MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

February 16, 1981

The twenty-eighth meeting of the committee was called to order at 8:00 a.m. in Room 415 of the State Capitol Building, Chairman Pat Goodover presiding.

ROLL CALL: All members were present.

CONSIDERATION OF SENATE BILL 355:

"AN ACT TO REPLACE THE PRESENT SYSTEM OF TAXATION OF AUTOMOBILES AND LIGHT TRUCKS WITH A FEE SYSTEM; ADJUSTING THE PERCENTAGE LIMITS ON CERTAIN FINANCIAL ACTIVITIES BY LOCAL GOVERNMENTS, AND PROVIDING FINANCIAL ASSISTANCE TO LOCAL GOVERNMENTS BECAUSE OF CHANGE IN TAX BASE; AMENDING MANY SECTIONS, MCA; AND PROVIDING EFFECTIVE DATES."

Senator Blaylock presented the bill saying nearly everyone agrees with the fact we need a flat fee system for licensing cars and trucks, but not everyone agrees on the details. He said the heart of the bill is in the first 6 sections, asking Terry Cohea to give more details.

PROPONENTS: Representative Fabrega, co-sponsor of SB 355 said the entry will take place on January 1, 1982. Cyclical licensing will remain where licenses ending in "one" are paid in January, "two" in February, etc. During 1981 the counties will keep a record of tax receipts. All income should be accounted for by October, number of vehicles licensed should be known, money collected based on the present tax, and a calculation will be made of how much they received based on the difference between tax received and how many vehicles they report. He said automobiles are taxed at a rate three times higher than residences. His comments on SB 356: he believed that by bringing the tax on oil severance to 5% Montana would be coming to an average of all other states. He felt it made sense to make revenue from oil available to local governments in this area. He said the fee system will be able to handle relicensing by mail with a card notification.

Larry Fasbender, legislative liaison for the governor; Don Judge, AFL-CIO; Larry Tobiason, Montana Automobile Association; Joe Lamson, Democratic Central Committee; Jerry Roenig, Montana Automobile Dealers Association; Mike Stephen, Montana Association of Counties.

Senator Severson asked for more information as far as state pay back on county revenue loss was concerned.

It was explained that the first year the flat fee (page 2 of bill) will be used. From then on counties would use a formula based on the CTE to find out how many light trucks and vehicles are in the county, calculate the tax loss, use the indicator, reimburse the county dollar for dollar for what they lose. This would be done on an annual basis. The fee will rise tied to the inflation rate, but a reimbursement fee would be received by the counties for each vehicle in the county for a given year. When the county gets the fee from the vehicle, they will treat it like a property tax.

Hearing was closed on Senate Bill 355.

CONSIDERATION OF SENATE BILL 356:

> "AN ACT TO AMEND SECTION 15-36-101, MCA, TO PROVIDE A SINGLE PERCENTAGE RATE OF 5 PERCENT TO BE USED IN COMPUTING THE SEVERANCE TAX ON PETROLEUM; PROVIDING AN APPLICABILITY DATE."

Senator Blaylock said to grant equity to automobile owners will cost money. The loss comes to about 32 million dollars. That brings us to SB 356. If flat fee licensing is granted, we have to take SB 356 or find an alternate source to tax. What SB 356 will do is raise oil severance tax to a flat 5%. Montana's oil tax was put on in 1921; last increase was in 1962. To put the oil severance tax on and then to apportion that out to the people using that product is not unfair. It is within the whole oil complex that this is being worked out.

Terry Cohea passed out a sheet detailing the effective tax rate on oil production in various states, Attachment #1. The source of her information was in the state statutes and then she called Departments of Revenues in each state to see that the information was up to date and correct.

Her last point was that the federal government has just imposed the windfall profits tax on the difference between new price of oil and old control price. If this 5% severance tax is not imposed the federal government will receive approximately 6 million dollars more from oil production in Montana because producers will not have this deduction.

PROPONENTS: Larry Fasbender cautioned the committee to be careful with documentation they will be given to consider. Local government is losing money by bills that have been proposed in this session. Without SB 356 you cannot have tax relief because you have to fund local governments.

Larry Tobiason, Montana Automobile Association, and Jerry Roenig, Montana Automobile Dealers Association.

OPPONENTS: Don Allen, Executive Director, Montana Petroleum Association, Attachment #2; Norman Carlson, Westby School Board, Attachment #3; Charlie Henderson, Sidney, Attachment #4; Ed Vanderpos, representing the Montana Oil and Gas Association, Attachment #5, including income distribution sheet for Toole County; Bill Vaughey, Jr., Independent oil producer, Attachment #6; Senator Larry Tveit, for himself, Attachment #7; and a letter from Senator Ed Smith, Attachment #8; Bob Gannon, Montana Power Company. A letter from Robert Mullen, Board of County Commissioners, Sidney, #9. Others present at the meeting wishing to be on record as opponents were: Quinn Allen, John King, Otto Jensen, Bill Huss, Paul Dana, Charles Sherwood, and John Braunbeck.

Senator Blaylock closed by saying he would address the royalty issue. It is true that the oil company tax will be increased but there has recently been a 400% increase in their price. Natural gas is not affected in this bill. This tax is fair and it is needed; this tax has not been changed since 1969. It isn't true that we will have the highest tax rate--if we put 5% in Montana will be in the neighborhood of our surrounding states and right where major oil producing states are.

CONSIDERATION OF HOUSE BILL 370:

"AN ACT TO PROVIDE THAT OIL AND GAS NET PROCEEDS TAX BE LEVIED ONLY ON OIL AND GAS SOLD DURING THE TAXABLE YEAR; AMENDING SECTIONS 15-23-602, 15-23-603, AND 15-23-605, MCA; AND PROVIDING AN EFFECTIVE DATE AND AN APPLICABILITY DATE

Representative Underdal presented the bill saying it is a housekeeping bill that means no loss of revenue to the state. He proposed an amendment on page 1, line 19, following the stricken "thereof" to insert "the gross sales proceeds shall be determined by multiplying the units of production sold from the well times the royalty unit value of that production at the well".

PROPONENTS: Clyde Logan: It is basically a housecleaning bill that will put the accounting procedures in the bill the same as the severance tax. There will be no loss in revenue. We are counting on sales rather than production. This bill brings agreement with the severance tax that assesses at the well head.

Bob Gannon, Montana Power Company, supports the bill with that amendment. Senator Elliott wanted to know what the definition of royalty unit value was and how it was determined. The answer was it is fair market value at the well head, which is the value that is disbursed to the royalty owner. Under decontrol the market will determine the price.

The average cost of a barrel of oil as it comes out of the ground is $37.00 and the royalty owner will get $34.72.

The hearing was closed on Senate Bill 370 and the meeting adjourned at 10:05 a.m.

Pat M Goodover

PAT M. GOODOVER, Chairman

ROLL CALL

TAXATION COMMITTEE

47th LEGISLATIVE SESSION - - 1981 Date 2/16/81

NAME	PRESENT	ABSENT	EXCUSED
Goodover, Pat M., Chairman	✓		
McCallum, George, Vice	✓		
Brown, Bob	✓		
Brown, Steve	✓		
Crippen, Bruce D.	✓		
Eck, Dorothy	✓		
Elliott, Roger H.	✓		
Hager, Tom	✓		
Healy, John E. "Jack"	✓		
Manley, John E.	✓		
Norman, Bill	✓		
Ochsner, J. Donald	✓		
Severson, Elmer D.	✓		
Towe, Thomas E.	✓		

Each day attach to minutes.

DATE February 16, 1981

COMMITTEE ON Taxation

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Support 317	Support 355	Oppose 317	Oppose 355
Don Allen	Mt. Petroleum Assoc.					
Norman A. Milroy	Northeast Montana Landowners [illegible]				✓	
[illegible]	[illegible]				✓	
[illegible]	SANITARY BUILDING [illegible]				✓	
Don Judge	MT STATE AFL-CIO			✓		
T. Cohen	OBPP			X		
[illegible]	OBPP					
[illegible]	[illegible]				✓	
[illegible]	Oil & Gas Council				✓	
[illegible]	[illegible]					
[illegible]	[illegible]				✓	✓
[illegible]	Montana [illegible]				✓	
[illegible]	[illegible]				X	X
[illegible]	HD 53			✓		✓
[illegible]	Mont Oil Gas & Coal Co				✓	
[illegible]	Mont. Petroleum Assoc.					✓
[illegible] Tobinson	Mont. Auto Dealers			✓		
[illegible]	[illegible]					
[illegible]	[illegible]				✓	
[illegible]			✓			✓
M. Walter	[illegible]			V		
JOE LAMSON	MT. DEMOCRATIC PARTY			X		

(Please leave prepared statement with Secretary)

