

MINUTES OF THE MEETING  
TAXATION COMMITTEE  
MONTANA STATE SENATE

March 15, 1977

The forty-second meeting of the Taxation Committee was called to order on the above date in Room 415 of the State Capitol Building by Chairman Mathers at 8:10 a.m.

ROLL CALL: All members were present but Sen. Roskie, who was excused.

The following witnesses were present:

Judson D. Sweet	Oil & Gas Cons. Board
Charles G. Maio	"
Ted J. Doney	DNR & C
Don J. Allen	Mont. Pet. Assoc.
Jim Madison	Misc. Tax Div., D. of Rev.
John Orth	DNR & C
Charles Greene	DNR & C

CONSIDERATION OF HOUSE BILL 540: Rep. Ageson said the Board of Oil and Gas Conservation served a very useful purpose in the state, and among these duties they investigate oil and gas waste in Montana, identify wells, keep logs and reports on all oil and gas wells in the state among other services. Due to increased oil and gas activity in the state, the board has found they need additional office space and this bill would raise the tax to oil and gas operators for the support of the commission to a percentage of the production. Also speaking as a proponent was Mr. Allen who said the industry backs this bill as they feel the board is performing a very useful service, however, they are interested in being sure there is a maximum allowable tax. Mr. Sweet distributed two exhibits, #1 and 2, which showed expenses of the commission for the past several years, see Exh. #1, and Mr. Maio discussed details on the building, as in Exh. #2. He also told the committee that their present building will be purchased by Eastern Montana College.

Chairman Mathers then asked for other proponents or opponents of the bill and since there were none, permitted questions from the committee. Sen. Norman asked if the funds were all earmarked revenue funds and learned they were. He also asked about the possibility of leasing larger quarters for the board and they agreed to look into this. Following discussion, the committee moved the bill.

DISPOSITION: Sen. Goodover Moved HB540 Be Concurred In. His motion was carried unanimously. Note absence here of Sens. Towe, Turnage, Roskie.

CONSIDERATION OF HOUSE BILL 237: Rep. Robbins, Dist. 46, said this bill merely changes the coal severance tax from quarterly to annual basis for reporting and as of this date, affects only 3 small mines in the state.

The Chairman called for other proponents or opponents and following discussion, the committee took action on the bill.

DISPOSITION: Sen. Watt Moved HB237 Be Concurred In. His motion carried unanimously. Sens. Towe, Turnage, Roskie gone.

CONSIDERATION OF HOUSE BILL 111: Rep Dassinger, Dist. 50. presented this bill which was a revision of the computation of severance tax on oil and gas producers. He said there are problems at present because it is most difficult to determine the number of producing wells. Mr. Madison of the Department also spoke and said this legislation would not only help the D.R. but would also help the producers complete their returns. Mr. Allen spoke again as a proponent of the bill.

Chairman Mathers asked for other proponents or opponents of the bill and questions from the committee.

DISPOSITION: Sen. Watt Moved HB111 Be Concurred In. His motion carried unanimously. Note absence of Sens. Towe, Roskie.

CONSIDERATION OF HOUSE BILL 155: Rep. Driscoll, Dist. 91, said at present grants are being made to individuals with ideas for alternative energy research, but thought if the loans were available those inventors might pay back the loans thus perpetuating the funds. He said he had worked on the Alternative Energy Advisory Council and knew of instances where an individual might have an idea for alternative energy but lacked funds to develop such ideas. Mr. Dony said he felt the loan program would be a good idea and although he thought the banks should be doing this, he said he didn't believe you would find a bank in the state that would loan money for such research. Mr. Orth also spoke and said his department supports this bill, saying he felt the flexibility given by a loan program addresses the problem better and too, by repayment of the loans, funds would remain available to other inventors, further promoting such research.

The Chairman asked for other witnesses to testify and Mr. Cadby first spoke in opposition to the bill, saying he thought the bill created a small loan program within the state government. He said grants were made to help develop ideas, whereas a loan is for the development of a proven idea. Following his testimony Rep. Driscoll made his closing remarks and there followed discussion by the committee members. They called Mr. Greene for further information and he told them the department last year funded 33 projects beginning in November. He said it was stipulated in the contracts that quarterly reports must be submitted but these are not in as yet. He could however, have a report for the Legislature as soon as they were available. Of these 33 grants, 30 projects are now in progress totaling around \$482,000. Twenty of those are in solar energy projects, 4 wood applications; 1 in geo-thermal energy; 1 in bio-mass and several others in small-scale wind generator experiments.

Chairman Mathers asked for other questions from the committee and said the committee would not act upon this bill at this time as Sen. Towe had expressed an interest in it and wished to have input on the bill.

