MINUTES OF THE MEETING OF THE HOUSE TAXATION COMMITTEE
March 18, 1983

The meeting was called to order at 9:00 a.m. by Chairman Yardley. Roll call was taken and all committee members were present.

Testimony was heard on SB 159 and SB 413 during this meeting.

SENATE BILL 159

SENATOR TOM KEATING, District 32, sponsor of the bill, said SB 159 is something of a repealer bill. Senate Bill is an act to delay the one percent increase in the oil severance tax. Two years ago, the legislature doubled the state oil severance tax from 2.5% to 5% and at the "summit" there was an additional 1% severance tax that would be imposed on April 1, 1983, bringing the total state severance tax to 6%. The 1% increase was a tentative proposal because they wanted to look at the oil business at a later date to see if additional tax should be applied. It was decided, in the Senate Taxation Committee, to propose delaying the 1% increase in the severance tax until April 1, 1985.

In 1981, when the severance tax was doubled, there was a severe decline of the oil rig count in Montana. The count dropped from 90 rigs to 20-22. That represents a 75% decrease in the rigs over the last two years. Nationally, drilling dropped off by 40%. In Montana, drilling dropped off by 75%, and Senator Keating said that he felt that decline was because of the increase in the severance tax. He passed out copies of EXHIBITS 1, 2 and 3.

Proponents

BILL VAUGHEY, President of the Montana Petroleum Association, said the high exploration levels offer Montana the best source of new long-term, high paying jobs. A bill such as SB 159 will send a message to every corner of the petroleum industry, saying Montana wants and supports exploration.

JERRY BRAND, a geologist and oil and gas producer from Shelby, said the legislature, over the past few years, has provided piecemeal legislation for the oil industry. No long-range legislation has been provided. (He passed out copies of EXHIBIT 4.)

MR. BRAND said the oil and gas industry pays five state taxes. In Glacier County, in 1971, the net proceeds tax provided 35% of the tax base for that county. In 1980 the net proceeds tax amounted to 58% of the tax base and in 1982 the net proceeds tax amounted to 89% of the tax base of that county. In Toole County, the net proceeds tax, in 1971, provided for 15.8% of the tax base; in 1980, 48.3%; and in 1982, 60%. Montana's number one

DON ALLEN, Executive Director of the Montana Petroleum Association, said this legislature has a unique opportunity to try to do something positive to help balance the budget of future years. Additional taxation will not be a part of that scenerio. Montana has to compete with other states and we are not doing that successfully. We are not asking for a reduction in the current level but are asking for a delay in that increase.

DAVE GOSS, representing the Billings Chamber of Commerce, said there is an impact on the mainstream merchant. Layoffs mean less customers to businesses. The office building occupied by the Billings Chamber of Commerce had two floors occupied by oil companies. Those offices have been vacant for eight to nine months because the oil businesses went out of business.

FORREST BOLES, President of the Montana Chamber of Commerce, said the development of Montana's natural resources hinges on the economic future of Montana. We have to move away from having "severance tax junkies". The Montana Chamber of Commerce is opposed to increasing severance taxes in any area.

SENATOR DELWYN GAGE, District 7, said his area is involved in stripper production. There are numerous wells located on the Blackfeet Reservation. Since October of 1982, the Blackfeet tribe levied an increase of 2.5% in the severance tax and 1.5% of the resource indemnity trust tax, in addition to the state taxes.

REPRESENTATIVE DEAN SWITZER, District 54, said a 1% increase in the tax will make stripper wells a thing of the past. That will mean fewer employees and an abandonment of future fuel. We are not taking 1% off the tax, we are just not putting it on.

BRENT WARD, the assessor from Plentywood, said he supports SB 159.

<u>OPPONENTS</u>

DAVE LEWIS, Director of the Office of Budget and Program Planning, said the oil severance tax was increased by the last legislature. There were two bills passed that were companion measures. In addition to the tax increase, legislation was passed that allowed the oil companies to deduct the costs of windfall profits tax in calculating their net proceeds. In the intent of the increase in the severance tax and the approval of the offset, there was almost a balance. Some of the increase in the tax base, because of the increase, would be transferred from the counties to the state general fund. This bill, as amended in its present form, would reduce general fund revenues for the coming biennium by approximately $18 million. The fiscal note was done on the original bill and there has not been an amended fiscal note requested.

industry is agriculture but Montana's number one taxpayer is the oil and gas industry. Mr. Brand said he thinks taxation between agriculture and oil and gas is very unfair.

MAC ROBERTS, representing himself and the Independent Petroleum Association of the Mountain States, spoke in support of SB 159. He asked that Montana give the oil industry a signal that we, here in Montana, want those exploration dollars within our borders and the jobs for Montanans that come with them. He read a prepared statement to the committee. (See EXHIBIT 5.)

TUCKER HILL, a lobbyist for Richland County, said they support SB 159 as presented today. He said all is not well in the eastern part of the state. There is a relationship between high taxes and lower exploration. He said Montana has received $167 million in severance taxes since its inception in 1927. Of that amount, $70 million was collected in 1981 and 1982.

CARL IVERSON, representing Western Natural Gas Company, said he is getting discouraged. He questions developing any more property in Montana because the taxes are so high. He cannot make a profit anymore. He said taxes are only partially to blame but overtaxation does play a big part in the economic situation today. He asked for a do pass on SB 159.

SENATOR LARRY TVEIT, District 27, said he was representing several landowners associations. There is a lot of oil to extract out and we should become competitive with other states for that business. Continual exploration leads to more jobs and more money for the state. The Overthrust Belt contains many reserves and should be developed.

STEVEN GILLETTE, representing Silver Stinger Welding, said he has been unemployed for the past 24 months. He said he had to claim bankruptcy last spring because he has not been able to find work. He would like the oil rigs to come back to Montana - his life depends on it.

GARY ELENBURG, representing Elenburg Exploration, said when they are able to put one rig in the field, the first thing they do is hire ten men. Senate Bill 159 is a step in the right direction.

DON JACKSON said he ranks among the self-employed unemployed. He agrees with previous testimony and supports SB 159.

JOHN MANNING, representing Shell Oil Company, said only two states have doubled their oil severance taxes since 1981 - North Dakota and Montana. Almost all of the dollars to drill oil wells in Montana come from out-of-state. Eastern Montana has lost 2,200 jobs during the last couple of years due to the increase in taxation. He supports SB 159.

We are having problems balancing the general fund and he said he hoped this committee would keep in mind the $18 million reduction if this bill is passed. He said to also keep in mind the impact of the property tax reduction that was approved for the industry by the last legislature.

MR. LEWIS asked for a do not pass recommendation on SB 159. The impact on the general fund will be difficult to deal with. He said he feels the reduction in property taxes last session was a fair trade to the increase in the severance tax.

SENATOR TOM TOWE, District 34, said this bill has an impact of about 15 cents per barrel of oil. He said farmers are in trouble and will be going bankrupt but you don't see them in here asking for a reduction in their taxes. He asked that this committee give SB 159 a do not pass.

DAVE SEXTON, representing the Montana Education Association, said that organization is concerned with the reductions in revenue. How are we going to replace this revenue to support necessary services that state government has to provide?

SENATOR KEATING, in closing, said he would like to address the "trade-off in bills" that was passed last session. There are 22 producing counties out of 56. The bill that raised the oil severance tax transferred $25 million from those 22 counties to the state general fund. It was said the oil industry got an offset by having the windfall profits tax as a deduction. They were allowed to deduct the federal taxes from the gross value of the oil before calculating the net tax. The offset was that the counties did not collect $32 million that they might have collected had that bill not gone through. The net effect, if SB 413 goes through, is that the counties will collect $11 million more becaus of a reduction in payment of windfall profits tax. There is no benefit to the industry at all. It was merely a juggling of the taxes paid from the counties, put into the general fund and then paid to the non-producing counties. The general fund was then reduced by $30 million to pay for license plates for citizens.

SENATOR KEATING said the impact per barrel is no 15 cents, as earlier stated, it is 30 cents.

SENATOR KEATING said the oil industry spent $4.6 million for oil and gas leases that went directly into the school fund in 1978. The amount of money going into the school fund for 1980 was $29 million and for 1981 it was $19 million. In 1982, only $3 million was put into the school fund by the oil industry and only $300,000 has been put in during the first quarter of 1983. The oil industry is discouraged with Montana and will invest less in this state.

SENATOR KEATING said if this administration wants to build Montana with small business, this is what we are talking about.

SENATOR KEATING said there are $2 billion in the United States that need to be invested. If Montana wants some of that money, we had better send out the proper signal and not raise taxes.

Questions were heard from the committee.

REPRESENTATIVE JACOBSEN said he heard the Department of Revenue is proposing new rules to raise the appraisal on oil field equipment. He asked Ellen Feaver, Director of the Department of Revenue, if that was correct. Ms. Feaver said in comparison to other states in valuing equipment, Montana was substantially below what the other states did. She said they are adjusting the values to be more in line with what the other states are doing. Representative Jacobsen asked how Montana compares with North Dakota. Ms. Feaver said she did not know. He asked her to provide that information for the committee.

REPRESENTATIVE DEVLIN asked Mr. Jerry Anderson, representing the Shell Oil Company, Billings, what his feelings were concerning the tax increase. Mr. Anderson said Montana has a problem with retention of field life. Companies do not know if they want to spend the funds necessary to continue field life. If monetary and economic costs are not competitive, we will lose what we have.