DATE February 16, 1981

COMMITTEE ON Taxation

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Support HB 356	Support HB 370	Oppose 356	Oppose 370
[illegible]	Self				X	
[illegible]	Mt. Petroleum Assoc.			X	X	
[illegible]	Northwest Montana [illegible]			X	X	
[illegible]	Northwest [illegible]			X	X	
[illegible]	SAM GAIN BWAB, Inc.			X	X	
[illegible]	Shell Oil Co.			X	X	
T Cohen	Office of Budget + Prog. Planning		X			
[illegible]	[illegible]			X	X	
[illegible]	Consulting Geologist			X	X	
[illegible]	[illegible]			X	X	
[illegible]	[illegible]				✓	
[illegible]	[illegible]				✓	
[illegible]	[illegible]		✓			
[illegible]	Mt. Democratic Party		X			

(Please leave prepared statement with Secretary)

SB356 *Attachment #1*

COMPARISON OF STATE TAXES ON OIL PRODUCTION*

SEVERANCE AND EXCISE TAXES ON OIL PRODUCTION

1.	Louisiana	- 12.5% of value
2.	Alaska	- 12.25% of value X economic limit factor
3.	North Dakota	- 11.5% of gross value
4.	Oklahoma	- 7.085% of gross value
5.	Alabama	- 6-8% of gross value
6.	Mississippi	- 6% of value
7.	Florida	- 5-8% of gross value (Escaped oil 17.5 - 20.5%)
8.	Michigan	- 5-7.6% of gross value
9.	Texas	- 4.6% of market value
10.	Kentucky	- 4.5% of market value
11.	South Dakota	- 4.5% of sales price less royalty paid to federal or state government
12.	Arkansas	- 4-5% of market value + 25 mills per barrel
13.	New Mexico	- 3.75% of value less certain royalties and transportation costs to first purchaser
14.	Colorado	- 2-5% of market value
15.	Wyoming	- 2-4% of gross value
16.	Montana	- 2.1 - 2.65% of gross value
17.	Nebraska	- 2% of value
18.	Utah	- 2% of value on production over $50,000
19.	Tennessee	- 1.5% of sales price
20.	Indiana	- 1% of value

TOTAL TAXES** ON OIL PRODUCTION UNDER CURRENT LAW
(2.1 - 2.65% Severance Tax)

1.	Louisiana	- 13.8% of value
2.	Wyoming	- 12.204 - 14.204% of value
3.	North Dakota	- 12.8% of gross value
4.	Alaska	- 12.25% of gross value x economic limit factor + 5.125 cents per barrel
5.	Montana	- 10.102 - 10.652% of gross value
6.	Oklahoma	- 7.955% of gross value.

TOTAL TAXES** ON OIL PRODUCTION UNDER SB356
(5% Severance Tax)

1.	Louisiana	- 13.8% of value
2.	Wyoming	- 12.204 - 14.204% of value
3.	Montana (with 5% tax)	- 13.002% of gross value
4.	North Dakota	- 12.8% of gross value
5.	Alaska	- 12.25% of gross value x economic limit factor + 5.125 cents per barrel
6.	Oklahoma	- 7.955% of gross value

*Source: Commerce Clearinghouse, State Tax Guide and information from Department of Revenue in each state.

**Includes severance, excise, resource indemnity, property, conservation, and sales or use taxes. Texas and California could not be included in this comparison, since local production taxes vary so markedly.

Attachment #2

Testimony Before the Montana Senate Taxation Committee Regarding

SB 356, February 16, 1981

Mr. Chairman, members of the Committee, my name is Don Allen and I am the Executive Director of the Montana Petroleum Association; I live in Helena.

The Montana Petroleum Association is also a division of the Rocky Mountain Oil and Gas Association, a trade association whose membership includes over 750 individuals and companies of all sizes engaged in the various segments of the oil and gas business. I believe it is important to take a quick look at our crude oil situation today. We are currently obtaining (via month-to-month agreements) about 39% of the crude to run our six refineries from Canada, with about an equal amount from Wyoming.

Due to early field and pipeline locations, and the fact that our biggest refineries were originally built to process Canadian crude, much of our crude leaves the state, but is also utilized in exchange agreements for some of the Wyoming crude we import. However, if by some work of magic, all of the crude oil produced in the state could be piped to our refineries, there would still be an approximate 70,000 b/d shortfall of crude to keep our refineries running at capacity.

One additional troublesome cloud on the horizon is the announced plan (Oil and Gas Journal, February 2, 1981) of Alberta, in dispute with Canada's federal government, to cut its' production by 71,000 b/d on March 1, with later cuts during the year expected to bring the total to 180,000 b/d by September 1. The impacts on our Canadian purchases is not known, but the point is that with these developments and without any other plans in place to assure future crude oil for our refineries and thus petroleum products to our citizens, we should be taking steps to encourage more oil and gas exploration and production in the state.

To further increase the taxes on oil produced in the state would have a further chilling effect on many who might consider investing in Montana activity.

Recent nationally recognized reports have given credence to what I have heard for years from potential investors in oil and gas activity in Montana--namely, that an anti-business attitude exists in the state.

The petroleum industry has always been willing to pay it's fair share of the tax burdens and has not objected to increased taxes being levied against the industry when it could be demonstrated that the increase was fair, really needed, and would have a positive benefit for the citizens of the state. This was the case during a recent session when the Board of Oil and Gas Conservation desired to be able to double the conservation tax in order to build a new and badly needed building in Billings. The industry did not object and recently, the Board was able to reduce that tax back to a lower percent, which will still provide the needed dollars for carrying out the Board's responsibilities.

However, the Montana Petroleum Association opposes SB 356 for several reasons. I would like to call the committee's attention to the sheet which illustrates the comparison that we have made with the tax rate data which was distributed by Governor Schwinden's staff several days ago. Please note that the first low-high range in our Montana column illustrates the royalty owner rate while the other figures are for the industry statewide. While members of our Association's tax committee were here last week attempting to reconcile our data with that prepared by the Governor's staff, one of the first things discovered was that several errors had been made by the Department of Revenue in various calculations. We brought these errors to the Department's attention and they indicated that corrections would be made.

The remaining major discrepancy was that there existed a large difference in the average ratio of net to gross proceeds between our calculations and the figures prepared by the Governor's staff.

At my request and in response to the Governor's expressed desire, along with my own to not mislead the public and/or the members of this committee regarding the differences in the data, I met with the Governor and members of his staff last Friday afternoon to attempt to resolve the differences. It finally became apparent, as you have heard earlier today, that the Governor's staff, in preparing their data, excluded royalty interests in their calculations.

I would like to explain that the manner in which we calculated the ratios which resulted in our comparisons now before you were calculated in exactly the same manner as they have always been done. Also, the percentages for all the other states included in the comparison include the royalty interests also. Therefore, if the royalty interest portion were to be deleted in Montana's percentages, then the royalty interest portion would necessarily have to be deleted from all the other states' calculations, so the various states would still wind up in the same relative position as our figures illustrate--which show that oil produced in Montana has the highest effective tax rate in the U.S. If you examine the existing statutes (15-23-505 and 15-23-605) relating to the net proceeds tax, it is clear that the Department of Revenue is to assess and tax the royalties the same as the net proceeds of the mines (ie: oil and gas.)

As to the interpretation that the royalty interest is a property right and thus somehow different, I would point out that in California and Texas, for examples, all taxes on oil are considered as a tax on property, and the royalties are included in the effective tax rate totals.

Regardless of what is used to refer to the royalty interest, two things are clear:

1. The property (royalty interest) has no real value unless and until oil is actually produced and

2. If production occurs, all of the oil produced from a well is taxed.

Therefore, how can you exclude the royalty interest as if no tax is being paid on that portion of the produced oil?

Montana's high taxes on oil produced within the state have been a big factor in keeping many capital dollars needed for new exploration from flowing into the state--at least at the rate needed to keep pace with other Rocky Mountain States.

More drilling activity has been occuring in New Mexico, Wyoming, and Colorado, with North Dakota gaining on Montana since 1977. Since the successful deep well drilled near Sidney in 1976 in the Mon-Dak field (within the Williston Basin of Montana and North Dakota) much new activity has taken place, but with about twice as many rigs running in North Dakota, on the average, as in Montana.

Feb. 16, 1981

Incidentally, in 1979 the average depth of all wells drilled in Montana was only 3855 ft. compared to 8731 ft. in North Dakota and 6787 in Wyoming. This needs to be kept in mind in comparing the number of wells drilled. With decontrol of crude oil prices and the push to become less dependent on foreign sources and the hope for much success in the Overthrust Belt, drilling activity will continue to accelerate, but much of the concern we have about SB 356 is whether or not it will keep Montana from getting it's proportionate share of the new activity.

Record sales of leases on state lands are producing lots of new dollars not realized before. The $15 million realized from the two-day sale which took place last spring came in too late to be reported in last fiscal year, but will boost the total estimated (by State Lands Dept.) revenue to over $30 million in FY 81.

The rising interest in leasing lands--everywhere--for potential oil and gas exploration is real and we must not discourage new leasing. Evidence that the new interest in leasing is sincere and a good indication is that the new record sales are occuring here in spite of the fact that Montana has higher rates for leasing and retaining leases on state lands than neighboring states in the Rockies (see attachment.)