3-3/15

CONSIDERATION OF HOUSE BILL 26: Mr. Tippy said this is another recodification bill and merely clarifies some of the language and grammar of legislation passed in the past session and makes the codes more readable. He went through the bill, pointing out each instance where a change or clarification had been made.

DISPOSITION: Sen. Turnage Moved HB26 Be Concurred In. The motion was seconded by Sen. Goodover; the motion passed unanimously. Note here the absence of Sens. Brown, Roskie.

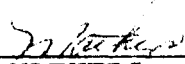
The committee then was asked to consider some of the remaining Senate bills and Sen. Watt asked the committee to first consider SB28, previously heard and discussed. They again discussed the bill and Sen. Watt proposed changing the credit amount to \$40, rather than the \$35 as is in the bill. The committee discussed the fiscal impact of this change and agreed that it would favor people in the lower income brackets over those in the higher brackets.

Sen. Watt Moved to Amend SB28 by striking the \$35 figure on page 1, line 20, and inserting \$40. His motion carried unanimously.

DISPOSITION: Sen. Watt then Moved SB28 AS Amended, Do Pass. A roll call vote was taken which resulted in a 5-4 vote, thus the motion carried. Copy is attached.

Sen. Watt then Moved SB434, heard and discussed previously by the committee, be Tabled. His motion carried unanimously.

Following disposition of these two Senate bills, the meeting was adjourned.

  
WILLIAM MATHERS

CHAIRMAN





SENATE COMMITTEE TAXATION

Date 3/15/77 Sen. Bill No. 28 Time 9:25 a.m.

NAME	YES	NO
SEN. WATT	✓	
SEN. BROWN		✓
SEN. GOODOVER <i>changed</i>	<del>✓</del>	✓
SEN. HEALY	✓	
SEN. MANNING	✓	
SEN. NORMAN	✓	
SEN. ROSKIE <i>refused</i>		
SEN. TOWE	✓	
SEN. TURNAGE		✓
CHAIRMAN MATHERS		✓

*85 84*

Nita Fjeseth  
Secretary

William L. Mathers  
Chairman

Motion: *As Am* *to Pass*

*Motion Carried*

(include enough information on motion—put with yellow copy of committee report.)

SENATE BILL NO. 211  
*Sen. Mark E. Smith*

INTRODUCED BY

A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE FOR THE

ASSESSMENT AND TAXATION OF SEVERED MINERAL INTERESTS;  
SEVERING RIGHTS OF ENTRY FROM CLASS ONE  
AMENDING SECTIONS 84-429, R.C.M. 1947."

*AND BY-#122, AND 84-301*

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

Section 1. Section 84-429, R.C.M. 1947, is amended to

read as follows:

"84-429. Land -- Now assessed. All all other taxable property must be assessed in the county, city, or district in which it is situated. Land must be assessed in parcels or subdivisions not exceeding six hundred and forty acres, and tracts of land containing more than six hundred and forty acres, which have been sectionized by the United States government, must be assessed by sections or fractions of sections.

(2) The department of revenue or its agent must set aside one line in the assessment book for the description of each six hundred and forty acres of land, or less, the number of acres to be entered in one column, the description in another column, value in another column, value of improvements in another column, value of mineral interests in another column, and the total in the total column. It

INTRODUCED BILL

*LC 0352/C1*

1 must also set aside a line in the assessment book for the  
2 description of each town or city lot, the description to be  
3 entered in one column, and the value of the lot and any  
4 improvements thereon in another column, except that a lot  
5 and improvements thereon shall be separately assessed when  
6 required under Section 84-401, R.C.M. 1947; provided that  
7 all of the unimproved lots of the same value, situate in one  
8 block, or belonging to the same party, may be described and  
9 assessed in one line in the manner above provided for each  
10 lot. It is the intention hereby that each parcel and lot  
11 show in its own line, and opposite the description thereof,  
12 the total value of the same and any improvements thereon."

Section 2. There is a new R.C.M. section that reads as follows:

Taxation of mineral interests. (1) Mineral interests in land shall be assessed and subject to taxation unless such interests are being produced and subject to taxation of the net or gross proceeds on such production, or unless such interests are physically or legally incapable of being produced.

(2) Mineral interests not severed from the rights to the use and enjoyment of the surface of the overlying land are presumed to have no value unless a separable value can be conclusively established. Mineral interests severed from the rights to the use and enjoyment of the surface of the overlying land are presumed to have a value, of not less than \$1 an acre and such higher value as may be established by

*9821*

# STANDING COMMITTEE REPORT

March 15

19 77

MR. **PRESIDENT**

We, your committee on **TAXATION**

having had under consideration **SENATE** Bill No. **167**

Respectfully report as follows: That **SENATE** Bill No. **167**,

introduced bill, be amended as follows:

1. Amend page 1, section 1, line 23.

Following: "equal to"

Strike: "40%

Insert: "20%

Following: "and"

Strike: "20%

Insert: "10%

2. Amend page 2, section 1, line 2.

Following: "to"

Strike: "20%

Insert: "10%

Following: line 2

Strike: "10%

Insert: "5%

3. Amend page 3, section 2, line 8.

Following: "to"

Strike: "40%

Insert: "20%

Following: "and"

Strike: "20%

Insert: "10%

4. Amend page 3, section 2, line 13.

Following: line 12

Strike: "20%

Insert: "10%

Following: "and"

Strike: "10%

Insert: "5%

AND AS SO AMENDED,

DO PASS

~~DO PASS~~

CONTINUED

WILLIAM MATHERS

Chairman.



