXHIBIT 12
DATE 3-7-91
HB 614

TESTIMONY OF ED BUCKNER, PRESIDENT AND FOUNDER
SERVICE DISTRIBUTING, INC. - LIVINGSTON
BEFORE THE HOUSE TAXATION COMMITTEE
ON MARCH 7, 1991
OPPOSING HOUSE BILL 614

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE. MY NAME IS ED BUCKNER. I AM THE PRESIDENT AND FOUNDER OF SERVICE DISTRIBUTING, INC. I'VE BEEN IN BUSINESS IN MONTANA FOR 31 YEARS, AND I'M ALSO A NATIONAL DIRECTOR FOR THE CANDY WHOLESALERS ASSOCIATION, 95% OF WHO'S MEMBERS ARE ALSO TOBACCO WHOLESALERS.

I AGREE WITH ALL THE OPPOSITION TESTIMONY I'VE HEARD, BUT I'D LIKE TO ADD ANOTHER CONCERN: IF WE LOSE A SIGNIFICANT PERCENTAGE OF OUR TOBACCO BUSINESS, IN ORDER TO STAY IN BUSINESS (IF WE'RE ABLE TO) OBVIOUSLY WE'RE GOING TO HAVE TO INCREASE PRICES IN OTHER AREAS. HAVE YOU LOOKED AT WHAT EFFECT THIS IS GOING TO HAVE ON ZONE PRICING OF OTHER PRODUCTS IN COMMUNITIES THAT DO NOT HAVE A LOCAL DISTRIBUTOR? IT SEEMS CLEAR TO ME THAT NOT ONLY WILL ALL THE OTHER NEGATIVE EFFECTS SPOKEN OF COME TO PASS, BUT YOU'RE GOING TO SEE THIS TYPE OF LEGISLATION NOT SIMPLY AFFECT TOBACCO, BUT NEGATIVELY AFFECT ALL THE OTHER PRODUCTS THAT WHOLESALERS SUCH AS MYSELF DISTRIBUTE THROUGHOUT THE STATE OF MONTANA.

AS BOTH A BUSINESSMAN AND A TAXPAYER, I OPPOSE THIS LEGISLATION.

EXHIBIT 13
DATE 3-7-91
HB 614

TESTIMONY OF SANDY BERGSING, MANAGER
SERVICE DISTRIBUTING, INC. - LIVINGSTON
BEFORE THE HOUSE TAXATION COMMITTEE
ON MARCH 7, 1991
OPPOSING HOUSE BILL 614

DEAR MR. CHAIRMAN, MEMBERS OF THE COMMITTEE. MY NAME IS SANDY BERGSING. I AM THE MANAGER OF THE LIVINGSTON WHOLESALER SERVICE DISTRIBUTING, INC. WE EMPLOY 33 EMPLOYEES WHO IN TURN REPRESENT THAT MANY FAMILIES AND HUNDREDS OF MONTANA CITIZENS.

I HAVE SEEN FIRST HAND IN THE LUMBER BUSINESS IN LIVINGSTON THE EFFECT OF PUNITIVE LEGISLATION SUCH AS THIS,, AS MANY OF MY NEIGHBORS AND FRIENDS HAVE LOST THEIR JOBS. AS A WORKING MOTHER, ANY LEGISLATION THAT WOULD TAKE AWAY A SIGNIFICANT PERCENTAGE OF MY COMPANY'S BUSINESS, WOULD MOST PROBABLY HAVE THE SAME EFFECT UPON ME AND MY CO-WORKERS.

PLEASE DO NOT CRIPPLE ANOTHER INDUSTRY IN MONTANA.

EXHIBIT 14
DATE 3-7-91
HB 614

TESTIMONY OF MIKE PARKER, PRESIDENT
PENNINGTON'S INCORPORATED
BEFORE THE HOUSE TAXATION COMMITTEE
ON MARCH 7, 1991
OPPOSING HOUSE BILL 614

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, FOR THE RECORD, MY NAME IS MIKE PARKER. I'M PRESIDENT OF PENNINGTON'S INCORPORATED, WITH OPERATIONS IN GREAT FALLS, SHELBY AND HAVRE, MONTANA. I'M HERE TODAY ON BEHALF OF OUR COMPANY AND MY 70 FELLOW EMPLOYEES TO URGE YOUR "NO" VOTE ON HOUSE BILL 614.