Only 36.6% of Montana's total acreage is productive or leased compared to 51.3% in North Dakota, 55% in Utah, and 63.7% in Wyoming.

Now, let me turn to perhaps more important reasons for opposing SB 356. I realize that most of us in Montana would welcome some relief from the high vehicle license taxes, and that it is politically popular to propose a plan to make that happen. However, as a concept, we feel that it would be a dangerous precendent to impose a new tax on one industry in order to fund any politically popular idea. When would the new ideas and the ways to fund them ever stop? History says not really ever. We have put together very up-to-date projections relating to revenues. If you will refer to the sheet titled "Projections of Revenue", you will see that due to decontrol (President Reagan has already decontrolled the price of crude oil ahead of the scheduled Oct. 81 date) and with adjustments for inflation (if this method is chosen to replace the license taxes lost to all the counties) enough money will be available without any increa in the tax on oil produced in the state.

Mr. Clyde Logan with Logan and Associates, representing the Association, or Mr. Weldon Summers, Shell Oil Co., chairman of the Association's tax committee, will be happy to explain the projected revenue handout in greater detail if you desire.

In view of these enormous expected revenue increases, I believe the question has to be asked: "If the severance tax is increased, what will those millions of new dollars be used for?"

One of the reasons for the tremendous growth in government spending in recent years is that when extra dollars become available via inflation or whatever, a way is found to spend the money.

I believe that the people of Montana, in adopting the tax indexing initiative this last year said that they want extra dollars that are available through inflation to be used to reduce taxes.

It is a truism that private individuals pay to fund the decisions of public officials. All of those who consume petroleum products--not just those who have to license their vehicles for use on the roads--will wind up eventually paying the increased severance tax. So why impose the increase if it is not needed?

Another dangerous trend could be to use revenues from natural resources in certain counties to pay for benefits in other counties. Should the counties with forest lands share the revenues they receive from the U.S. Forest Service with counties that have no forests? Or should a county with a mine share it's county revenues with other counties that have no mines?

In conclusion, Mr. Chairman and members of the Committee, for all the reasons outlined above, we would respectfully ask the Committee to give SB 356 a "do not pass."

TOTAL EFFECTIVE TAX RATE

		Governor's Staff	Oil & Gas Industry's Correction to Governor's Staff Montana Effective Rate	Oil & Gas Industry (*)
1.	California	- - -		2.6000
2.	Colorado	- - -		5.9500
3.	Louisiana	13.8		12.5550
4.	Montana	10.002 - 10.652	13.7520 - 14.4020 (1) 16.4460 - 17.0977 (2)	12.8556 - 28.7475 14.9050 (3) 16.0065 (4)
5.	North Dakota	12.8		11.5000
6.	Oklahoma	7.955		7.1000
7.	Texas	- - -		6.1000
8.	Utah	- - -		5.2500
9.	Wyoming	12.204 - 14.204		8.5200 - 10.5270
10.	Alaska	12.25% of gross value x economic limit factor + 5.125 cents per barrel		12.25% of gross value x economic limit factor + 5.125 cents per barrel (Complicated formula reduces effective rate to a range of 4.7% to 12.25%)

* *

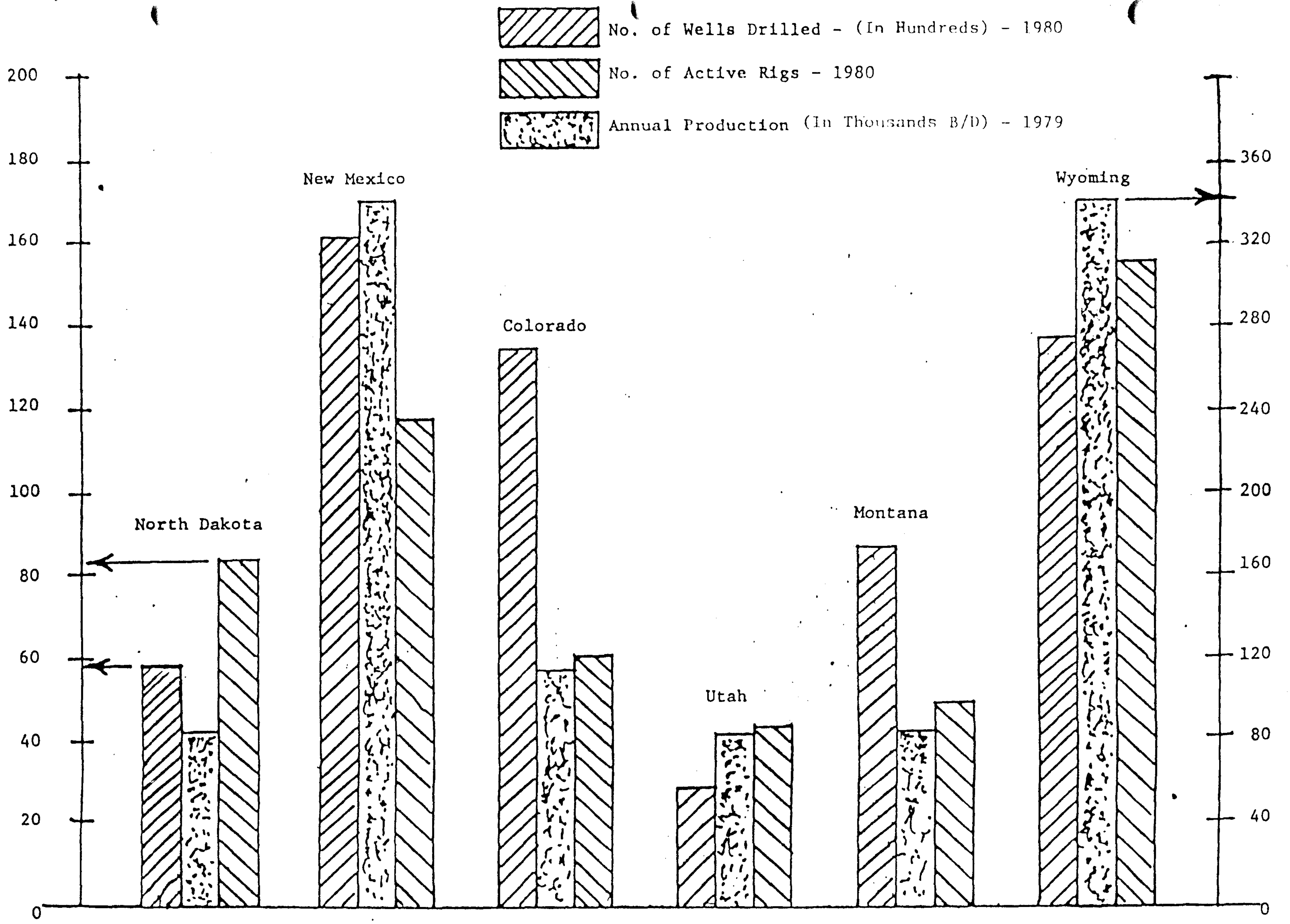
(1) Effective rate using correct current average ratio of net to gross proceeds.

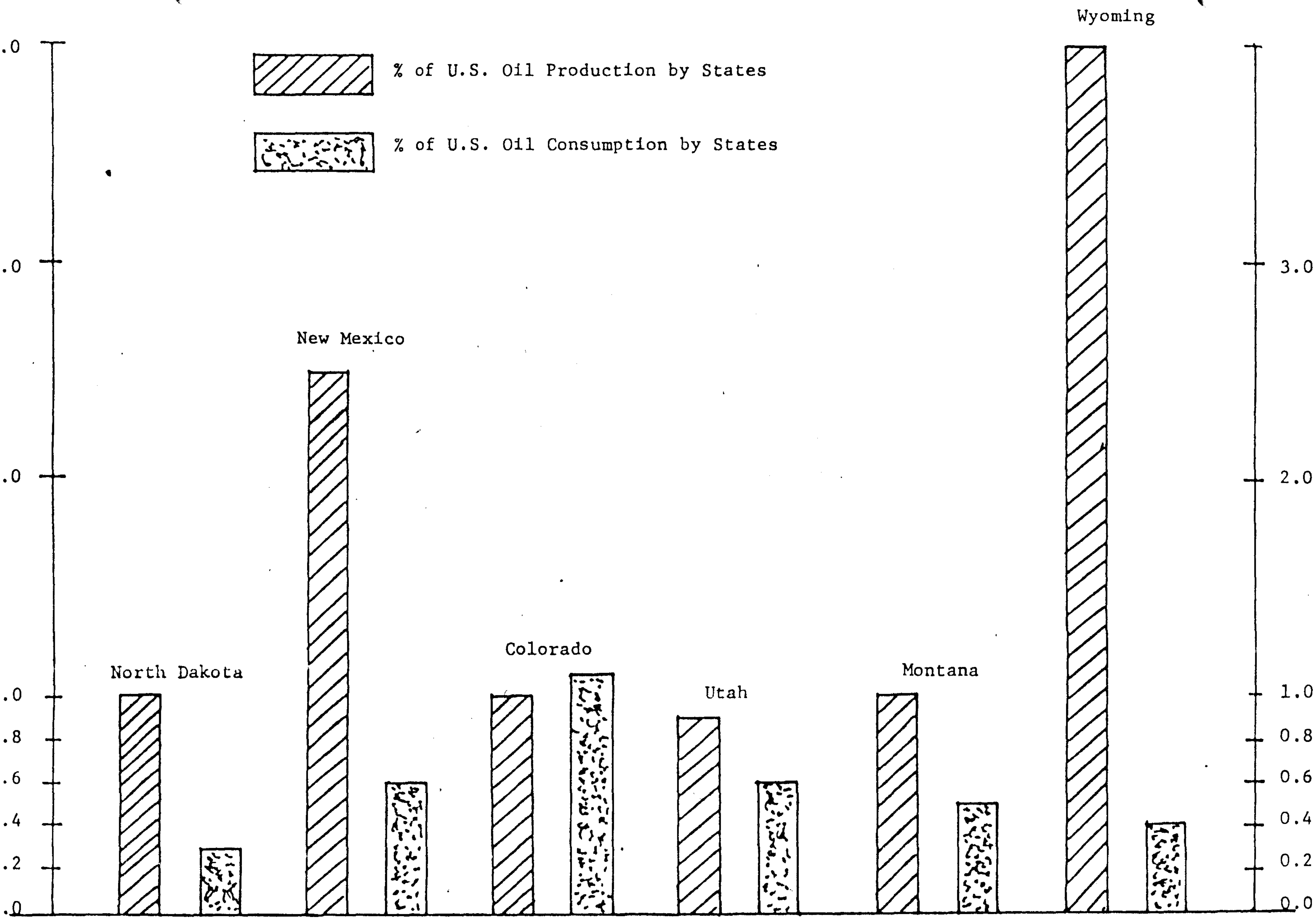
(2) Effective rate using projected ratio of 85.94% of net to gross proceeds. All proceeds from price decontrol are net proceeds.