# STANDING COMMITTEE REPORT

March 15

~~February 14~~ 19 77

MR. ~~PRESIDENT~~

We, your committee on ~~TAXATION~~

having had under consideration ~~SENATE~~ Bill No. ~~348~~

Respectfully report as follows: That ~~SENATE~~ Bill No. ~~348~~

DO NOT PASS

~~DO PASS~~

# STANDING COMMITTEE REPORT

March 15

19 77

MR. PRESIDENT

We, your committee on TAXATION

having had under consideration SENATE Bill No. 211

Respectfully report as follows: That SENATE Bill No. 211

*Reconsidered  
Action  
3/16/77*

DO NOT PASS

~~DO PASS~~

*W.M.*

PROPOSED NEW BUILDING FOR DIVISION  
OF  
OIL AND GAS CONSERVATION

NB 540  
Exh. #1

A new building for the Division of Oil and Gas Conservation's technical station in Billings is urgently needed to provide (1) ample and proper storage space for the ever expanding accumulation of drill cuttings, cores, logs, well data and other records; (2) adequate office facilities for the present staff and anticipated future additional personnel; and, (3) a larger and better organized working area for the increasing number of geologists and engineers who use our facilities in the search for new drilling prospects.

The present facilities are approximately 22 years old and have been inadequate for the past several years. Well cuttings and cores are now being stored in a warehouse some four miles across town, and the lack of room for a much needed central filing area has made it necessary to keep a large portion of the well data and electric logs in storage boxes.

The great demand for domestic oil and gas in general and the interest shown in Montana's potential in particular is generating a continuously accelerating work load for the Division of Oil and Gas. In order to more efficiently handle the work load and to make all data readily available for public use, which will generate drilling prospects and the discovery of new fields, it is imperative that a new building with sufficient and modern office space be constructed as soon as possible.

The present building, situated at 15 Poly Drive on the southeast corner of the Eastern Montana College campus, is on a triangular shaped lot which is not conducive to the construction of a proper facility with enough parking space. Furthermore, the city's long range traffic plans call for a one-way system which would isolate the existing location to an island surrounded by heavily travelled streets making access to and from the premises difficult and impractical. For these reasons, it is not advisable to refurbish

and add on to the present building nor to erect a new building at the present location.

The alternative of leasing new quarters has been considered; however, the advantages of constructing and owning a new <sup>building</sup>/preclude the advisability of pursuing such an alternative. A State owned facility would be designed and built to fit the specific needs of the Board's operation, and equally important, State property would not be subject to taxation whereas the rent payed for occupying a privately owned building would include tax payments and be escalated periodically to offset inflation.

Present calculations and planning show that a building consisting of 3,500 square feet of office, filing and study area and 5,500 square feet for the storage of well cuttings and cores would be adequate. Cost estimates to build the facility based on figures supplied by the State Architecture and Engineering Bureau follows: 3,500 square feet of finished office space @ \$40.00/sq. ft. = \$140,000.00. 5,500 square feet of storage space @ \$20.00/sq.ft.= \$110,000.00. \$80,000.00 for building site and \$20,000.00 for architects fees and miscellaneous costs for a total of \$350,000.00.

The type of building requested will provide the functional space and atmosphere, which has long been overdue, to properly conduct and efficiently perform all phases of the Division's operations now and in the future as the search and drilling for more oil and gas intensifies in Montana.

In conclusion, it is important to note that the present facility is situated on the campus of Eastern Montana College of Education and the lot was originally the College's. We have been advised by the President of Eastern Montana College that the building will meet an immediate need by providing space for the College Art Department to relieve the overcrowded conditions

in that department now located on the first floor of the Liberal Arts Building. The College considers the building ideal for this purpose with only minor remodeling needed. Since both the College and the Division of Oil and Gas are State agencies it is uniquely advantageous that two State agencies will be justly served by providing the new building for the Division of Oil and Gas Conservation.