I'M NOT HERE TO PLEAD POVERTY. I CERTAINLY HOPE THAT I NEVER HAVE TO. I WOULD LIKE TO REMIND YOU THAT GIVEN THE GENERAL ECONOMIC SITUATION IN MONTANA, IT'S SOMETIMES VERY DIFFICULT TO MAINTAIN A SUCCESSFUL BUSINESS. WE TRY VERY HARD TO BE A GOOD EMPLOYER AND A RESPONSIBLE MEMBER OF THE BUSINESS COMMUNITY. IT IS IMPORTANT FOR US TO MAINTAIN AND REPLACE AN AGING FLEET OF VEHICLES. WE THINK, TOO, IN ORDER TO ATTRACT AND RETAIN GOOD PEOPLE, IT'S IMPORTANT FOR US TO BE ABLE TO FUND OUR PROFIT SHARING PLAN, AND PAY A SIGNIFICANT PORTION OF HEALTH CARE COSTS. THE CHALLENGES OF THE MARKET PLACE AND THE CHALLENGES REPRESENTED BY THIS LEGISLATION SOMETIMES MAKE THOSE AIMS VERY DIFFICULT TO ACHIEVE.

THIS LEGISLATION IS NOT GOOD FOR OUR BUSINESS. PLEASE VOTE "NO" ON HOUSE BILL 614.

EXHIBIT 15
DATE 3-7-91
HB 614

TESTIMONY OF DEAN WOODRING, MANAGER
S.D.I. WHOLESALERS, INC. - HELENA
BEFORE THE HOUSE TAXATION COMMITTEE
ON MARCH 7, 1991
OPPOSING HOUSE BILL 614

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE. MY NAME IS DEAN WOODRING. I AM THE MANAGER OF S.D.I. WHOLESALERS, INC. OF HELENA, MONTANA.

I FEEL ANOTHER 3 CENT TAX ON THE ALREADY HEAVILY TAXED TOBACCO PRODUCTS WILL DECREASE SALES AND THEREFORE THREATEN THE LIVELIHOOD OF ALL INVOLVED IN TOBACCO SALES.

ALSO, IT IS MY OPINION THAT FUNDING FOR HEALTH INSURANCE FOR LOW-INCOME FAMILIES SHOULD BE SHARED BY ALL TAXPAYERS - NOT JUST A SELECT FEW.

PLEASE CONSIDER VOTING "NO" ON HOUSE BILL 614. THANK YOU.

EXHIBIT 16
DATE 3-7-91
HB 614

TESTIMONY OF STEVE BUCKNER, PRESIDENT
MONTANA ASSOCIATION OF TOBACCO AND CANDY DISTRIBUTORS
BEFORE THE HOUSE TAXATION COMMITTEE
ON MARCH 7, 1991
OPPOSING HOUSE BILL 614

DEAR MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. MY NAME IS STEVE BUCKNER. I AM THE PRESIDENT OF THE MONTANA ASSOCIATION OF TOBACCO AND CANDY DISTRIBUTORS AND I APPEAR TODAY IN OPPOSITION TO HOUSE BILL 614. AS PRESIDENT OF OUR ASSOCIATION, I REPRESENT 12 INDEPENDENT, FAMILY-OWNED, WHOLESALE OPERATIONS, WHO IN TURN EMPLOY HUNDREDS OF PEOPLE DIRECTLY IN MONTANA AND EFFECT THOUSANDS INDIRECTLY THROUGH TRANSPORTATION, RETAIL AND SPIN-OFF ECONOMIC AND JOB RELATED BENEFITS.

I'VE BEEN PRESIDENT OF THIS ORGANIZATION FOR TWO YEARS AND IN THAT TIME WE'VE HAD A STATE TAX INCREASE OF 2 CENTS AND A FEDERAL TAX INCREASE OF 8 CENTS. TO NOW CONTEMPLATE ANOTHER 3 CENT TAX INCREASE RIGHT AFTER A 4CENT ONE, IS A DIZZYING PROSPECT. DURING THAT SAME TWO YEAR PERIOD, SALES HAVE GONE DOWN AN AVERAGE OF OVER 5% PER YEAR IN MONTANA, WHICH IS EVEN GREATER THAN THE NATIONAL AVERAGE. CLEARLY THIS IS NOT A BUSINESS ON THE RISE.