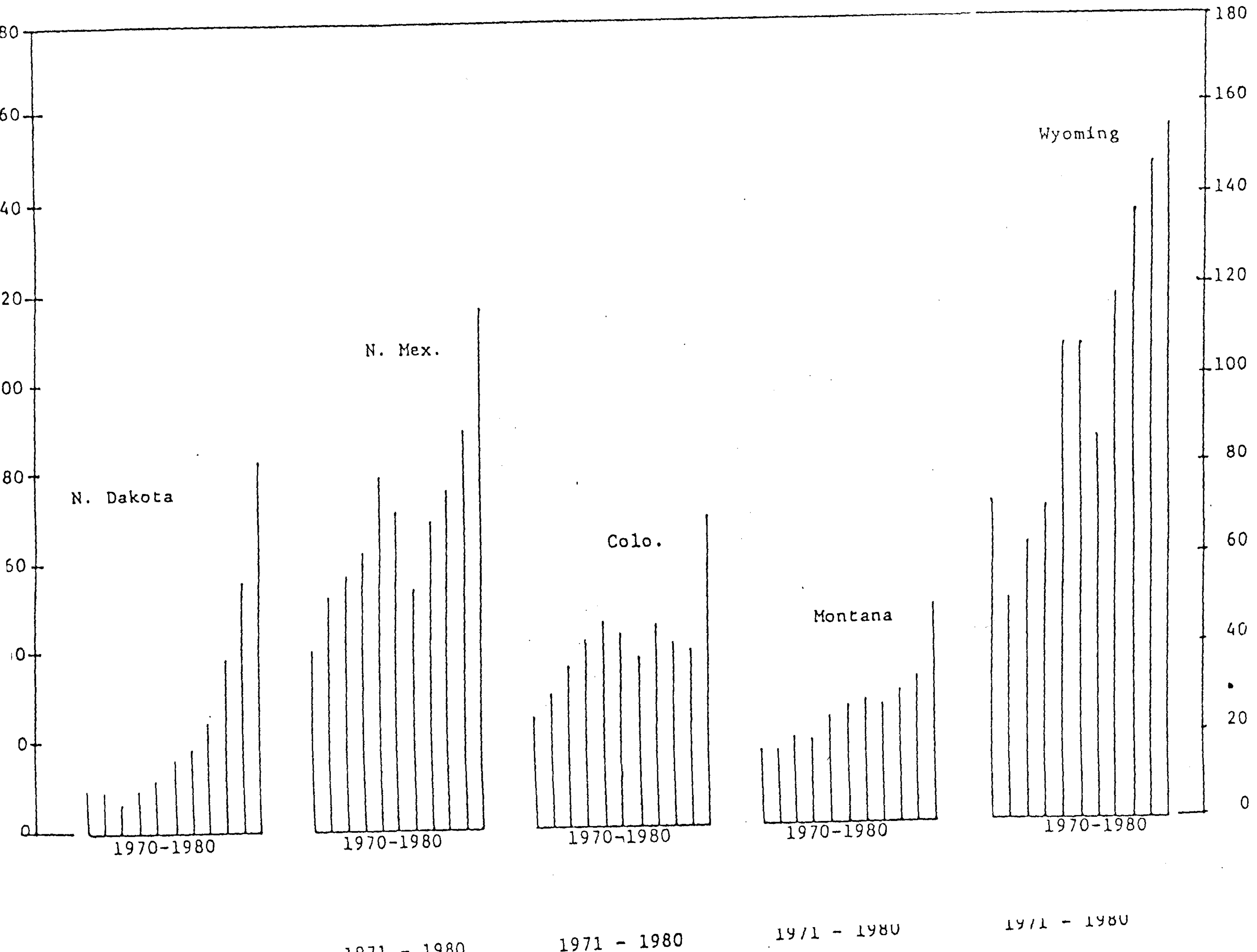
(3) Effective rate allowing Windfall Profits Tax as a deduction to net proceeds X 150 mill X 78.6%.

(4) Effective rate including Windfall Profits Tax in base X 150 mills X 85.94%.

(*) Includes severance, resource indemnity, License Taxes, Property Taxes on production and production equipment, and conservation taxes.

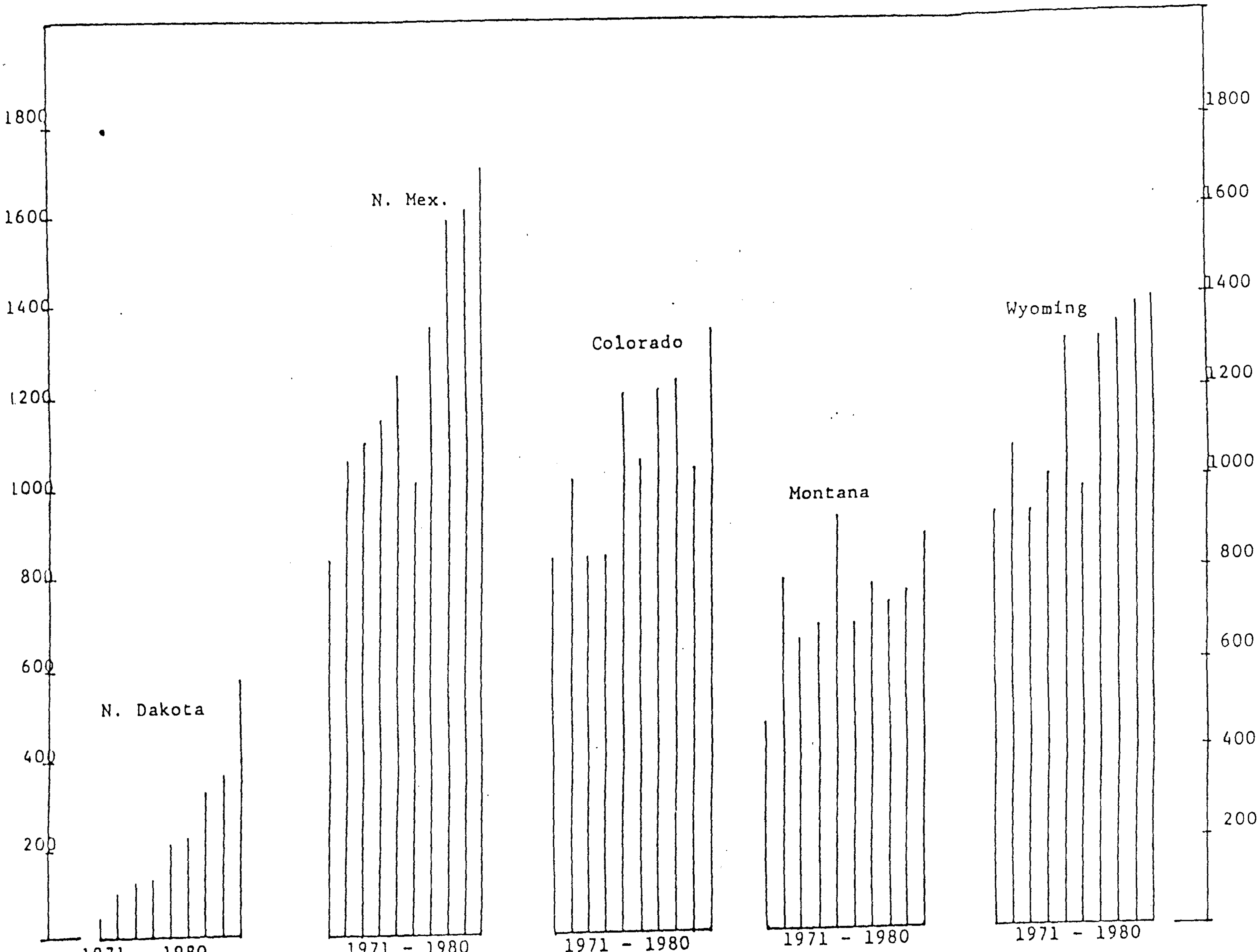

No. of Wells Drilled - (In Hundreds) - 1980
No. of Active Rigs - 1980
Annual Production (In Thousands B/D) - 1979
North Dakota
New Mexico
Colorado
Utah
Montana
Wyoming
0
20
40
60
80
100
120
140
160
180
200
0
40
80
120
160
200
240
280
320
360