REPRESENTATIVE UNDERDAL said SB 159 gives the industry two years until the extra percent is added. He asked Mr. Anderson if that is enough extra incentive. Mr. Anderson said he is deeply concerned and interested in two things as far as oil development in Montana is concerned. The first thing is stabilization in taxation and the second is not to have punitive taxation on natural resources.

REPRESENTATIVE SWITZER asked what the effect will be on stripper wells if the 1% increase goes through. Mr. Manning said if the 1% is added, it will reduce the life of a well by 4-6 months.

The hearing was closed on SB 159.

SENATE BILL 413

SENATOR DELWYN GAGE, District 7, sponsor of the bill, said SB 413 is a bill that came out of a situation where the Department of Revenue was concerned that royalty owners were receiving credit on the income tax returns for windfall profits tax and that credit was not reflected on the net proceeds tax. Senate Bill 413 is an act allowing only 70% of the windfall profits taxes withheld and paid by an operator to be deducted in computing net proceeds taxes on oil and gas. This bill will allow the person filing the net proceeds tax return to take a deduction of 70% of the amount of the windfall proceeds tax that had been deducted from him during the year. Those adjustments can be made in the year following the year that those adjustements were found necessary to be made.

That process will be easier and more accurate rather than amending the returns that were filed. The figure of 70% was agreed upon by the Department of Revenue and the industry. Senator Gage said this bill is needed for administration purposes if nothing else.

Proponents

DON ALLEN, Executive Director of the Montana Petroleum Association, said the 70% rate can be adjusted in the future, if necessary. He said the producers are held primarily responsible for their tax liability. This bill will make it easier to solve a complex problem.

TUCKER HILL, a lobbyist for Richland County, said they wholeheartedly support the passage of SB 413.

DAVE LEWIS, Director of the Office of Budget and Program Planning, asked the committee to look at Assumption #5 on the fiscal note. It says the average percent used in computing the windfall profits tax deduction will be 70% and no adjustments will be made under Section 2, subsection 2. In calculating the impact, the assumption made was that if there were refunds that exceeded 30%, the people paying the tax would not apply for refunds. There would be no way to determine the amount of the adjustments, if any, that reduce the fiscal impact. He said they support SB 413.

ELLEN FEAVER, Director of the Department of Revenue, said this is not intended to be a revenue generating measure - it just makes it easier for the Department of Revenue to administer. They support SB 413.

There were no opponents testifying on SB 413.

SENATOR GAGE, in closing, said it was mentioned in the Senate hearing on this bill that this is the first time the industry, Office of Budget and Program Planning and Office of the Legislative Fiscal Analyst has been in favor of a bill.

REPRESENTATIVE NORDTVEDT asked Mr. Lewis if this fiscal impact is plugged into the revenue estimates. Mr. Lewis said no. Representative Nordtvedt said he felt some of this revenue estimate should be plugged into the revenue estimate. Mr. Lewis said they just do not know how much should be added.

REPRESENTATIVE NEUMAN asked if this is just a onetime deal. Don Hoffman, Department of Revenue, said under present statute, the filer of net proceeds returns are required to provide to Department of Revenue any refunds or credits claimed on the federal returns. As long as the windfall profits tax is around, they will continue to take the deduction and claim refunds on the federal return and should be offsetting it on the return. He said they consider this to be an ongoing thing from this point forward as long as the windfall profits tax is around and as long as it remains a deduction on the return. It is important to remember that the amount of refunds being claims and, therefore, the amounts this bill would generate will probably decline because the filers and the department will be getting a better handle on the situtation.

REPRESENTATIVE WILLIAMS asked if there is a possibility of extra revenue or will it be a "wash". Mr. Hoffman said, in the end, it should be a wash because at some point in time we will have audited everyone and adjusted the claims.

CHAIRMAN YARDLEY asked how this bill generates $17.2 million of local property tax. Representative Nordtvedt said through the net proceeds tax. Mr. Hoffman said this is an accounting bill. What the department is projecting is something that should be happening anyway.

The hearing was closed on SB 413.

The meeting was adjourned at 11:30 a.m.

Dan Yardley

DAN YARDLEY, Chairman

Vicki Lofthouse

Vicki Lofthouse, Secretary

EXHIBIT 1
3-18-83

Montana PETROLEUM ASSOCIATION

A Division of the ROCKY MOUNTAIN OIL AND GAS ASSOCIATION, INC.

DON L. ALLEN
EXECUTIVE DIRECTOR
HELENA OFFICE
Area Code 406—Phone 442-7582
2030 11th Avenue, Suite 17
Helena, Montana 59601

CARL RIECKMANN
ASSOCIATE DIRECTOR
BILLINGS OFFICE
Area Code 406—Phone 252-3871
The Grand Building, Suite 510
P.O. Box 1398
Billings, Montana 59103

March 16, 1983

Dear Representative:

As we focus on efforts to bolster Montana's economic growth in this legislative session, it is important to realize that being good stewards in that quest means doing something more bold than simply increasing the size of government. The catalyst which creates the jobs, tax revemues and small business dollars in the "Build Montana" program is capital--and lots of it. In terms of wide-spread impact, oil and gas activity today offers probably Montana's best economic hope far into the future--not just a few tomorrows down the road--if incentive and competitive spirit become part of our language.

The attached material has been prepared for committee consideration of SB 159. The information contained herein and in other industry presentations makes the following points:

1. The oil/gas business in Montana essentially is small business, with most wildcat discoveries by independents and small state-based operators putting together the drilling investment deals involving big out-of-state dollars.

2. At least 90 cents out of every exploration dollar in Montana comes from out-of-state, amounting to many millions of dollars.

3. With oil prices and demand down and Montana's geological prospects generally not regarded as good as those of some of her neighbors, our state is not as successful as it could and should be in attracting capital.

4. More than 2,500 petroleum industry jobs fell by the wayside in Montana from the 1981 peak to the middle of 1982. Yet, if Montana's drilling activity through 1982 had declined at the national rate instead of its own plunging fall-off, we would have had another 27 working rigs and another 1,500-plus jobs.

5. Montana's total direct taxes on oil and gas production, particularly in some counties with higher mill levies, do not make it possible for the state to be competitive considering the economy, other states' tax rates and geological differences.

6. The "Build Montana" program has not addressed the important energy production sector to date in any way, and it can do so most effectively by insuring that no new direct taxes above the current level of assessment be allowed to go on if competition is to be encouraged.

7. The more holes drilled equal more producing wells equal more production equal more tax dollars for counties (net proceeds) and the state (severance). Production and revenues cannot do anything but decline if new activity in 1983, 1984 and beyond does not replace depleting reserves.

8. The lower the possible rate of return (with taxes being a key cost factor), the sooner small and/or marginal wells will become uneconomical and be shut in, which means we also do not make best use of our energy resources when we have to leave recoverable oil or gas in the ground.

9. Keeping drilling and production up in Montana is key to education and the state school foundation program, which benefits from federal and state oil and gas leasing programs.

10. Montana's real ace-in-the-hole is her Western Montana Overthrust and Disturbed Belt area because it has the geological potential with a good oil or gas find to help state and county revenues dramatically. Seismic data to date suggest some tremendous formations capable of holding vast reserves, and the challenge for Montana is to get some of the limited drilling budget monies committed to our Overthrust sooner rather than later, considering the deep and expensive drilling projects required and the fact our state has no Overthrust track record yet. One Overthrust example in Utah is a 14-well field producing 20,000 average barrels of oil daily, compared to all of Richland County's 1981 average daily output of only a little over 15,000 barrels. At $27 a barrel, if that Utah find were in Flathead County, for example, at today's severance and county mill levies, in one year Montana would collect $9.86 million and Flathead County would get $22.97 million.

11. Montana is finding out it really is not wise to rely too heavily on any one industry in its tax and revenue structure, yet giving good tax incentives for the development of investment capital certainly is going to make the most dramatic difference in the program to "Build Montana."

12. Nothing is poised on Montana's horizon, in this legislative session or otherwise, which has the potential to do for the state's economic future what encouraged oil and gas exploration and production can muster.

The oil and gas industry is capable of and wants to play a positive and even bigger role in the state's future. Please support SB 159 as a way to help to build a more secure economic future for Montana.

Respectfully,

Don L. Allen

Don L. Allen
Executive Director
Montana Petroleum Association

HOW NEW OIL ACTIVITY CAN BE A FRONT-RUNNER IN THE ECONOMIC TREK TO BUILD MONTANA

or

THE WAY TO AVOID PLEDGING MONTANA'S FORTUNES TO THE WILES OF THE STATE'S FAIRY GODMOTHER

More jobs and increased economic opportunities for local businesses in communities across the state are goals most Montanans readily support. If given a helping hand, the oil industry today offers the best hope for Montanans to see these critically important goals advanced and fulfilled. It really boils down to whether Montana wants to take decisive action or leave long-term fortunes to the proverbial fairy godmother.

Really, Montana is a patch quilt which historically has drawn upon the major fronts of agriculture, timber, mining, oil/gas and tourism to meet its economic challenges. We need all of those elements. Yet, the economic crunch gripping the nation has shot gapping holes in each of those sectors. Each, in its own way, is hard-pressed to offer bold assistance toward turning the tide of Montana's ills because of national economic factors.