MY FAMILY HAS BEEN IN THIS BUSINESS FOR 31 YEARS, WHICH IS ABOUT AVERAGE FOR THE REST OF THESE MONTANA FAMILY-OWNED BUSINESSES.

WE THINK THIS IS A SELECTIVE MEASURE, AND A PUNITIVE ONE, WHICH <u>WILL</u> ACCOMPLISH FURTHER DAMAGE, TO ONE OF MONTANA'S OLDEST AND MOST CIVIC-MINDED BUSINESSES.

AS I'VE SAID, WE'VE BEEN IN BUSINESS FOR 31 YEARS, WE'D LIKE TO STAY IN IT FOR A FEW MORE.

MAIL: P.O. BOX 1172
28 NORTH LAST CHANCE GULCH
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JOHN DELANO & ASSOCIATES
PUBLIC AFFAIRS CONSULTING

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EXHIBIT 17
DATE 3-7-91
HB 614

11 March 91

Hon. Dan Harrington, Chairman,
House Taxation Committee

Dear Rep. Harrington:

March 7 there was a hearing in your Committee concerning HB614. One of the Committee Members asked Dr. Dennis Winters of Butte (Mont Market Development Co.) what does Philip Morris do for Montana.? Dr. Winters started to give employment figures - but that evidently wasn't what the committee member wanted. So I thought that I would ask the same question of Philip Morris to see how they would answer the question. They faxed me the attached information. I thought that you and the Committee members might find it of interest.

Certainly Philip Morris had a great economic impact in the State of Montana. As you can readily see, Philip Morris purchases a lot of Mont grains, including malting barley (Miller Brewing Co) and cereal grains (Post Cereals), sugar (beet sugar), milk, etc.

Among the many diversified companies owned and operated by Philip Morris are: Miller Brewing Co., General Foods Corp., Kraft Foods, Kool-Aid, Jell-O, Birds Eye, Post Cereals, Grap Nuts, Maxwell House Coffee, Oscar Mayer meats, Cool Whip, Baker's Chocolate, Sanka, Log Cabin, etc.etc.

I hope that the enclosed information will be of interest and will help to clarify the matter.