% of U.S. Oil Production by States
% of U.S. Oil Consumption by States
Wyoming
New Mexico
North Dakota
Colorado
Utah
Montana
3.0
2.0
1.0
0.8
0.6
0.4
0.2
0.0

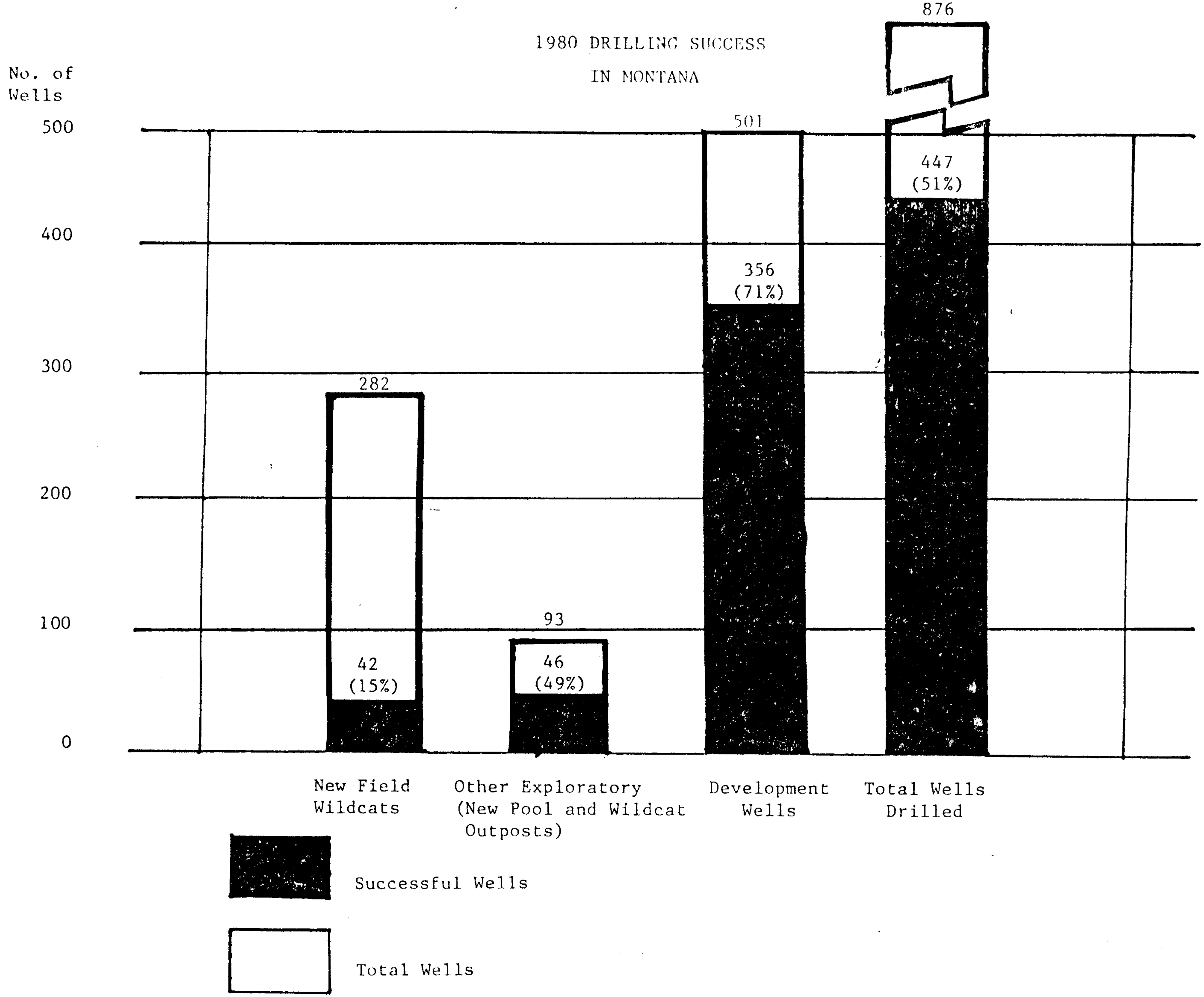


N. Dakota
N. Mex.
Colo.
Montana
Wyoming
1970-1980
1970-1980
1970-1980
1970-1980
1970-1980
1971 - 1980
1971 - 1980
1971 - 1980
1971 - 1980
180
160
140
120
100
80
60
40
20
0