But oil truly extends the best hope because it is within the power of the state--that is, the Montana Legislature and the governor--to change factors which can make a dramatic shift in petroleum's ability to become a noteworthy part of the solution to the lack of jobs and cash flow to the small business sector in Montana. Because Montana's tax burden on the oil industry ranks at the top of the heap amidst the sisterhood of producing states, a reduction in that over-all load will send a positive signal to a tightly budgeted industry which must consider taxes and the basically poor business attitude of the state as cost factors in the bottom-line decision of whether to drill new prospects in Montana or elsewhere. Our state's new frontier--the Overthrust and Disturbed Belt areas in Western Montana--may never have a chance to get off the ground if Montanans do not do something to relax the restrictive tax burden.

Oil and gas production is a mainstay of the Montana economy. An attached chart notes the Federal Bureau of Labor Statistics estimated personal income from oil and gas production in Montana to be $196 million in 1981. In addition to these earnings, royalties from oil and gas production on non-federal land in Montana are estimated to be $147 million. This total income of over $343 million exceeds that of our traditional cornerstone industries of timber and ranching. It even exceeds the mushrooming totals of income from federal civilian employment in the state and the medical and health industries. This oil and gas income also serves as a counter-balance to moderate the rather unpredictable swings of income in our lumbering and ranching industries.

For comparison purposes, the chart also shows the two largest segments of the Montana economy: retailing and state and local government, which is the largest single category of personal income in our state.

An attached graph illustrates the point that the oil industry is big in Montana, but Montana is not big in the oil industry. Our state ranks #13 among the top 15 oil producing states, but our annual production is very small compared with other producing states. The top line on this graph shows the average production per state for the other 14 top producing states, over the past 20 years. Last year those 14 states averaged 214 million barrels of oil per state. Montana, shown on the bottom line, produced only 31 million barrels. Montana is low even when compared with the average production of all 32 oil producing states.

The other point to be taken from this graph is that Montana production peaked in 1968 and has not rebounded significantly, even with the dramatic increase in oil prices during the 1970s. The averages for the other producing states have picked up since 1976.

Another attached graph makes the point that Montana is competing with other states for oil production investment, but our tax levels put us at a disadvantage. This table ranks the top 15 oil producing states according to their attractiveness for oil production investment. It was developed by taking a typical, modest oil discovery and calculating how much money it would earn after deducting drilling costs, operating expenses, federal taxes and most importantly, state taxes. This is known in the industry as the "after-tax return," or the "rate of return" on the project. To compare differing states, this rate of return was calculated for each of the 15 top states, considering the impact of both severance taxes and income taxes for each state. In Montana's case, it does not even include the county net proceeds tax, which would make our ranking even worse.

You can see that Montana ranks very low in attractiveness with a 6% severance tax rate. This is very serious because this after-tax rate of return is the single most important factor influencing oil production investments today. Oil prices have fallen this year and appear to be going down even further. This means that oil companies have less money to invest--not nearly enough to develop all their properties. To decide where to invest, they rank all their projects based upon this after-tax return and fund only those which rank the highest. Obviously, huge discoveries like that one offshore in California will get a lot of money, but modest discoveries like the one assumed in this table are much more typical--especially for states like Montana. For these projects, taxes may well determine where the investment goes.

Because we do not have huge oil reserves and major discoveries, we are in direct competition with the other states for that limited amount of money that will be invested in oil production over the coming years. We are at a severe competitive disadvantage. This table shows that the same project that would yield a 17.6% return in Kansas would yield only 12.5% in Montana. If you had comparable projects in the two states, where would you put your money?

But just as a 6% severance tax can combine with our corporate income tax to decrease our competitiveness, so can a tax reduction increase our competitiveness. For purposes of an other-end-of-the-spectrum comparison, a reduction in our severance tax rate to 3% would vault Montana past Mississippi, Colorado, New Mexico and Oklahoma, leaving it in the range of Michigan and California in competing for this type of project.

It is the total state tax environment, coupled with the impact of other legal requirements and regulatory factors, which gives a state its business climate reputation to outsiders and determines oil investment. Another attached chart underscores that point. It is a major finding of the study done jointly by the Montana Economic Development Project and McKinsey & Company--that Montana relies more heavily on production taxes than consumption taxes than do neighboring states and that Montana is perceived as "anti-business". The tendency to weigh most heavily on the industry or business sector which historically is in the best position to do the most good for the state and its people seems to be an anomaly of the Big Sky Country.

We are at a crossroads where legislators must make a tough decision for Montana's long-term. We need to relax the tax burden now so a solid production future can be built to insure a healthy tax base in bienniums beyond the FY 1984-85 budget we currently face. The state's fairy godmother will have her hands full without some help.

Oil production presently is good and will cash in for 1982 at close to the 1981 level of 30.8 million barrels of crude, and 1983's pace probably will continue to be respectable--all flowing favorably from the boom exploration occuring in 1980-1981 when federal oil price decontrol spurred the search. But with new drilling activity in Montana in 1982 at a lower rate compared to 1981 than anywhere else in the nation and with no uplifting relief in sight, Montana's level of production will not be replenished after a couple of years, and the state will be faced with even greater oil revenue losses than if a slightly smaller rate of tax burden had been imposed. And at the same time, all of the other economic benefits in jobs, local contracts and purchases and spin-off spending will have been lost to Montanans in the process, with the state and counties missing out on other tax-collection fronts.

Excessive reliance upon severance taxes makes Montana vulnerable to wide fluctuations in tax revenue because of changing energy prices, something which bedevils today's legislative deliberations as oil prices edge downward.

Another graph shows that Montana has increased its dependence upon severance tax revenue more rapidly than other states and presently is more reliant upon those revenues than the average oil-producing state. In 1981, Montana severance taxes accounted for over 21% of our tax revenue versus only 16.6% for the other top producing states. The total 1981 oil and gas collections in Montana for state and county coffers, including rentals, royalties and bonuses from state and federal lease action, came to the equivalent of over one-third of the state's total tax revenue (see another attached chart).

Oil prices are not expected to increase for some time, and it may be years before they even keep pace with inflation. Increasing severance taxes at a time when petroleum revenues are declining clearly will have less revenue impact than a prudent broadening of the state's tax base in areas more likely to feel economic recovery. Indeed, perpetuating our reliance upon severance taxes simply may be inviting further fiscal distress by pinning our hopes on a declining revenue source and by discouraging investment which could add to our state's economic growth.

Nevertheless, with world oil prices falling and state budget analysts scrambling to determine how projected expenditures are going to mesh with anticipated revenues in the 1984-1985 budget, the temptation is going to be very acute to opt for the short-term solution of hanging onto every last dollar now and hoping the proverbial fairy godmother somehow is going to make things better after that in the oil industry, and for the state.

Montana's fairy godmother has her work cut out for her because:

* Montana's 1982 average active rig count was 44.5% of its 1981 level compared to 58.5% for North Dakota, 74.6% for Wyoming and 78.2% for the nation.

* The industry's jobs count in Montana is down as of the middle of 1982 by more than 19% of what it was three-fourths of the way through peak 1981, according to Montana Department of Labor and Industry statistics. In fact, the mid-1982 employment level is below third-quarter 1980 and continuing to plunge in reflecting

the exploration fall-off.

* Only 17 seismigraphic data collection crews (6 in the Overthrust and 11 in the eastern end, employing about 510 persons) were operating in Montana as of January 24 this year, compared to 46 crews supporting 1,380 workers in January, 1982, coming out of the 1981 boom. Numerous communities across Montana have benefited from the presence of crews which can spend more than $100,000 locally in a month.

* The taxation pressures of high mill levies in most of the western Montana counties where new drilling might occur act as a disincentive when coupled with the state's 5% oil severance tax, set to go to 6% on April Fool's Day. Against a 1982 taxation average of about 123 mills in oil-producing counties, most western Montana counties are running in the 200-300 mill range, with Deer Lodge, Mineral and Silver Bow counties averaging over 300. The high mill levies are a reflection, of course; of counties which have limited tax bases, and some oil or gas production could help their situations greatly and offer relief to other property owners.

* With at least 90 cents of every investment dollar for exploration and drilling coming from out-of-state, Montana's current efforts to attract more outside capital to foster activity and jobs will be thwarted by a negative oil industry climate in a state where historically nearly half of the holes drilled have been dry, third highest among major drilling states.

Natural resources revenues comprise the largest single source to state and local coffers, and, accordingly, have the biggest impact on the state's employment picture in terms of primary and secondary jobs. In 1981, at the peak of activity, 13,226 persons--or about one out of every 16 Montana workers--were directly working in the oil and gas industry. It makes sense that the state should be doing all it can to encourage an industry which can generate so many jobs--and good-paying jobs at that.

If Montana's drilling rig activity through 1982 had declined at the national rate instead of its own plunging fall-off, we would have had another 27 rigs working. That translates to another 1,300 primary jobs alone just to drill plus another estimated 200 back-up jobs in communities. Additionally, for well completions historically stemming from that amount of drilling, another 42 full-time employees would result.