Respectfully submitted,

John

John L. Delano

personal

cc: Members of House Taxation Committee

Enclosures: Fax info from Philip Morris
Mont. Community Foundation annual report

Exhibit # 17
3-7-91 HB 614

REPORT OF THE OFFICIAL 1990 GENERAL CANVASS
Ballot issues

Compiled by Secretary of State Mike Cooney

PAGE NO. 1
11/26/90

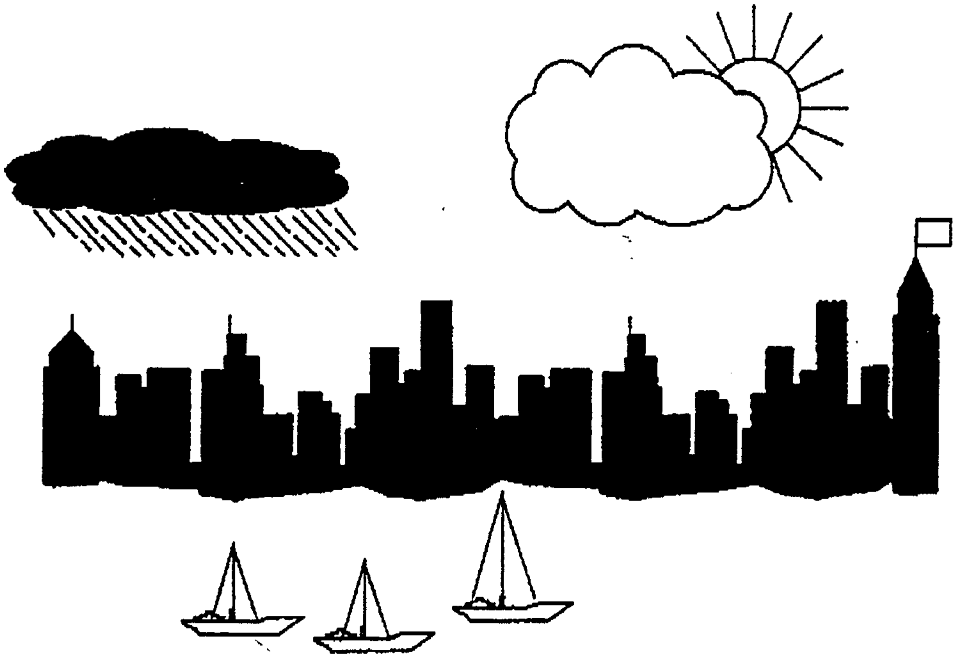
| County | INITIATIVE 115 FOR | INITIATIVE 115 AGAINST |
|---|---|---|
| Beaverhead | 1291 | 2073 |
| Big Horn | 1308 | 2163 |
| Blaine | 754 | 1790 |
| Broadwater | 561 | 1050 |
| Carbon | 1359 | 2550 |
| Carter | 235 | 614 |
| Cascade | 11544 | 16684 |
| Chouteau | 1038 | 1956 |
| Custer | 1703 | 2992 |
| Daniels | 404 | 856 |
| Dawson | 1620 | 2729 |
| Deer Lodge | 1305 | 2965 |
| Fallon | 412 | 1149 |
| Fergus | 1921 | 3700 |
| Flathead | 9667 | 12691 |
| Gallatin | 10736 | 8769 |
| Garfield | 169 | 660 |
| Glacier | 1040 | 2045 |
| Golden Valley | 151 | 381 |
| Granite | 390 | 854 |
| Hill | 2331 | 4301 |
| Jefferson | 1345 | 2061 |
| Judith Basin | 433 | 915 |
| Lake | 3508 | 4279 |
| Lewis & Clark | 9368 | 11041 |
| Liberty | 381 | 769 |
| Lincoln | 2589 | 4141 |
| Madison | 862 | 1766 |
| McCone | 457 | 884 |
| Meagher | 230 | 642 |
| Mineral | 469 | 959 |
| Missoula | 15029 | 13453 |
| Musselshell | 556 | 1445 |
| Park | 2993 | 3212 |
| Petroleum | 80 | 185 |
| Phillips | 785 | 1642 |
| Pondera | 796 | 2041 |
| Powder River | 283 | 682 |
| Powell | 719 | 1807 |
| Prairie | 235 | 495 |
| Ravalli | 4697 | 6304 |
| Richland | 1477 | 2760 |
| Roosevelt | 1174 | 2296 |
| Rosebud | 1100 | 2067 |
| Sanders | 1411 | 2489 |
| Sheridan | 778 | 1713 |
| Silver Bow | 4854 | 10675 |
| Stillwater | 1096 | 1932 |
| Sweet Grass | 609 | 998 |
| Teton | 968 | 1938 |
| Toole | 851 | 1713 |
| Treasure | 137 | 369 |
| Valley | 1350 | 2352 |
| Wheatland | 296 | 751 |
| Wibaux | 187 | 475 |
| Yellowstone | 18665 | 24509 |
| *** Total *** | 130707 | 188732 |

[redacted] [redacted]

Exhibit # 17
3-7-91 HB 614

**DATE** March 9, 1991

**SEATTLE REGIONAL OFFICE**



**PHILIP MORRIS USA**

**OFFICE** (206) 462-2717

**FAX** (206) 462-2632

**TO** John Delano

**FROM** Steve Buckner

**# OF PAGES** ______

[redacted]

Exhibit # 17
3-7-91 HB 614

# THE CONSUMER EXCISE TAX ON TOBACCO IN MONTANA

The current **state** cigarette tax in Montana is $1.80 per carton.

__TAX BURDEN__ - Federal and state taxes on cigarettes in Montana, **currently** represent $3.80 per carton, or 31% of the price of a carton of cigarettes. ($2.00 - federal and $1.80 - state tax; average retail price $12.30 per carton).

__UNFAIR__ - Smokers in Montana **currently** pay approximately $26 million in cigarette taxes. (federal - $13 million and state - $13 million). This contribution is too great for any one group of consumers to bear when these taxes benefit everyone in the state.

__REGRESSIVITY__ - Tobacco taxes in Montana take **five times** the amount from those with incomes below $7,600 than from those with incomes exceeding $54,000. The difference in the tobacco tax burden between the rich and the poor makes this tax one of the most regressive taxes in the U.S. (Source: Citizens for Tax Justice)

__JOB LOSS__- The tobacco industry creates 4,755 jobs in Montana and these tobacco-related employees receive almost $84 million in compensation.