Encl. #2

PROPOSED CHANGES IN PRODUCTION TAX USED TO FUND THE  
DIVISION OF OIL & GAS CONSERVATION

The Division of Oil and Gas Conservation of the Department of Natural Resources proposes to change the present tax structure which funds the Division from a rate per volume basis to a percentage per value basis in order to provide sufficient income to defray the increasing operating costs caused by inflation and to permit expansion of the Division's staff to a level commensurate with properly coping with increasing demands and activity. The proposed tax change would also permit accumulation of sufficient capital to pay directly for the new technical facility in Billings being proposed under the State's long range building program in the event the new building under that program is not approved with a high priority.

The present tax on oil and gas production used to operate the Division is as follows:

<u>Oil Production</u>	<u>Present Assessment (Maximum Allowed)</u>
1. Leases which average 25 b/d per well or less.	3/8 cents per barrel.
2. Leases which average more than 25 b/d per well.	3/4 cents per barrel.
<u>Gas Production</u>	
1. Gas marketed for less than 15¢ per MCF.	1/40 of a cent per MCF.
2. Gas marketed for 15¢ or more per MCF.	1/20 of a cent per MCF.

The proposed legislation would replace the above tax system with a maximum levy of 0.2% of the gross value of all oil and or gas produced and marketed or stored. If passed by the Legislature, we would envision the Board of Oil and Gas Conservation imposing the maximum (0.2%) rate for the first fiscal year (1977-1978) if necessary in order to provide sufficient funds for the new technical facility in Billings and then reducing the rate to a level consistent with generating only enough capital to defray operating expenses.

Following is a summary of the Division's income and expenses for the past five years and projected income and expenses for the next three years:

<u>ACTUAL</u>			
<u>END OF FISCAL YEAR</u>	<u>INCOME</u>	<u>EXPENSES</u>	<u>BALANCE</u>
1973	\$191,000	\$225,000	\$ 51,000
1974	265,000	234,000	82,000
1975	294,000	255,000	121,000
1976	288,000	283,000	126,000
1977	295,000 Est.	307,000 Est.	114,000 Est.
<u>PROJECTED</u>			
1978	\$619,000	\$332,000	\$401,000
1979	414,000	709,000	106,000
1980	345,000	388,000	63,000

The actual expense column shows an average yearly increase of about 8%. This rate has been used in the projected expense column. The projected income for 1978 is based on the proposed new maximum tax rate of 0.2% of gross value. For the year 1979, projected income is based on a reduced rate of 0.1% of gross value but includes a \$73,000 lump sum addition from the expected sale of our present facility in Billings to Eastern Montana College. Expenses for 1979 include \$350,000 for a new building in Billings. Projected income for 1980 reflects anticipated income based on a levy of 0.1% of gross value.

It should be noted that without the proposed tax increase it is questionable if enough income could be generated under the present tax system to defray expenses for the next biennium even without building a new technical facility. The above projections illustrate how we can achieve our goals and stay abreast of inflation with the proposed legislation.

# STANDING COMMITTEE REPORT

..... March 15 ..... 1977 .....

MR. .... **PRESIDENT** .....

We, your committee on ..... **TAXATION** .....

having had under consideration ..... **SENATE** ..... Bill No. **28** .....

Respectfully report as follows: That ..... **SENATE** ..... Bill No. **28**, .....

introduced bill, be amended as follows:

1. Amend page 1, section 1, line 20.

Following: "by"

Strike: "\$35"

Insert: "\$40"

AND AS SO AMENDED,

DO PASS



# STANDING COMMITTEE REPORT

March 15 19 77

MR. **PRESIDENT**

We, your committee on **TAXATION**

having had under consideration **HOUSE** Bill No. **93**

Respectfully report as follows: That **HOUSE** Bill No. **93**

**BE NOT CONCURRED IN**

~~XXXXXX~~

# STANDING COMMITTEE REPORT

March 15 19 77

MR. **PRESIDENT**

We, your committee on **TAXATION**

having had under consideration **HOUSE** Bill No. **26**

Respectfully report as follows: That **HOUSE** Bill No. **26**

BE CONCURRED IN

~~DO PASS~~

# STANDING COMMITTEE REPORT

March 15 19 77

MR. **PRESIDENT**

We, your committee on **TAXATION**

having had under consideration **HOUSE** Bill No. **111**

Respectfully report as follows: That **HOUSE** Bill No. **111**

BE CONCURRED IN

~~XXXXXX~~  
DO PASS

# STANDING COMMITTEE REPORT

March 15 19 77

MR. PRESIDENT

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 237

Respectfully report as follows: That HOUSE Bill No. 237

BE CONCURRED IN

~~BE PASSED~~

# STANDING COMMITTEE REPORT

March 15 19 77

MR. **PRESIDENT**

We, your committee on **TAXATION**

having had under consideration **HOUSE** Bill No. **540**

Respectfully report as follows: That **HOUSE** Bill No. **540**

BE CONCURRED IN  
~~BE PASSED~~