The whole ball-of-wax was summed up quite succinctly in mid-1982 by the Meadowlark Group, a Helena consulting firm, in a special economic report ordered by the Montana State Board of Land Commissioners on the question of whether and how to restructure aspects of the oil and gas leasing program. The report summary observed:

> "Montana's taxation of the oil and gas industry, including both severance taxes and the net proceeds tax (a property tax), is the highest of all states studied. It was not the purpose of this study to evaluate state taxation, but it is reasonable to expect the rational developer to consider the combined effects of lease terms and taxation in deciding whether or not to acquire and develop tracts in Montana. Leasing, exploration and development are all economic decisions and are determined by many factors. Key determinants are: oil and gas prices; likelihood of a successful well; level of state and local taxation and royalty rate and other lease terms."

The report also cautioned that a policy would have long-term effects and that a "basis of such a decision should be a longer-term perspective rather than simply a decision of the moment." The board wisely responded with a new policy, finalized recently, which should encourage future exploration for large and deeper pools such as are likely in the Overthrust and Disturbed Belt areas.

In the same light, we ask Montana's legislators to consider the "longer-term perspective rather than simply a decision of the moment."

Fairy godmothers may be good for some things, but it's a heck of a way to run a state. The serious business of creating jobs and building a solid and blended tax base from a healthy trek of business activity through its communities takes planned commitment. Montana needs and can have more Sidneys, Shelbys and Bakers, to name a few towns which know how important a healthy oil industry has been to them.

(In addition to the charts and attachments mentioned, others are included to serve as informational references.)

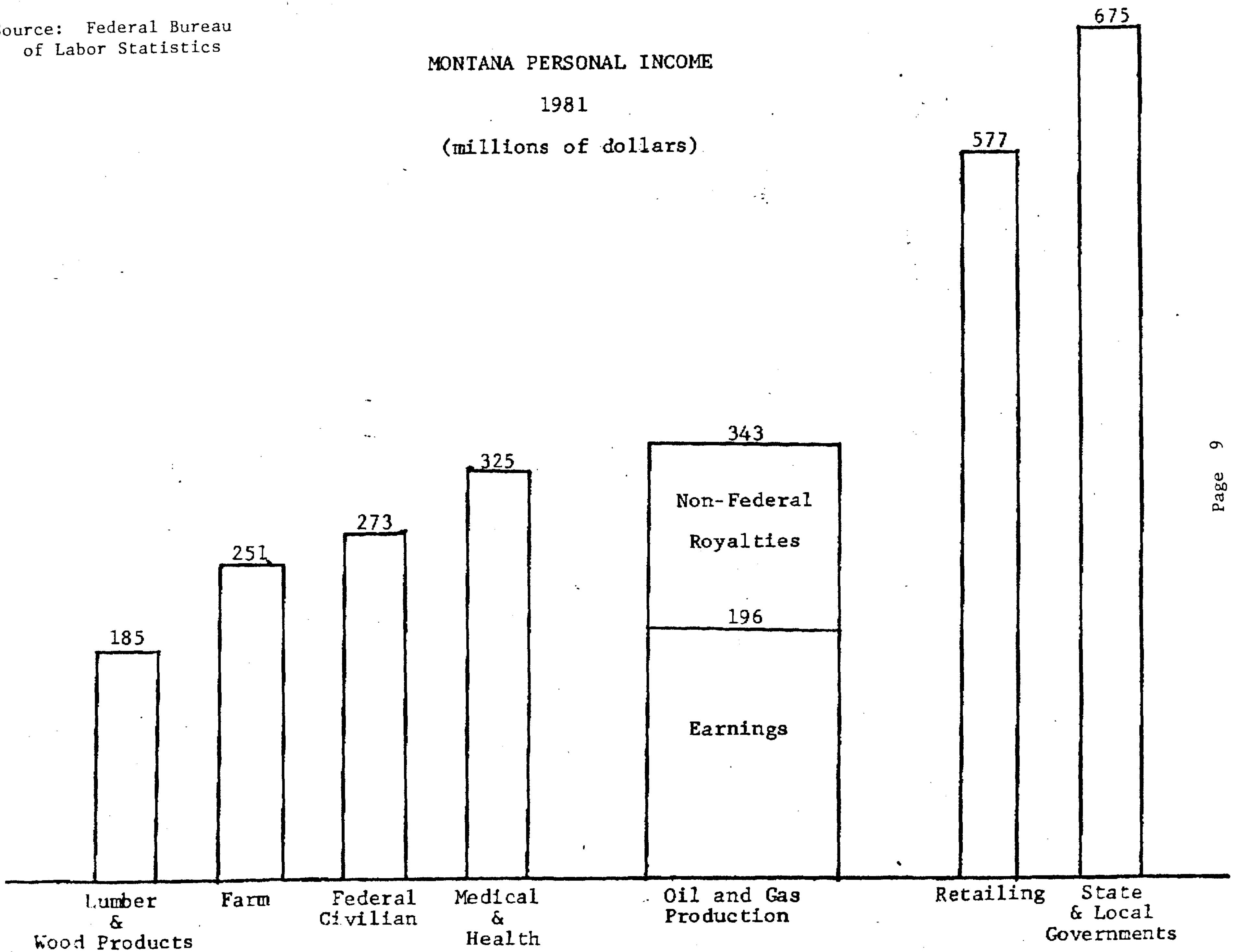
The Montana Petroleum Association
A Division of the Rocky Mountain Oil & Gas Association
2030 11th Avenue
Helena, Montana 59601

Source: Federal Bureau of Labor Statistics

MONTANA PERSONAL INCOME

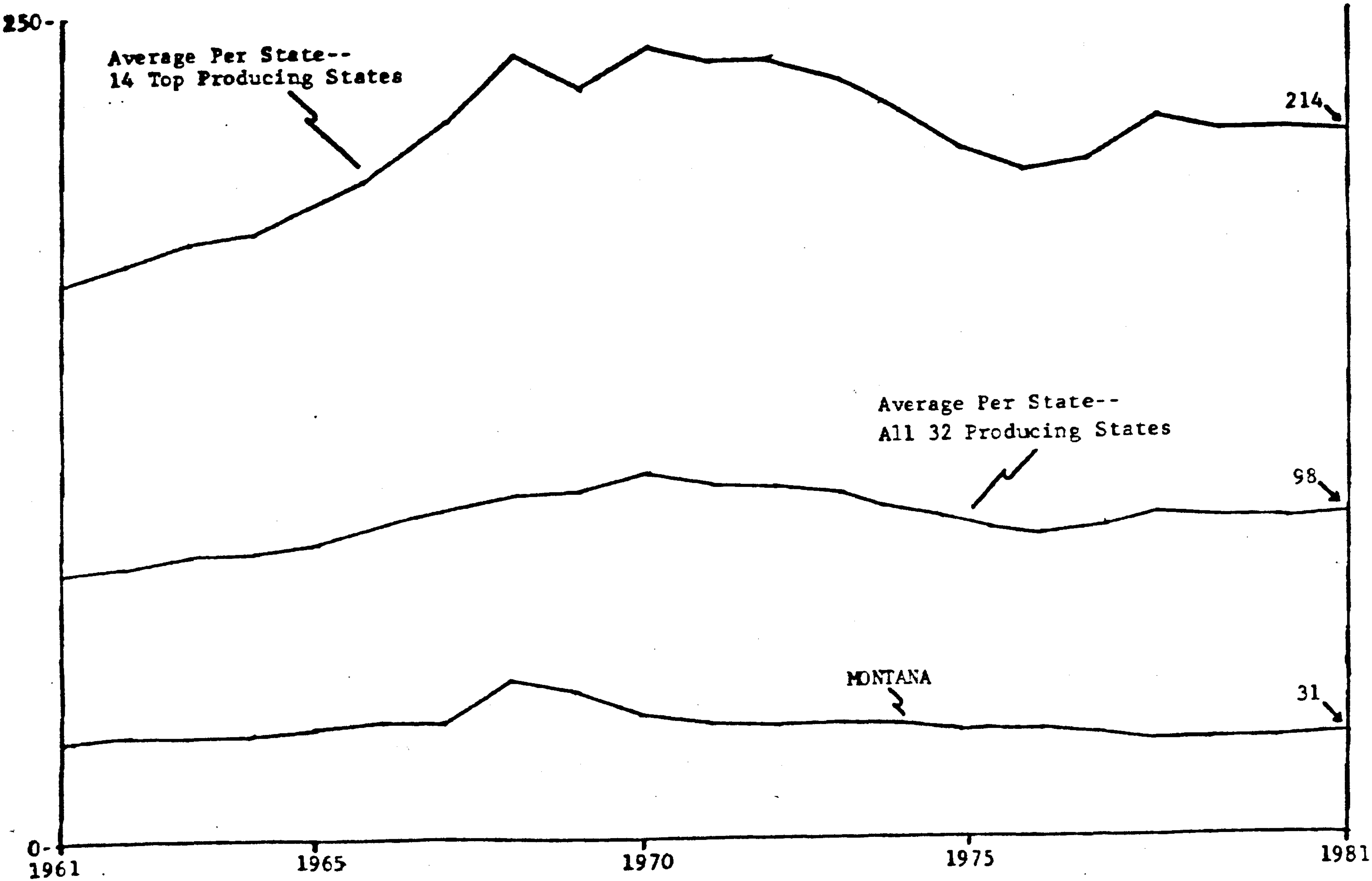
1981

(millions of dollars)



OIL AND GAS PRODUCTION--THE PAST 20 YEARS

(Millions of Barrels/Year)



MOST ATTRACTIVE TAX ENVIRONMENTS*

(Hypothetical Modest Oil Project)

Rank	State	After-Tax Rate of Return	Relation To Top State
1	Kansas	17.6%	--
2	Texas	15.8	-1.8%
3	Utah	15.6	-2.0
4	Wyoming	15.0	-2.6
5	Florida	15.0	-2.6
6	Michigan	14.5	-3.1
	(MONTANA, with 3% severance)**	14.4	-3.2
7	California	14.3	-3.3
8	Oklahoma	14.0	-3.6
9	New Mexico	13.8	-4.1
10	Colorado	13.5	-4.1
11	Mississippi	13.4	-4.2
12	MONTANA, with 6% severance	12.5	-5.1
13	North Dakota	11.5	-6.1
14	Alaska	10.5	-7.1
15	Louisiana	9.0	-8.6

* After Neal and Reed, World Oil, Aug. 1, 1982.