EXHIBIT 17
DATE 3-7-91
HB 614

**CROSS-BORDER ACTIVITY AND BOOTLEGGING**

The Wyoming State tax is .12¢.
Idaho is .18¢.
Cigarettes are untaxed on Montana Indian reservations and at Federal facilities.

Tax-exempt sales on Montana's Indian reservations represented 17.4 percent of all cigarette sales in the State -- tops in the nation for that year.*

*According to a 1985 study by the Advisory Council on Intergovernmental Relations.

## Effects of Montana State Tax Increases on Total State Tax Collections

**From 1982 to 1991** the Montana state tax rate increased 50%, more than 19 times as fast as gross state tax collections, 2.6%.**

- In fiscal year 1990*, the Montana state cigarette tax rate increased 2 cents to 18 cents per pack, or 13% over the previous year.

- Moreover, in fiscal year 1991** legislation has been introduced in Montana that would increase the state cigarette tax by 25 cents to 43 cents per pack, or 139% over the previous year.

**Revenue erosion is further evident considering the amount of revenue generated per penny from 1982 to 1991**. The Montana state tax increased 50%, while state tax collections per penny decreased 32%.**

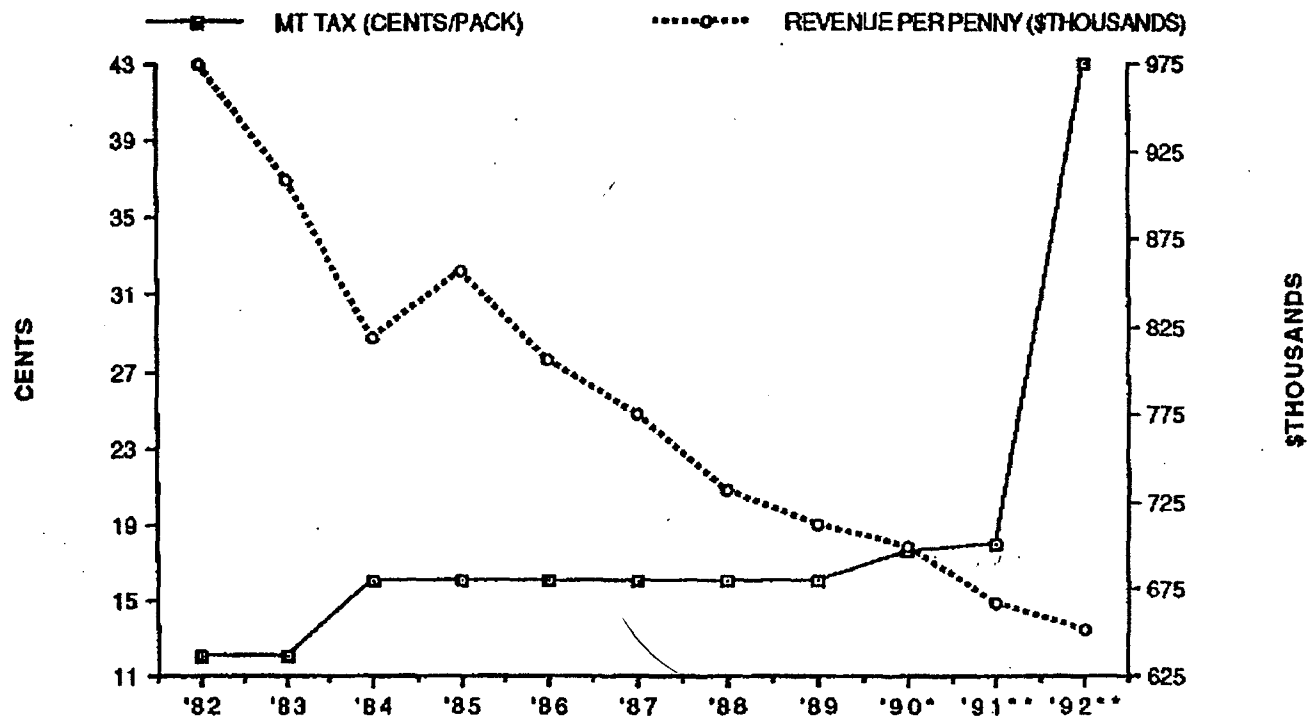
- In 1982, the Montana state cigarette tax was 12 cents per pack and each penny of this tax generated $975,000.