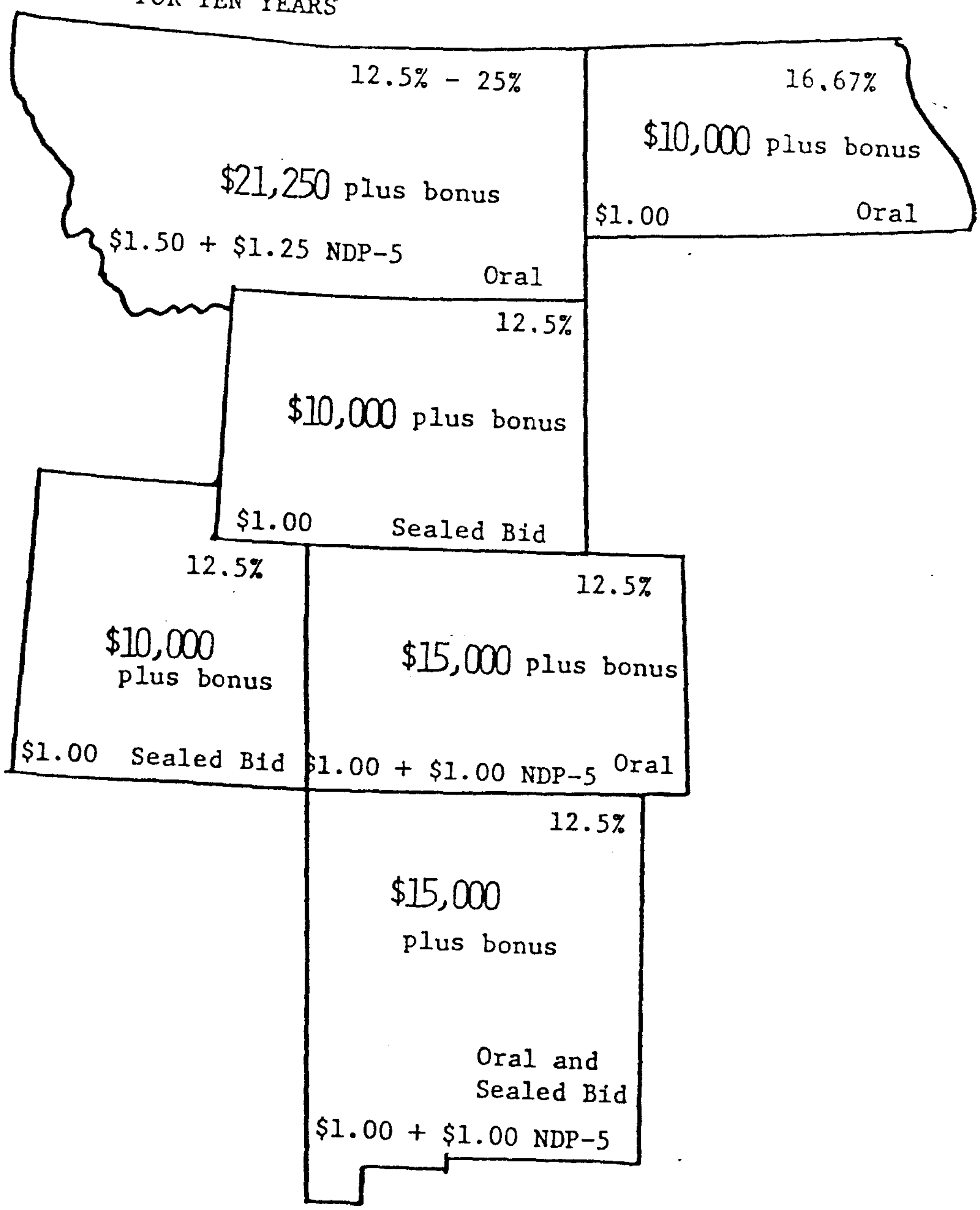
TOTAL WELLS DRILLED
ROCKY MOUNTAIN OIL PRODUCING STATES



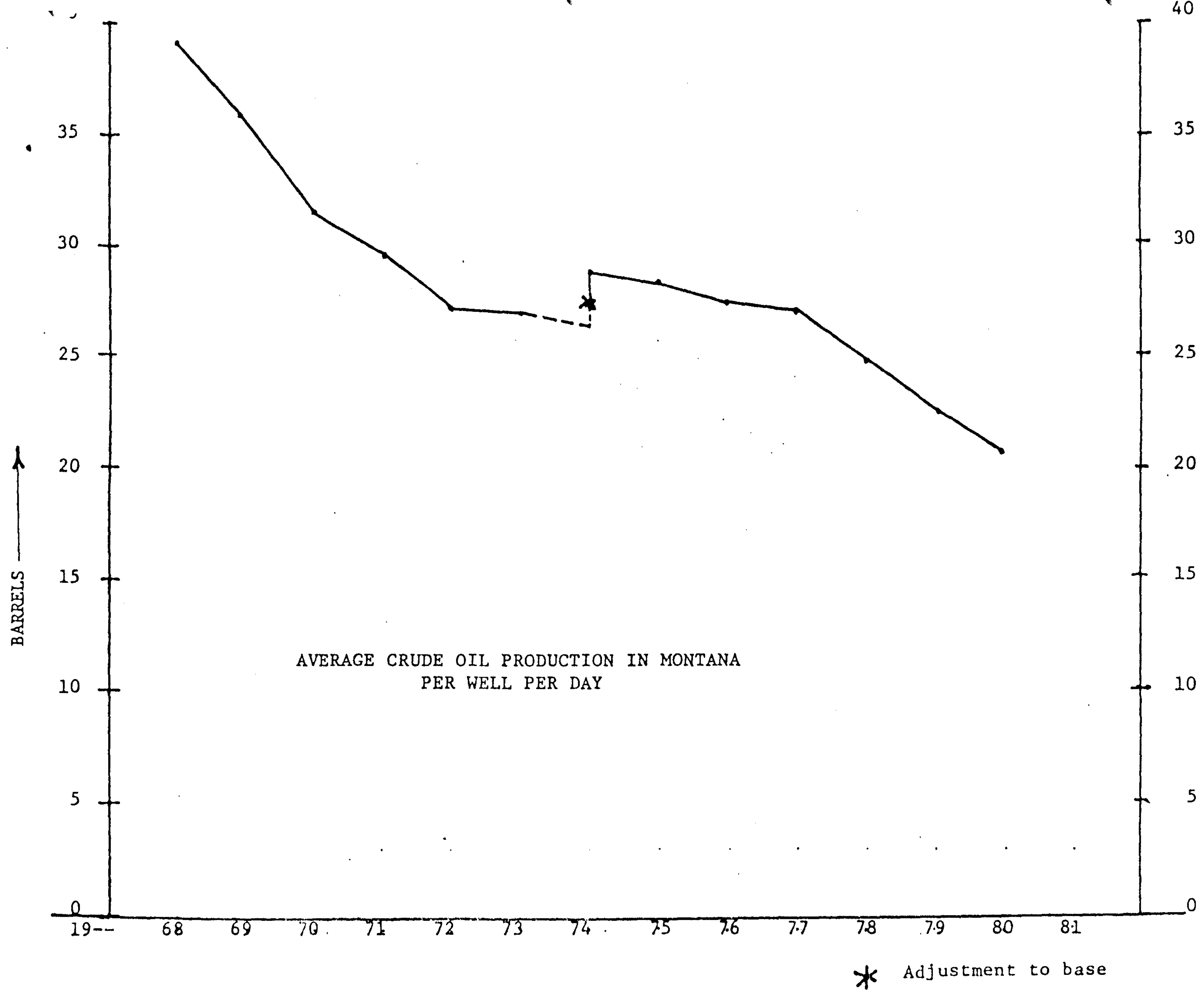
1980 DRILLING SUCCESS IN MONTANA



EXPENDITURES REQUIRED TO LEASE IN 1980 AND RETAIN 1,000 ACRES OF STATE LEASES FOR TEN YEARS



/81



AVERAGE CRUDE OIL PRODUCTION IN MONTANA
PER WELL PER DAY
BARRELS
0
5
10
15
20
25
30
35
40
19--
68
69
70
71
72
73
74
75
76
77
78
79
80
81
Adjustment to base

Attachment #2

Projections of Revenue
Using Current Oil Severance Tax Rates
FY's 1981-82-83

	Gross At .0261 (1)	Net to State (2)
FY 1981	20,051,200	19,058,700
FY 1982	31,173,000	29,558,000
FY 1983	33,770,000	31,994,000
Total	84,994,200	80,610,700

Estimated revenues from Oil Severance Tax based on FY 1980 actual ($10,544,000 and increased for FY 1981, 1982, 1983 at 12% and 15% rates of inflation only:

	12%	15%
FY 1981 ($10,544,000 X Inflation Rate)	$11,810,000	12,126,000
FY 1982	13,227,000	13,944,000
FY 1983	14,814,000	16,036,000
Totals	39,851,000	42,106,000

Estimated revenues due to inflation and price decontrol

	80,610,700	80,610,700
Less estimate due to inflation	39,851,000	42,106,000
Estimated revenue due to decontrol	40,759,700	38,504,700
Needed to fund auto tax relief 1982 & 83	32,000,000	32,000,000
Surplus	8,759,700	6,504,700

1982 revenues due to decontrol
$29,558,000 - $13,227,000 (12% inflation) $16,331,000
29,558,000 - 13,994,000 (15% inflation) 15,564,000

1983 revenues due to decontrol
31,994,000 - 14,814,000 (12% inflation) 17,180,000
31,994,000 - 16,036,000 (15% inflation) 15,958,000

These revenues should be sufficient to fund the $16,000,000 per year needed to reduce the automobile tax and still have a comfortable cushion or reserve because of the 1981 windfall from decontrol.

Notes:

(1) 1st 2 qrtrs. FY 1981 actual, last 2 qtrs. estimated. FY 1982 & 1983 estimated using Legislative Fiscal Analyst's estimated production. Decontrolled price of $37/bbl used beginning Feb. 1, 1981, escalated 10% per year for FY 1982 and 1983. (Recent history of OPEC policies.)

(2) FY 1981 actual to counties $992,500, FY 1982 & 1983 estimated based on 1,500,000 bbls. per estimate of Legislative Fiscal Analyst.

Attachment #3

WESTBY PUBLIC SCHOOLS

DISTRICT NO. 3
SHERIDAN COUNTY

WESTBY, MONTANA

February 13, 1981

Senator Pat Goodover, Chairman
Tax Committee
Capital Station
Helena, Montana 59601

Dear Senator Goodover:

The school trustees and the administration of School District #3, Sheridan County, Westby, Montana are opposed to Senate Bill 356. This bill to increase the oil tax will enable the state to give a flat fee for all state vehicles. We object to this bill for the following reasons:

1. The Eastern counties of Montana have never derived any benefits from state's western industries and resources--timber and mining.

2. The impact of the oil activity in Sheridan County has caused financial drain on our schools and county. Oil trucks and oil rigs have devastated county roads, resulting in extra wear and tear on our school buses. The life of the buses has been cut in half.

3. Children of transient oil workers have added to school difficulties. Paper-back workbooks alone cost approximately $150. Multiplied by the number of new students each semester that portion of our education budget becomes burdensome. Our special education costs have risen more than 300% this school term to serve students of the oil impact. The school district bears the burden of these financial difficulties because the state cannot afford to help.

4. We are strongly opposed to taking needed money out of our school system and county when these extra oil taxes should take care of our roads, schools and extra municipal burdens caused by the increased population.

The coal areas of Montana get impact funds for schools, sewers and municipal services. Sheridan County gets no impact money. To make matters worse, Sheridan County also was assessed the extra 15 mills for the equalization of the school foundation program because of extra evaluation.

The oil industry is only going to be solvent in this area for about 20 years. Please reconsider this bill and leave the extra taxes where they belong--in Sheridan County--to help supplement the impact of oil on roads, schools, and municipal services.

Sincerely,

Richard Rossignol | Allan Ekness | Richard Osksa | Chester Olson

Richard Rossignol
Superintendent

Allan Ekness
Trustee

Richard Oskaa
Trustee

Chester Olson
Trustee

attachment #4

Sidney, Montana

February 12,1981

Members of the Senate Taxation Committee
Re: Senate Bill # 356

We, the undersigned Directors and Members of Richland County Farm Bureau, wish to voice our strong opposition to SB# 356, a proposal to increase the oil severance tax on oil produced in Montana.