** Estimated, based upon assumptions of World Oil article.

Note: Comparison does not include county and certain other production taxes, which can be factors in some states. Montana's net proceeds tax alone, which varies significantly between county school districts, averages another 6.35% statewide.

MONTANA COULD DO MORE

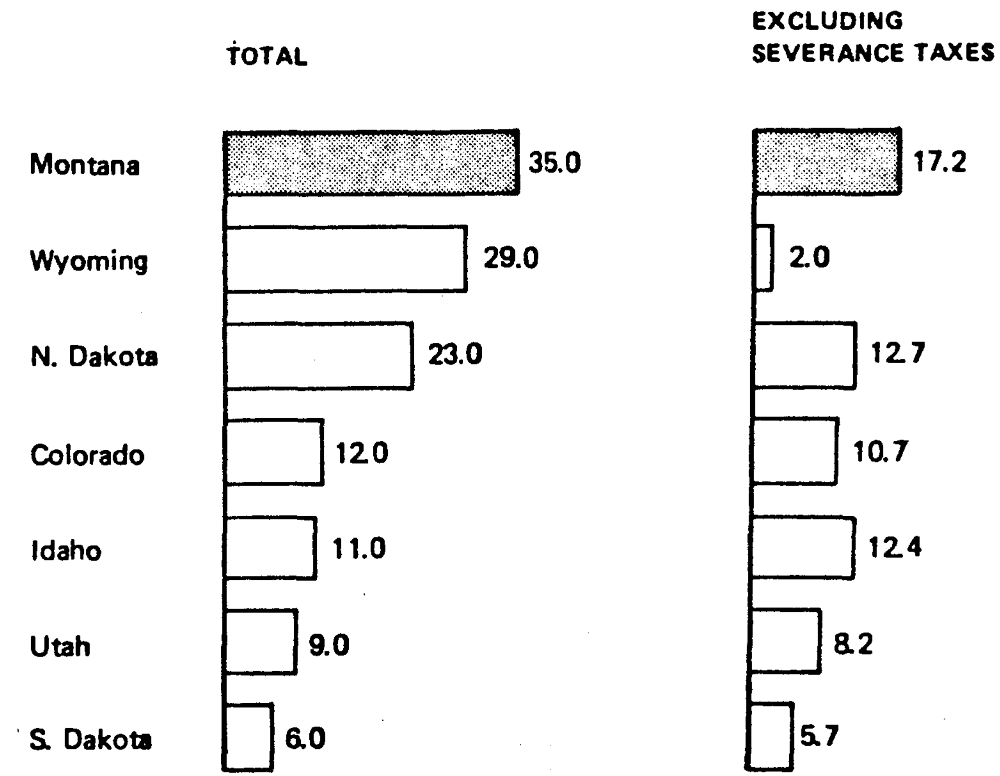
With respect to public policy, there are three major conclusions:

- ¶ Montana's tax structure is heavily oriented towards production taxes
- ¶ Although environmental standards are not decisively more restrictive than in other states; Montana is perceived as "antibusiness"
- ¶ Other states do much more to encourage economic development and job creation

Montana relies much more heavily on <u>production</u> taxes than <u>consumption</u> taxes than do neighboring states, even excluding the severance tax

STATE RELIANCE ON PRODUCTION-BASED TAXES

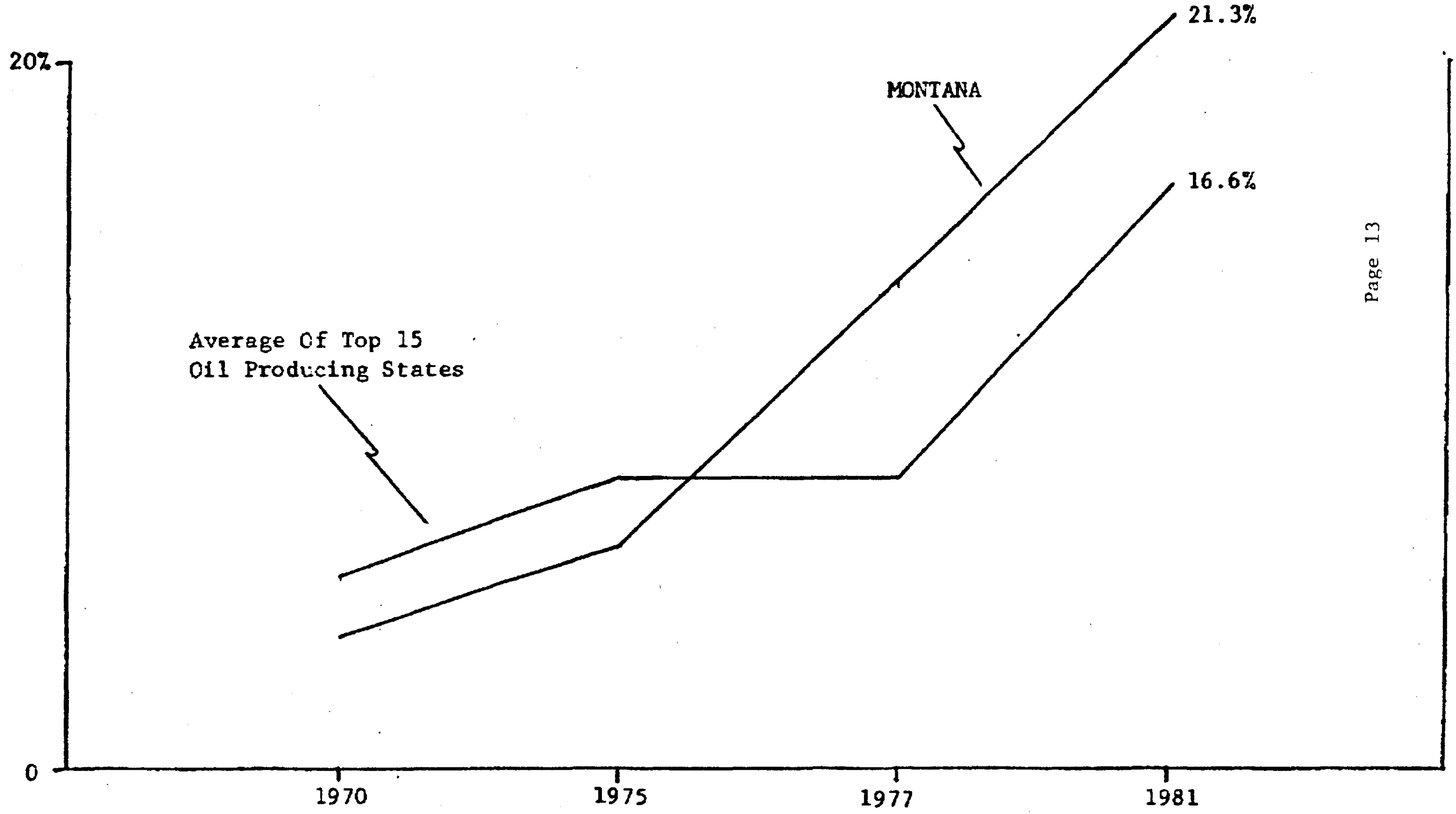
Percent of tax revenues



Source: *State Tax Handbook*, U.S. Department of Commerce; McKinsey analysis

SEVERANCE AS PERCENTAGE OF TOTAL STATE TAXES

(1970, 1975, 1977, and 1981)



$ THE BIG MONTANA TALLY . . . $

HOW RECORD 1981 OIL & GAS PRODUCTION MULTIPLIED TAX AND ROYALTY REVENUES FOR SCHOOLS, COUNTIES AND THE STATE.