- By fiscal year 1991**, the Montana state cigarette tax increased 6 cents to 18 cents per pack. However, each penny generated about $666,700, or 32% less than what was generated in 1982.

**Excise tax increases fail to produce as much revenue as policy makers expect. This is an unsound and inefficient way for a state to raise revenue.**

Exhibit # 17
3-7-91 HB 614

# MONTANA STATE TAX RATE VS. STATE COLLECTIONS PER PENNY
## FY82 - FY92**




*Average rate for fiscal year
**FY91-92 figures are PM-USA projections

Source: The Tobacco Institute

Exhibit # 17
3-7-91 HB 614

# State Economic Impact of Tobacco for Montana, 1986

## Core and Supplier Impact

| Sectors | Sector Employment | % of State Total | Sector Compensation | % of State Total |
|---|---|---|---|---|
| Tobacco Growing | 0 | 0.0% | 0 | 0.0% |
| Auction Warehouses | 0 | 0.0% | 0 | 0.0% |
| Manufacturing | 0 | 0.0% | 0 | 0.0% |
| Wholesale Trade | 135 | 0.8% | 3,288,000 | 0.6% |
| Retail Trade | 608 | 1.1% | 8,290,000 | 0.9% |
| CORE SECTOR TOTAL | 743 | 0.3% | 11,578,000 | 0.2% |
| SUPPLIER SECTOR TOTAL | 706 | 0.3% | 14,880,000 | 0.2% |
| GRAND TOTAL | 1,449 | 0.5% | $26,458,000 | 0.4% |

## Tax Revenues

| Type of Tax | Federal | State & Local |
|---|---|---|
| Tobacco Taxes | 12,889,000 | 13,184,000 |
| Personal Income | 3,565,216 | 683,840 |
| FICA | 3,148,502 | NA |
| Corporate Taxes | 642,024 | 601,347 |
| TOTAL TAXES | $20,244,742 | $14,469,187 |

## Expenditure Induced Impacts on All Sectors

| Sectors | Sector Employment | % of State Total | Sector Compensation | % of State Total |
|---|---|---|---|---|
| Agriculture | 146 | 0.6% | 1,726,092 | 0.6% |
| Mining & Construction | 547 | 3.2% | 12,700,587 | 3.2% |
| Manufacturing | 642 | 3.1% | 15,595,113 | 3.1% |
| Wholesale & Retail Trade | 1,413 | 1.9% | 18,126,949 | 1.9% |
| Transportation & Utilities | 44 | 0.2% | 1,106,479 | 0.2% |
| Finance, Insurance, & Real Estate | 77 | 0.6% | 1,550,336 | 0.6% |
| Services | 392 | 0.6% | 5,783,180 | 0.6% |
| Government | 45 | 0.1% | 931,218 | 0.1% |
| TOTAL | 3,306 | 1.2% | $57,519,954 | 1.2% |

## Tax Revenues

| Type of Tax | Federal | State & Local |
|---|---|---|
| Personal Income | 6,611,427 | 1,917,130 |
| FICA | 6,016,399 | NA |
| Corporate Taxes | 595,028 | 146,172 |
| General Sales | NA | 6,760,879 |
| TOTAL TAXES | $13,222,855 | $8,824,181 |

NA - Not applicable.
* - This percentage is less than 0.1%.

# Philip Morris Agricultural Database
## 1989 Purchases by State and Commodity

| | Purchases ($ Million) | Quantity | Share (%) | Econ. Activity ($ Million) | Employment (Jobs) | Compensation ($ Million) |
|---|---|---|---|---|---|---|
| **Montana** | | | | | | |
| Corn - Grain | 0.4 | 180.0 Thousand Bushels | 56.2 | 0.9 | 17 | 0.2 |
| Milk | 12.3 | 99.5 Million Pounds | 29.9 | 30.1 | 458 | 6.3 |
| Sugar - Beets | 4.6 | 206.6 Million Pounds | 10.0 | 10.2 | 118 | 1.9 |
| Barley | 24.0 | 6,000.0 Thousand Bushels | 8.7 | 45.9 | 896 | 11.7 |
| *Total for Montana* | *41.4* | | | *87.2* | *1,491* | *20.3* |
| *Grand Total* | *41.4* | | | *87.2* | *1,491* | *20.3* |