We feel it would have a serious detrimental effect on oil development in our State, already heavily taxed on oil production.

We ask you to give this SB# 356 a DON'T PASS recommendation.

Arnold R. McMillen - Pres.
Robert J. [illegible] - Director
[illegible] - Women's Chairman
Margaret McMillen
Dennis Wick - Director
[illegible], [illegible]
[illegible] Director
[illegible]
[illegible]

Attachment #5

Montana Oil & Gas Association
Testimony before Senate Taxation Committee
Senate Bill 356

I am representing the Montana Oil and Gas Association. This is a trade association of nearly 120 members who are professional people in the oil and gas industry. The association was formed to protect the interests of the industry and to help police our own industry to insure all companies practice good business ethics.

I am here to oppose Senate Bill 356 which would raise the severance tax on oil and gas to five percent. We are sympathic to goals of Senate Bill 355 and its attempt to reduce automobile taxes in this state. However, we strongly oppose this method. We understand there are over a dozen bills to accomplish this goal being considered in the House of Representatives and that its committee is working on alternative methods of assisting local governments with the monies they will lose under a fee system of liscening. We urge this committee to carefully review those proposals when they are presented.

This bill simply substitutes one form of property tax for another - to a smaller group of people than those receiving the relief. We all understand this is how politics works. I am here to suggest it isn't fair.

I'd like to pass out an income distribution sheet for ONE lease showing the taxes paid in ONE month to illustrate some of the problems with increasing the Montana Production Tax.

The first figure is the number of barrels - then the price per barrel to give us the Gross Proceeds. Then we begin deducting taxes. The first is the tax this bill concerns. For this report, it was computed at 2.65% You can see on the line below the effect this bill would have on this lease.

Next is the Montana Conservation Tax which provides for the operations of the Oil and Gas Commission. We'll skip the Net Proceeds Tax for now because I want to discuss that in some detail. Number four is the Indemnity Tax which is paid into a trust fund in case some producer does not reclaim and abandoned site - even though the producer is also bonded for the same purpose. Then, of course, we have the federal windfall tax. If you add these together, again excluding the net proceeds tax, they equal about 13%. This is a figure which the governor's office says will be the "overall oil tax rate" if this bill passes. The office also makes a point of saying Montana ranks 5th among other states in taxes on oil production.

But now let's look at the Net Proceeds Tax. As you can see, it's the second highest tax we pay. In Toole County, it is in excess of 18%! When you add all of Montana's taxes they are over 30% - the highest in the nation! I have a hard time understanding why the governor ignored the net proceeds tax or why he ignored the fact that no other states I'm aware of have such a tax. This tax is set by each county according to their needs, collected by the state and returned to the counties to pay for the services they provide to their people.

The Income Distribution Sheet also shows you what this increased tax will do to a royalty check. In a year's time this royalty holder would be paying nearly $750 - certainly enough to enable them to pay for their own car's license. But this legislation would have them paying for two or three of their neighbor's. Also, I should point out that the royalty holder already pays 45% in taxes!

The company will be paying over $5,000 on this one lease - as its share of the estimated $17 million this bill would raise.

I'm sure you realize there are some people in this state who do not own homes or other assets. The only property tax they pay if for their car. But this bill would relieve them of even that at the expense of an industry which pays five separate taxes. I hope you will agree that this approach is unfair and inequitable.

We urge you to give a "do not pass" recommendation on Senate Bill 356.

##

Edwin T. VanderLos

Presented by:
Montana Oil and Gas Association

INCOME DISTRIBUTION - DECEMBER 1980
WESTERN NATURAL GAS COMPANY
Post Office Box 830
SHELBY, MONTANA

CONTINENTAL LAND COMPANY
Section 14, Twp. 37N., Rge. 2E.,
Toole County, Montana

	BARRELS	PRICE	PROCEEDS	MONTANA PROD.TAX [1]	MONTANA CONS.TAX [2]	MONTANA N.P.TAX [3]	MONTANA IND.TAX [4]	FEDERAL WINDFALL	NET CHECK [5]
GROSS OIL SALES	617.39	34.94	21,571.60	571.65	10.78	2,588.59	107.86	3,708.97	14,583.
Effects of SB 356				1,078					14,076
ROYALTY		12.50	2,696.45	71.46	1.35	323.57	13.48	824.21	1,462. [6]
Effects of SB 356				134					1,399
WESTERN NATURAL GAS CO.		87.50	18,875.15	500.19	9.44	2,265.02	94.38	2,884.76	13,121.
Effects of SB 356				944					12,550

This sample represents just one lease for one month.

1 Montana Production Tax. This is the severance tax this bill would increase. In this report, it was computed at 2.65%
2 Montana Conservation Tax. This tax finances the programs of the Oil and Gas Commission.
3 Montana Net Proceeds Tax. For Toole County for which this report was compiled, the net proceeds tax is 18%. The tax is collected by the state based on mills determined by the county and is used to finance the programs of the county governm
4 Montana Indemnity Tax. This tax is ½ of 1% of the Gross Income. It is collected annually by the state and held in trust for reclamation projects when oil and gas companies do not reclaim abandoned areas.
5 This does not include personal property taxes paid on equipment and machinery. Taxes total approximately 33%.
6 The annual loss of income to this royalty holder would be nearly $756; to the company, $5,328.

W. M. VAUGHEY, JR.
P. O. BOX 46
HAVRE, MONTANA 59501
(406) 265-5421

February 11, 1981

The Honorable Pat Goodover, Chairman
Senate Taxation Committee
Montana State Senate
Capitol Station
Helena, MT 59601

RE: In opposition to Senate Bill 356
Increasing the State Severence
Tax on oil to 5%

Dear Senator Goodover:

I am an independent explorer for natural gas and oil with offices in Havre the past 13 years. While we primarily look for natural gas in Northcentral and other parts of Montana, we have explored for oil as well, though without commercial success. I am, therefore, solely a producer of natural gas and could be thought, therefore, to have no stake in passage or failure of the above measure.

My years in our state, however, have taught me that at least 95¢ out of every dollar that is spent leasing land and drilling wildcat tests comes from outside of Montana. It comes from oil companies and independent investors who do not reside in our state.

The vast majority of Montana's drilling is done by independent explorers, like myself, and to get the drilling done, we must attract the exploration dollars to Montana. In this context, we must compete with all adjoining states and provinces for the exploration dollar.

My experience the last 13 years has been that this is a difficult job because Montana's taxes on either crude oil or natural gas production are considerably higher now than those in any of the adjoining states or provinces. With the possible exception of Alaska after the North Slope got on production, we have been the highest production tax state in the union, with five different taxes on crude oil production and four different taxes on natural gas.

Because of developments on the national governmental level, 1981 and 1982 promise to be the largest exploration years by any measure in the history of the United States. This still means, though, that Montana wildcat prospects, which of course have an economics side to them of which tax rates are a very important part, must compete for the exploration dollar with all the other states of the union, and particularly with those in the Northern Rocky Mountains.

At present tax levels, in view of crude oil deregulation underway, the State Severence Tax revenues and all other revenues based on taxes on oil production, will increase in an unprecedented way during taxation year 1981 and thereafter.

I respectfully request that you and all members of your committee consider these arguments, and for the benefit of our state, I hope you will choose to vote down Senate Bill 356.

Sincerely,

W. M. Vaughey, Jr.

WMV:lls

cc: All members of the Senate Taxation Committee

Attachment #7

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: I AM LARRY TVEIT, SENATE DISTRICT 27, RICHLAND AND DAWSON COUNTIES.

THE CONCERNS I HAVE ARE AFTER TALKING TO MY COUNTY TREASURER ABOUT SB 355 and SB 356:

HER COMMENTS:

1. THE LINES WILL NOT BE ANY SHORTER BECAUSE ALL THE PERMITS WILL STILL HAVE TO BE TYPED OUT.

2. HER CONCERNS: ABOUT WHAT WILL REPLACE COUNTY REVENUE. IF SOME FORM OF STATE REVENUE AND THE LARGE TASK OF GETTING THE MONEY PROPERLY DISTRIBUTED INTO THE 26 SCHOOL DISTRICTS IN THE COUNTY.

SHE SAID and I quote: (IT WILL CAUSE US CONSIDERABLY MORE WORK, BUT WITH A COMPUTER AT THE STATE LEVEL, HOW WILL THE STATE MONEY BE PROPERLY DISTRIBUTED TO LOCAL SCHOOL DISTRICTS?)

3. MY CONCERN IS THAT A PERSON BUYING A 20,000 AUTOMOBILE HAS GOT THE MONEY TO PAY THE TAX. THE BILL WILL PENALIZE THE LITTLE GUY WITH CHEAP OR OLD CARS AND BENEFIT THE GUY WITH THE ABILITY TO PAY.

I URGE A DO NOT PASS ON SB 355.