$ 60.0 MILLION – NET PROCEEDS TAX (EST.)
$ 47.1 MILLION – SEVERANCE TAXES
$ 6.6 MILLION – RESOURCE INDEMNITY TRUST
$ .6 MILLION – CONSERVATION TAX
$ 10.8 MILLION – FEDERAL ROYALTIES
$ 48.3 MILLION – STATE ROYALTIES
$???? MILLION – CORPORATE TAXES
$???? MILLION – PROPERTY TAXES

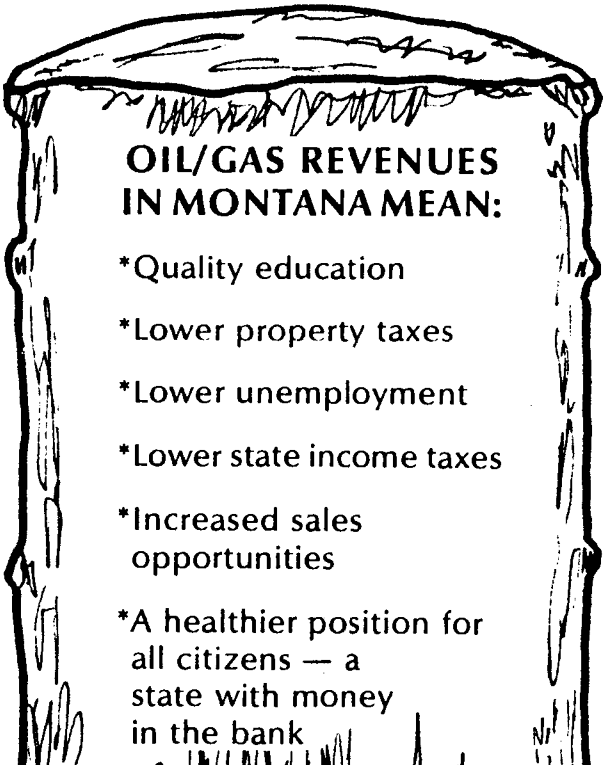
$173.4 MILLION ★

★ WHAT'S IT DO?

Even without considering property or corporate taxes, the $173 million-plus tally of amounts and estimates available in calendar or Fiscal Year 1981 are in a state where total FY 1981 tax collections were $465.7 million, showing the known oil/gas impact to represent over one-third of the state's total collections. Put in another way, that equals about $217 for every man, woman and child living in the Big Sky Country or $868 for every family of four.

Out of that record sum of oil/gas dollars, education is the largest single benefactor, with over $55 million going directly to schools via state and federal lease royalties and fees, a significant portion of the estimated $60 million in net proceeds taxes collected by mineral-producing counties — most of it stemming from petroleum activity — also was heading for the classroom.

Needs of local governments and highways are other big winners when petroleum industry activity and production is spirited. Also, a potpourri of other functions supported by the state's general fund are bolstered. And an immeasurable amount of additional economic spin-off has twirled in all segments of Montana's economy in jobs and purchasing power from government revenues and dollars spent in the private sector.

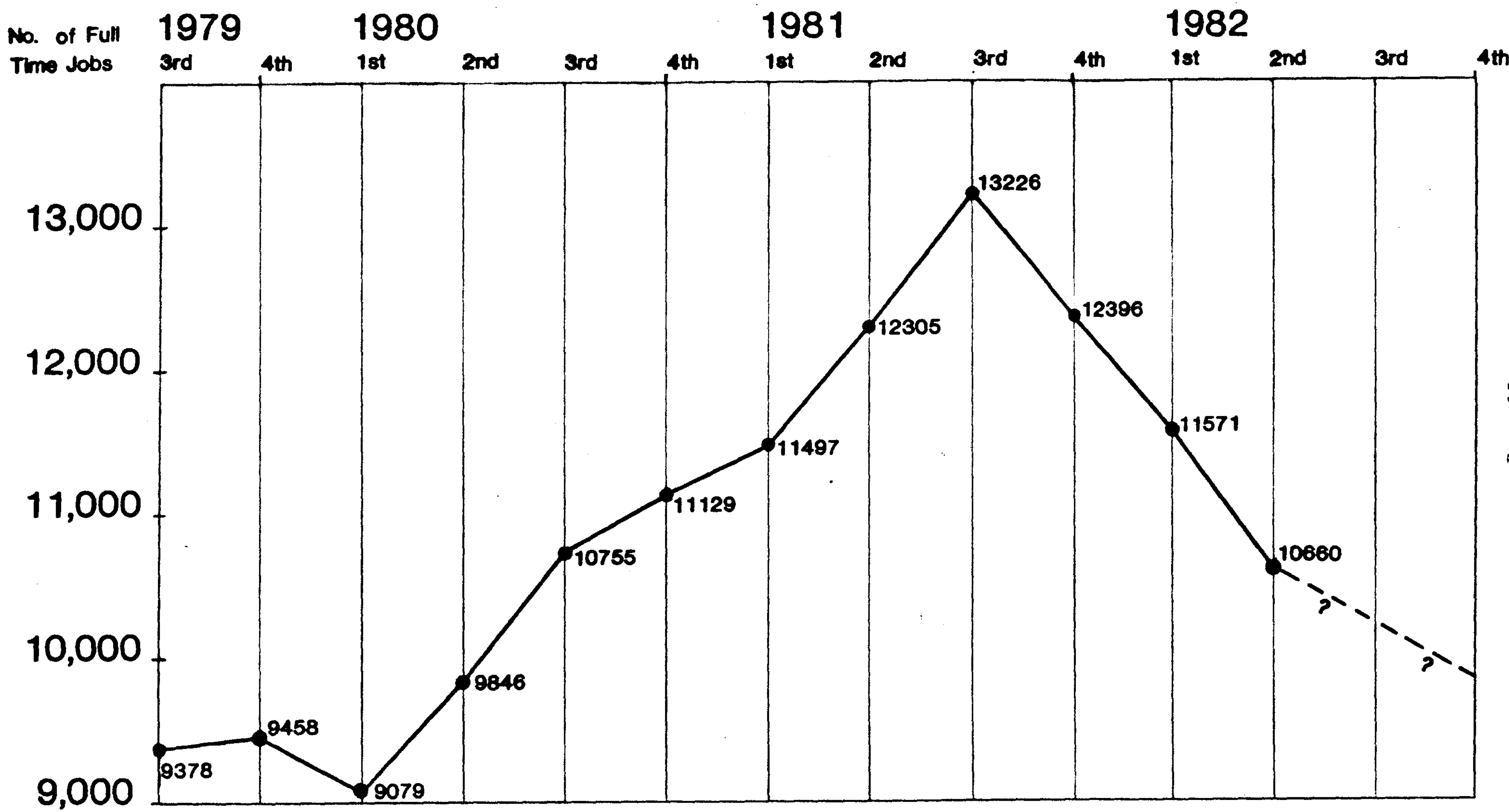


Don L. Allen, Executive Director
Montana Petroleum Association

2030 11th Avenue, Suite 17
Helena, MT 59601

510 Grand Building
P.O. Box 1398
Billings, MT 59103

Montana Petroleum Industry Jobs



Source: Montana Department of Labor & Industry

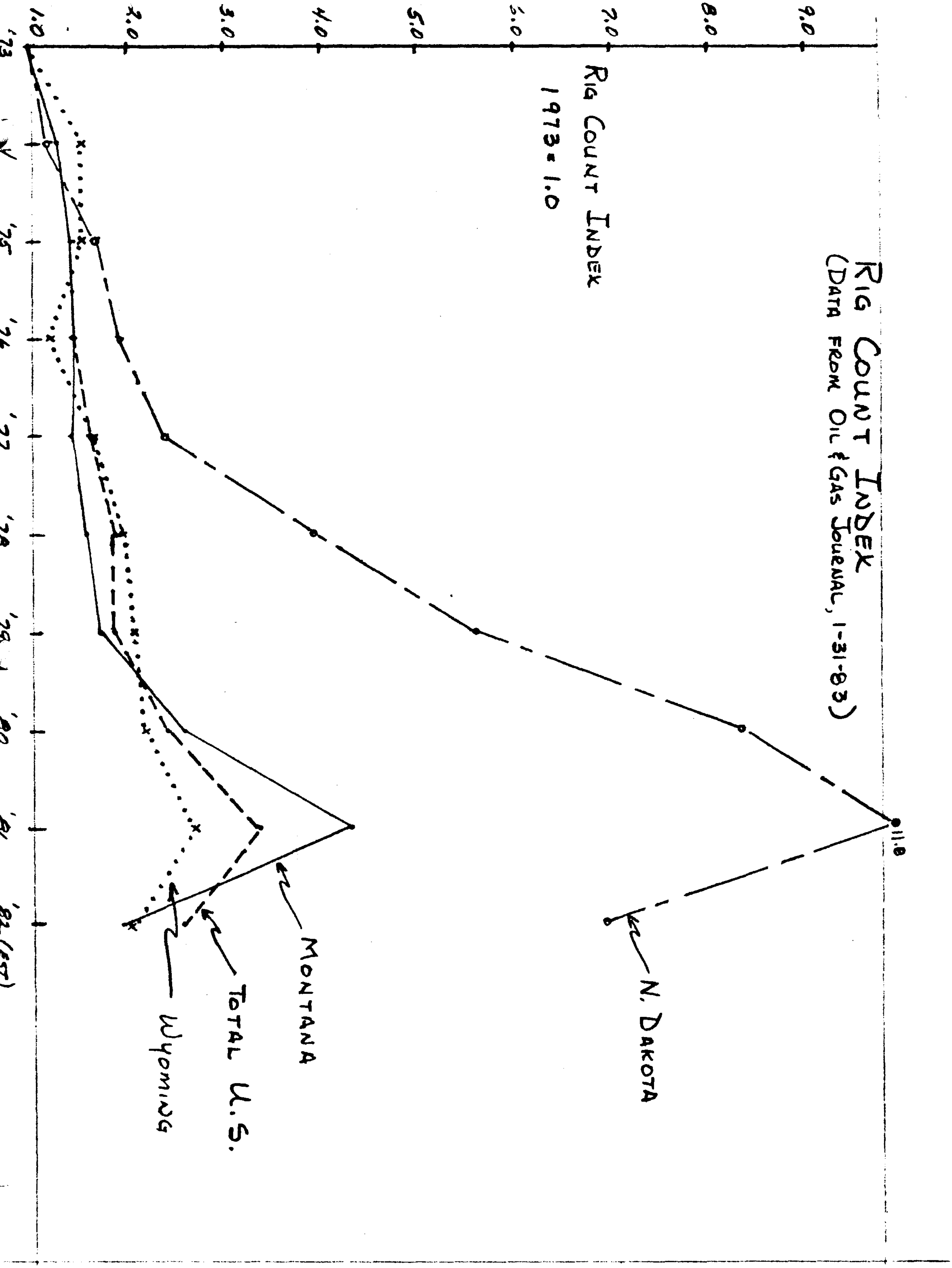
NON-PRODUCING MONTANA COUNTIES (OIL)