EXHIBIT 17
DATE 3-7-91
HB 614

Exhibit # 17
3-7-91 HB 614

# MONTANA: PHILIP MORRIS IMPACT SHEET

## EXPENDITURES
($ IN MILLIONS)

| | 1985 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|
| TOTAL DIRECT EXPENDITURES | 15.4 | 15.8 | 19.3 | 27.9 | 22.2 |
| SALARIES, WAGES, BENEFITS | .1 | .2 | .1 | .5 | .7 |
| PURCHASES | .7 | 1.3 | 4.0 | 12.8 | 5 |
| UTILITIES | -- | -- | -- | -- | -- |
| FED/ST TAXES PAID/GENERATED | 14.6 | 14.3 | 15.2 | 14.6 | 16.5 |

## TOTAL PHILIP MORRIS EMPLOYEES

| 1985 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|
| 2 | 2 | 3 | 12 | 21 |

EXHIBIT 17
P.8 DATE 3-7-91
HB 614

# CORPORATE CONTRIBUTIONS

(education, civic, cultural, health)
1989 - $30,000

The above figure includes a grant to the Great Montana Centennial Cattle Drive, for their Rural Development Fund. The purpose of the Rural Development Fund is to further the healthy development, education, and welfare of rural Montana's rural communities, and the development of Montana's rural economy. The Drive's lasting legacy is a permanent endowment fund that will benefit many for years to come.
This contribution was made to The Montana Community Fund for their administration. (see p8 of attached MCF report).

In addition, Philip Morris recently contributed $100,000 to the Myrna Loy Theatre in Helena. In fact, Philip Morris sponsored a legislative reception on January 26, 1991 for the Legislators and Staff of the 52nd Session - Blue Grass Music - and was held at the Myrna Loy Theatre.

Each year Philip Morris contributes to the Governor's Golf Classic held in the Flathead area.

Just to name a few items...

EXHIBIT 18
DATE 3-7-91
HB 558

Amendments to House Bill No. 558
First Reading Copy

Recommended by Subcommittee on Income
and Natural Resources Taxation

For the Committee on Taxation

Prepared by Lee Heiman
March 5, 1991

1. Page 4, line 12.
Following: "<u>prepared</u>"
Insert: "by December 1"

2. Page 4, line 13.
Following: "<u>each</u>"
Insert: "regular"

And, that such amendments read:
1. Title, line 7.
Following: "COUNTY;"
Insert: "TO REVISE THE METHOD OF COMPUTING THE STATE LAND EQUALIZATION PAYMENTS; TO PROVIDE FOR REDUCTION IN PAYMENTS WHEN THE FUNDS APPROPRIATED ARE NOT SUFFICIENT TO MAKE FULL EQUALIZATION PAYMENTS;"
Strike: "SECTION"
Insert: "SECTIONS"

EXHIBIT 19
DATE 3.7.91
HB 282

2. Title, line 8.
Following: line 7
Insert: "77-1-501,"
Following: "77-1-502,"
Insert: "AND 77-1-504, MCA; REPEALING SECTION 77-1-503,"
Following: "DATE"
Insert: "AND AN APPLICABILITY DATE"

3. Page 2.
Following: line 1
Insert: "Section 1. Section 77-1-501, MCA, is amended to read:
"77-1-501. List of state lands by county. The department shall, before the first Monday of April of every year, prepare ~~and transmit~~ a statement ~~to the department of revenue or its agent in~~ that identifies each county in which the state ~~has~~ owns real property in excess of 6% of the total land area of the county and from which the state derives grazing, agricultural, or forest income. The statement shall contain the total number of acres owned by the state in that county and list the acres separately as grazing, agricultural, or forest land.""
Renumber: subsequent sections

4. Page 2, line 4.
Following: "(1)"
Insert: "(a)"

Ex. 19
3-7-91
HB 282

5. Page 2, line 5.
Strike: "classify and"

6. Page 2, lines 6 through 8.
Strike: "that" on line 6 through "county" on line 8
Insert: "due to each county in which the state-owned property in that county is in excess of 6% of the total land area for the county.

(b) The amount in lieu of tax payment for land owned by the state must be computed based upon an imputed value of state land, in the three categories listed in subsection (1)(d), that exceeds 6% of the total land area of the county as follows:

(i) The value per acre for each category is computed by multiplying the total statewide taxable value of the category by the statewide average mill levy for state, county, and school district levies for the year in which the payment is to be made divided by the statewide quantity of that category of land.