SB 356 ADDRESSES THAT THE ROYALTY OWNERS WILL PAY THEIR FULL SHARE OF INCREASES IN SEVERANCE TAX. THOUSANDS OF ROYALTY OWNERS WILL BE UNFAIRLY TAXED DUE TO THIS BILL.

I HAVE A SMALL ROYALTY INTEREST THAT IS BEING TAXED NOW BY MONTANA A TOTAL TAX OF 17.39 PLUS THE WINDFALL OF UP TO 70% WITH THE INCREASE OF SEVERANCE WILL MAKE A WINDFALL AT THE STATE LEVEL.

THE TWO FIGURES OF ALMOST 20% STATE TAX AND UP TO 70% WINDFALL WOULD LEAVE A NET 10% AT THE WELL HEAD FOR ROYALTY OWNERS.

IT'S AN UNFAIR TAX AND I URGE A DO NOT PASS ON SENATE BILLS 355 and 356. THANK YOU.

Attachment #8

Senate Bill 355 and Senate Bill 356 are companion bills so my comments will be on both bills.

I have many reasons for opposing this legislation. I will begin by saying it is disturbing to know that the State Department of Revenue has spent approximately $27 million of the taxpayers money for the mass reappraisal program to equalize property tax values on all property within the counties and from county to county.

Now, with this concept in Senate Bill 355, there will be one item of property plucked from all the other property and no property tax assessed on cars and light trucks. This concept is wrong for many reasons.

1. All property should be taxed on its value.

2. By removing cars and light trucks from taxable value will upset the tax base in every county in the state.

3. This will cause confusion in every county, city and school district where services are based on taxable values on all property including cars and trucks.

Many cities and towns have bond indebtedness for streets, sewer, water, fire and police protection, etc. School districts have various budgets from district to district with different levies and bond indebtedness based on the property tax value--again based on cars and light trucks and, I might add, in many instances, the only taxes paid by many who receive the benefits is on a car or pickup. If the taxable value is removed on cars and light trucks, will the tax burden that I have mentioned fall on other property?

I do not believe the oil industry should be singled out to pay an additional tax so there would be no taxes on cars and light trucks.

What about the mining or timber industry?

The tax proposal in SB 356 will be paid by the consumer; not by the oil industry. Governor Schwinden has said those who drive cars and light trucks will pay the tax.

What about the added cost of burner fuel to heat homes, businesses, schools, county and state buildings?

What about the added cost to farming and ranching?

Tires, plastics, clothing and many other items are made from oil--not just gasoline.

What if oil production should drop off? Does this then mean that the tax will increase or will we then shift the tax burden to other property?

I want to close by pointing a very interesting fact. With the price of ~~all~~ oil and deregulation, the severance tax will increase from 25 cents per barrel to almost $1.00 per barrel under the present tax of 2.67%. If the severance tax as proposed in SB 356 is increased by 2.4% this will nearly double the tax to $2.00 per barrel.

Senator Ed B. Smith

RATIO OF NET PROCEEDS TO GROSS PROCEEDS OF OIL PRODUCTION
STATE TOTALS

Tax Year	Ratio Excluding Royalties	Ratio Including Royalties
1958	67.25%	76.35%
1959	59.42	67.31
1960	57.12	65.35
1961	52.94	61.70
1962	50.77	59.80
1963	48.89	58.22
1964	44.59	53.95
1965	46.68	52.89
1966	44.55	53.74
1967	46.79	56.36
1968	44.09	54.35
1969	48.06	58.98
1970	45.82	57.26
1971	42.91	54.30
1972	41.40	52.41
1973	41.83	53.01
1974	51.54	62.86
1975	62.05	73.89
1976	61.32	73.32
1977	59.27	71.05
1978	56.48	68.63
1979	44.22*	55.42*
22 yr. aver.	50.82	60.96

Source: Department of Revenue Net Proceeds Returns

*Department currently reviewing returns for this tax year.

COUNTY COMMISSIONERS
BING POFF, Chairman
HAROLD FINK, Vice Chairman
ROBERT L. MULLEN, Member

HELEN GIERKE, Clerk

COUNTY OF RICHLAND

OFFICE OF

COUNTY COMMISSIONERS

SIDNEY, MONTANA

February 13, 1981

Mr. C. Goodover

Re: SB 356

Dear Mr. Goodover,

The Board of Commissioners of Richland County is opposed to H.B. # 356. It is our feeling that an increase in the Petroleum Severence Tax, to offset a reduction in License Fees, would be unfair to our county.

Very truly yours,

BOARD OF COUNTY COMMISSIONERS

Robert L. Mullen, Member

RLM:hg

Year	make	Taxable	5 cy	5 rd	7SA	11	13 rd	13 cy	21	86 L	HB 86	HB 113
80	GMC	826	161.00	114.00	135.00	79.00	103.00	155.00	79.00	133.00	205.00	115.00
79	Dodge	699	136.75	96.00	114.00	67.00	88.00	132.00	66.00	112.00	185.00	100.00
78	Ford Custom ¾	481	94.00	66.00	78.00	46.00	60.00	91.00	46.00	77.00	150.00	85.00
77	Dodge ¾	581	113.00	80.00	95.00	56.00	73.00	109.00	55.00	93.00	115.00	70.00
76	Ford 7150 ½	335	65.00	46.00	55.00	32.00	42.00	63.00	32.00	54.00	90.00	55.00
75	Ford	286	56.00	39.00	47.00	27.00	36.00	54.00	27.00	46.00	70.00	40.00
74	GMC	231	45.00	32.00	38.00	22.00	29.00	43.00	22.00	37.00	50.00	25.00
73	GMC ½	241	47.00	33.00	37.00	23.00	30.00	45.00	23.00	39.00	40.00	25.00
72	Chev ½	130	25.00	18.00	21.00	12.00	16.00	24.00	12.00	21.00	30.00	25.00
71	GMC	104	20.00	14.00	17.00	10.00	13.00	20.00	10.00	17.00	20.00	25.00
70	Ford	91	18.00	13.00	15.00	9.00	11.00	17.00	9.00	15.00	15.00	25.00
	TOTALS		780.00	551.00	654.00	383.00	501.00	753.00	381.00	644.00	970.00	590.00

HB 86 67% Increase
HB 113 1% "
→ SB 356 25% Loss To Richland Co (SB 356) 435.00

Glenn Palasichuk

Richland Co

		Over	4	5 Cy	5 Rd	7 S	11	13 Rd	13 Cy	21	86 L	NB 86	HB 123
	1980												
1980	Blazer	968		188-	133-	158-	92.00	121.00	182.00	92.00	155.00	205.00	115.00
	Omega		670	130-	92-	109-	64-	84.00	126-	64-	108-	165.00	100.00
79	Bronco	754		147-	104-	123-	72.00	94.00	142.00	71.00	121.00	185.00	100.00
	Mustang		647	121-	89-	105-	62-	81-	122-	62-	104-	145.00	85-
78	Cmt Sub	624		121-	86-	102-	60.00	78.00	117.00	59.00	100.00	150.00	85.00
	Pinto		455	89-	62-	74	44-	57-	86-	43-	73-	115.00	70-
77	Olds Cutlass	536		104-	74-	87-	51.00	67.00	101.00	51.00	86.00	115.00	70.00
	Datsun		419	85-	60-	72-	42-	55-	83-	42-	70-	85.00	55-
76	Ford Gran	354		69-	49-	59-	34.00	44.00	67.00	33.00	57.00	90.00	55.00
	Datsun		397	77-	55-	65-	38-	50-	75-	31-	64-	70.00	4[illegible]-
75	Ford 4x4	384		75-	53-	63-	37.00	48.00	72.00	37.00	62.00	70.00	40.00
	Mustang		332	64-	46-	54-	32-	42-	62-	32-	53-	50.00	30-
74	Caprice	215		42-	30-	35-	21.00	27.00	40.00	20.00	34.00	50.00	25.00
	Datsun		213	51-	36-	43-	25-	33-	50-	24-	42-	40-	25-
73	Torino	321	1	43	30-	36-	21.00	28.00	42.00	21.00	35.00	40.00	25.00
	Maverick		152	35-	25-	30-	17-	23-	34-	17-	29-	30.00	25-
72	Galaxie	104		20-	14-	17-	10.00	13.00	20.00	10.00	17.00	30.00	25.00
	VW		179	35-	25-	29-	17-	22-	34-	17-	27-	20.00	25-
71	Datsun	81		16-	11-	13-	8.00	10.00	15.00	8.00	13.00	20.00	25.00
	VW		133	26-	18-	21.00	13-	17-	25-	13-	21-	15.00	25-
70	Chev 4 dr	36		7-	5-	6-	3.00	5.00	7.00	3.00	6.00	15.00	25.00
	Mustang		101	20-	14-	16-	10-	13-	14-	10-	16-	10.00	25-
	TOTALS			1570.00	1111.00	1316.00	773.00	1012.00	1521.00	766.00	1295.00	1715.00	1095.00

NB 86 47% Increase In Revenue

HB 113 6.5% Loss In Revenue

→ SB 354 3[illegible]% [illegible] In Revenue

(SB 354)

75.00