1982 Tax Year Mill Levy Averages and Ranges

	Countywide Average	Ranging From & To	
Beaverhead*	212.31	193.36	244.12
Broadwater*	209.38	194.32	238.75
Cascade	301.66	250.99	372.94
Custer	244.50	231.23	337.52
Daniels	223.36	216.17	233.75
Deer Lodge*	317.80	272.77	385.90
Fergus	228.66	194.28	288.64
Flathead*	233.06	204.64	274.95
Gallatin*	262.42	205.62	319.46
Golden Valley	180.16	172.83	187.49
Granite*	262.14	232.00	313.77
Jefferson*	257.63	208.52	299.78
Judith Basin	249.92	221.78	278.64
Lake*	224.96	169.26	306.18
Lewis & Clark*	304.39	235.97	353.52
Lincoln*	201.35	178.16	222.17
Madison*	199.36	180.60	230.26
Meagher*	198.20	171.05	220.45
Mineral*	319.89	283.60	353.67
Missoula*	261.76	223.71	321.76
Park*	227.67	175.61	276.20
Phillips**	133.48	115.17	165.52
Powell*	207.57	178.32	287.94
Ravalli*	260.32	215.53	305.17
Sanders*	216.42	184.89	256.21
Silver Bow*	366.83	336.00	413.41
Sweet Grass	242.51	226.81	262.71
Treasure	174.46	174.46	174.46
Wheatland	223.34	199.06	278.85

* Counties in and around Overthrust and Disturbed Belt areas

** Has natural gas production as part of tax base


RIG COUNT INDEX
(DATA FROM OIL & GAS JOURNAL, 1-31-83)
RIG COUNT INDEX
1973 = 1.0
1.0
2.0
3.0
4.0
5.0
6.0
7.0
8.0
9.0
'73
'74
'75
'76
'77
'78
'79
'80
'81
'82 (EST)
11.8
N. DAKOTA
MONTANA
TOTAL U.S.
WYOMING

SELECTED DRILLING FIGURES, MONTANA

YEAR	DEVELOPMENTAL WELLS DRILLED (DWD)	DRY HOLES AS A PERCENT OF DWD	EXPLORATORY WELLS DRILLED (EWD)	DRY HOLES AS A PERCENT OF EWD	TOTAL DRY HOLES	DRY HOLES AS A PERCENT OF ALL WELLS DRILLED
1961	235	25.53	182	95.05	233	55.88
1962	255	22.35	164	93.90	211	50.36
1963	197	30.46	165	92.12	212	58.56
1964	216	50.46	175	85.71	259	66.24
1965	293	36.52	214	92.99	306	60.36
1966	284	33.80	198	93.43	281	58.30
1967	280	37.14	203	94.09	295	61.08
1968	403	22.08	537	94.79	598	63.62
1969	320	32.81	486	95.88	571	70.84
1970	153	41.18	295	92.20	335	74.78
1971	119	28.57	348	92.82	357	76.45
1972	263	33.08	461	94.36	522	72.10
1973	311	32.15	408	89.71	466	64.81
1974	449	47.22	293	90.44	477	64.29
1975	588	37.76	257	91.83	458	54.20
1976	539	31.35	248	89.92	392	49.81
1977	506	37.15	172	75.00	317	46.76
1978	578	40.14	215	83.26	411	51.83
1979	537	33.89	266	79.32	393	48.94
1980	650	31.69	302	86.09	466	48.95

SOURCE: Data from Montana Board of Oil and Gas Conservation.
Percentage computations by The Meadowlark Group.

TOTAL WELLS DRILLED FOR OIL AND GAS IN ALL TIME, TO JANUARY 1, 1981
(Excludes Service Wells) AND AVERAGE DAILY PRODUCTION

STATE	OIL		GAS		DRY		TOTAL	AVERAGE DAILY
	Number	Percent	Number	Percent	Number	Percent	Number	PRODUCTION (*)
Montana	8955	37	3416	14.1	11818	48.8	24189	22.7
California	94350	77.2	2733	2.2	24749	20.4	120932	20.7
Colorado	7696	26.8	4104	14.3	16879	58.8	28679	23.8
New Mexico	25349	50.7	13682	27.3	10904	21.8	49935	13.1
North Dakota	3601	49.4	39	.5	3645	50	7285	46.1
Oklahoma	202671	60.8	34035	10.2	96132	28.8	332838	5.1
South Dakota	122	15.1	19	2.3	662	82.4	803	20.3
Texas	418113	59	55645	7.8	233994	33	707752	15.1
Utah	2335	39	777	12.9	2869	47.9	5981	48.3
Wyoming	21790	52.2	2766	6.6	17150	41.1	41706	34.2
United States	1492384	57.7	280657	10.8	795144	30.7	2584324	15.9

(*) Barrels of crude oil per well at the end of 1980.

SOURCE: "The Oil Producing Industry in Your State," The Independent Petroleum Association of America, 1981.

JOBS CREATED BY ONE ACTIVE DRILLING RIG
(full-time equivalent positions)

ONE DRILLING RIG (related services)	40	employees
seismic & geophysical	5	employees
land support	1	employee
site construction	1	employee
regulatory (County, State, Federal)	.5	employee
site restoration	1	employee
	48.5	employees

RIG ACTIVITY DECLINE

Assuming Montana operated from 1981 through 1982 at only ½ the National Average, there would have been 13.5 additional rigs working during 1982.

	654.8	employees
support employment from communities	100	employees
TOTAL	755	employees

ADDITIONAL JOBS CREATED BY 13.5 RIGS

Historically 13 active drilling rigs would create a minimum of four producing wells per month

1 completion rig (related services)	15	employees
construction	24	employees
service & operation	3	employees
(full-time equivalent positions)	42	employees

IMPORTANCE OF OIL AND GAS BONUSES, RENTALS AND ROYALTIES

TO MONTANA EDUCATION FROM STATE LAND LEASES

Spirited and steady oil and gas production in Montana is important to insure a continued healthy flow of revenues to state educational programs, so an encouraging climate in coming years is a critical part of the equation.

In highly active 1981, Montana collected the most bonuses, rentals and royalties from state land leases than any of her Rocky Mountain sister states as shown by the table. Montana's total oil production was third in the region while gas ranked fifth, yet action on state lands was tops.

ROCKY MOUNTAIN STATES

1981

Production Oil and Gas			Lease-Royalty Income to State	
COLORADO	OIL	30,303,000 bbls	STATE LANDS	$ 13,712,594
	GAS	197,298,000 MCF	FEDERAL LANDS	33,090,330
MONTANA	OIL	30,800,000 bbls	STATE LANDS	48,300,000
	GAS	44,800,000 MCF	FEDERAL LANDS	14,900,000
NEBRASKA	OIL	6,671,313 bbls	STATE LANDS	1,904,000
	GAS	2,712,781 MCF	FEDERAL LANDS	(negligible)
NORTH DAKOTA	OIL	45,672,975 bbls	STATE LANDS	44,203,605
	GAS	53,000,000 MCF	FEDERAL LANDS	16,000,000
SOUTH DAKOTA	OIL	8,695,000 bbls	STATE LANDS	2,858,000
	GAS	(negligible)	FEDERAL LANDS	(negligible)
UTAH	OIL	26,997,955 bbls	STATE LANDS	26,060,390
	GAS	87,765,000 MCF	FEDERAL LANDS	25,400,000
WYOMING	OIL	122,173,818 bbls	STATE LANDS	46,837,037
	GAS	455,352,450 MCF	FEDERAL LANDS	114,009,109

OGJ

1421 S. Sheridan Rd, Tulsa, OK 74112.
Mailing address Box 1260, Tulsa, OK 74101
Phone: 918-835-3161, Telex 49-2345
Cable PENNPUBCO

The numbers game

We've all heard that figures never lie, but liars often figure.

The Forecast/Review which appears in this issue is basically an exercise in figures or numbers—numbers based upon a logical assessment of where we've been, where we are now, and where we can expect to be next year.

Numbers are pure. They are precise, the solid granite base for projections, the stone tablets from which revelations spring.

But there is less to some numbers than meets the eye. The wary forecaster will realize that the statistical base can sometimes be quicksand rather than granite. Figures may not lie, but they can certainly mislead. That's where we come in. Our job is to help distinguish the rocks from the sand.

John McCaslin's forecast of well completions is based upon a comprehensive survey of many oil companies and a reasonable assessment of how the plans stack up with recent activity.