(ii) The amount of the payment in lieu of taxes is determined by multiplying the value per acre by the ratio that the number of state-owned acres of land of that category bears to the total amount of state-owned land in the county multiplied by the amount of state-owned land in the county in excess of 6% of the total land areas of the county.

(c) The total statewide taxable value and the statewide quantity of each category of land is the amount published in the most recent biennial report of the department of revenue. For the agricultural category, the department shall use the value and quantity of irrigated and nonirrigated land.

(d) As used in this section, the categories of land are:

(i) grazing land;
(ii) agricultural land; and
(iii) timberland."

7. Page 2, line 25 through page 3, line 7.
Following: "(2)" on line 25
Strike: the remainder of subsection (2) in its entirety
Insert: "If the funds appropriated for a fiscal year are insufficient to pay the full amount in lieu of tax payments, as calculated in subsection (1), the department shall prorate the payment to counties."

EXHIBIT 19
DATE 3-7-91
HB 282



8. Page 3.
Following: line 7
Insert: "Section 3. Section 77-1-504, MCA, is amended to read:

"77-1-504. ~~Processing of county statements~~ Filing claims. ~~The department shall examine the statement returned by the agent of the department of revenue for accuracy, and in no case shall the state land equalization payment be approved unless the state exemption figure is deducted from the gross assessment figure in the statement.~~ The department shall, before November 1 of each year, prepare and file a claim with the department of administration for all counties who are eligible for state land equalization payments, and this claim shall show the amount of money each eligible county will receive."

NEW SECTION. Section 4. Repealer. Section 77-1-503, MCA, is repealed.

NEW SECTION. Section 5. Applicability. [This act] applies to tax years beginning after December 31, 1991."

Renumber: subsequent section

HOUSE OF REPRESENTATIVES
VISITOR REGISTER

Taxation COMMITTEE BILL NO. HB790

DATE 3/7/91 SPONSOR(S) Rep. Messmore

**PLEASE PRINT PLEASE PRINT PLEASE PRINT**

| NAME AND ADDRESS | REPRESENTING | SUPPORT | OPPOSE |
|---|---|---|---|
| Bob Frazier | Gov's Health Care Committees | ✓ | |
| Fred Patten | AARP | ✓ | |
| Rose Hughes | MT Health Care | ✓ | |
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PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

HOUSE OF REPRESENTATIVES
VISITOR REGISTER

Taxation COMMITTEE BILL NO. HB614

DATE 3/7/91 SPONSOR(S) Rep. Cobb

**PLEASE PRINT PLEASE PRINT PLEASE PRINT**

| NAME AND ADDRESS | REPRESENTING | SUPPORT | OPPOSE |
|---|---|---|---|
| Dick Baumberger | Disabled Amer. Veterans Dept. of Montana | | X |
| Mike Parker | Pennington's, Inc. | | X |
| Steve Buckner | Service Distributing Inc | | X |
| Dean Woodring | Service Distributing Inc. | | X |
| Gene Phillips | Smokeless Tobacco Council | | X |
| Paulette Kohman | Mt Council for Maternal & Child Health | XX | |
| Mike Males | self | X | |
| Dennis Winters | Phillip Morris | | X |
| Judith Carlson | Mt Chp NASW | X | |
| Roger Tippy | RJ Reynolds | | X |
| Jerome Anderson | Tobacco Institute | | X |
| John Delano | Phil M | | X |
| | | | |
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PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

HOUSE OF REPRESENTATIVES
VISITOR REGISTER

Taxation COMMITTEE BILL NO. HB 757

DATE 3/7/91 SPONSOR(S) Rep. Kadas

PLEASE PRINT PLEASE PRINT PLEASE PRINT

| NAME AND ADDRESS | REPRESENTING | SUPPORT | OPPOSE |
|---|---|---|---|
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PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

3/7/91

Chairman Harrington,

Due to a subcommittee meeting in another building at 11:00 a.m., I will miss the rest of Taxation Committee today. In my absence, I leave my vote on all motions today with Rep. Marion Hanson.

Thank you.

Mike Foster

3-7-91

Proxy to Marian Hansen

to vote all Motions / Amendments

Janice Hoffman

3-6-91

I vote with Dan Harrington on all amendments and motions 3-7 & 3-8.

Bea McCarthy