In 1982, well completions went up 9.6% while rig activity fell 21.8%. Since you don't drill and complete wells without rigs, these numbers are suspicious. During the boom years of 1980-81, the delay in reporting completions lengthened and distorted the data for 1982, resulting in the paradox of record well completions in the year of the steepest drilling slump in U.S. history. So the granite base for forecasting 1983 completions is a bit spongy.

Similar problems arise with motor gasoline demand. It is "officially" measured by the Department of Energy and presented in monthly publications. Government policy decisions and legislation have been based upon movements in demand. And forecasts are based upon things such as the historical shift in demand relative to prices.

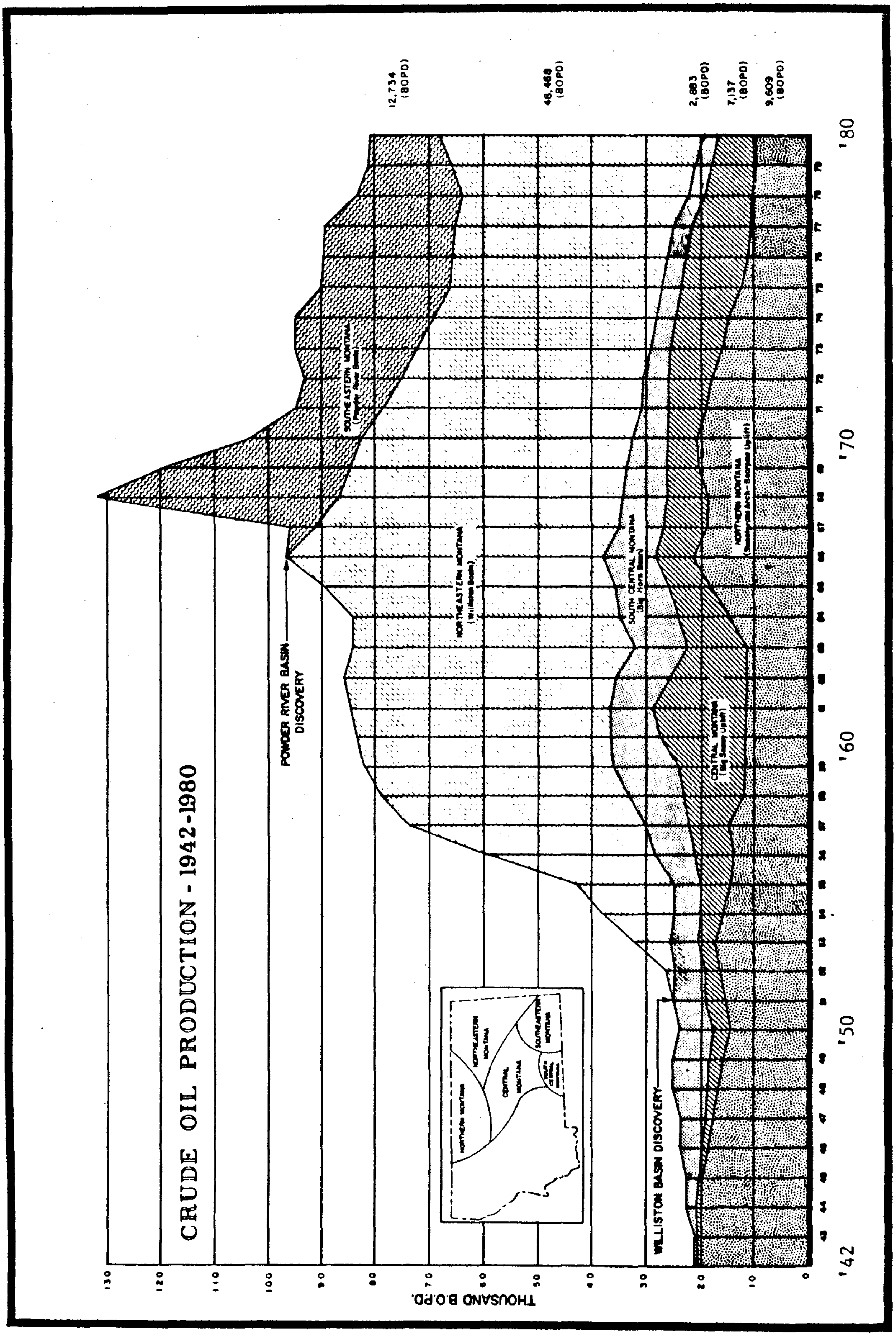
The problem is that some of the official DOE historical numbers are wrong. During 1978-80—and possibly prior years—the motor gasoline produced by some enterprising small refiners slipped through DOE's reporting net. The amount is estimated at 160,000-300,000 b/d. For those years, the U.S. produced more gasoline than the figures show.

Because demand is defined as products supplied—the sum of production and inventory changes—consumption was also understated by that amount. Fortunately, that reporting error has been corrected in current statistics—but the historical record has not.

The bottom line is that U.S. gasoline consumption has declined even more than official figures show. And economists, politicians, and others unaware of this are apt to base conclusions and actions on erroneous premises.

Part of our job is to help readers avoid such statistical traps. So the 1983 forecasts beginning on p. 71 take these pitfalls into account. This won't guarantee that we'll hit drilling or gasoline demand on the nose. But when you're trying to figure out where you're going, it helps to know where you've been.

Robert J. Beck, Economics Editor


CRUDE OIL PRODUCTION - 1942-1980
THOUSAND B.O.P.D.
130
120
110
100
90
80
70
60
50
40
30
20
10
0
'42
'50
'60
'70
'80
POWDER RIVER BASIN DISCOVERY
WILLISTON BASIN DISCOVERY
SOUTHEASTERN MONTANA (Powder River Basin)
NORTHEASTERN MONTANA (Williston Basin)
SOUTH CENTRAL MONTANA (Big Horn Basin)
CENTRAL MONTANA (Big Snowy Uplift)
NORTHERN MONTANA
NORTHERN MONTANA
NORTHEASTERN MONTANA
CENTRAL MONTANA
SOUTHEASTERN MONTANA
12,734 (BOPD)
48,468 (BOPD)
2,883 (BOPD)
7,137 (BOPD)
9,609 (BOPD)

MONTANA'S STATE & COUNTY TAX BURDEN ON 1981 OIL PRODUCTION

The total direct tax burden the state and her counties impose against the value of a barrel of oil amounted to a gross equivalency of 11.87%, averaged on a statewide basis.

However, because mill levies vary so greatly between school districts in the various producing counties, it is necessary to look at the effect of the tax burden on oil in those counties where the most drilling has occurred in recent years. That's the best indication of where some of Montana's best geological prospects presently exist because drilling is not going to occur where little hope is held out. Those local tax levels are what operators realistically are having to consider when they decide whether to drill a prospect in Montana or elsewhere, not the statewide average which has been pulled down by oil fields where historically large production volumes have enabled lower mill levies.

When oil prices were rising through the years decontrol was coming on line, the state/county tax bite was not nearly so important in the bottom-line cost evaluation of where to drill as it is now during a period of severe decline, tight drilling budgets and deflated oil prices which leave very small margins for the risks involved.

Montana must be able to compete effectively with her neighbors for the limited drilling action available. Yet that becomes difficult when the gross equivalent effective tax rates on a barrel of oil are 11.5% in North Dakota and 12.8% in Wyoming. And when one considers that the geological draw to Wyoming always has been much better and that North Dakota's end of the Williston Basin has better looking credentials, Montana clearly has to try harder to attract a share of the limited drilling budgets, if it really wants the economic benefits which come with the activity.

Below are the 1981 breakdowns showing the effect of state and local taxes on oil produced in the five most active oil-producing counties in terms of wells drilled since 1979.

County	$ Price Per BBL	Net Proceeds Tax Per BBL	State 5.0% Severance Tax Per BBL	Conservation Tax & Resource Indemnity Trust Tax Per BBL	Total State & County Tax Per BBL	Mill Levy	% of State & County Tax Per BBL
Toole	30.02	2.50	1.50	.16	4.16	153.63	13.86%
Richland	36.13	3.39	1.81	.19	5.39	164.44	14.96%
Pondera	33.98	2.71	1.70	.18	4.59	185.60	13.51%
Sheridan	35.70	1.79	1.79	.19	3.77	83.08	10.56%
Roosevelt	35.64	2.74	1.78	.19	4.71	135.36	13.22%

M O N T A N A   O I L

1981 Production - Taxable 1982

	Production		Royalty		Tax Due Total	Taxable Valuation Total	Average County Mill Levy
County	Gross Value	Tax Due	Gross Value	Tax Due			
Big Horn	$ 2,170,547	$ 89,968	$ 300,530	$ 34,557	124,525	1,101,473	113.05
Blaine	4,390,215	214,060	460,991	68,070	282,130	1,763,536	159.98
Carbon	22,669,424	1,198,579	1,683,292	226,366	1,424,945	10,450,106	136.36
Carter	1,200,707	84,236	88,938	16,462	100,698	544,046	185.09
Chouteau	51,068	6,722	4,438	867	7,589	39,744	190.95
Dawson	16,729,385	1,526,571	1,338,307	231,392	1,757,963	7,152,477	245.78
Fallon	195,629,039	8,846,715	20,632,156	1,325,713	10,172,428	103,906,313	97.90
Garfield	551,131	55,042	26,382	3,248	58,290	357,812	162.91
Glacier	44,884,520	3,822,948	6,573,804	1,204,862	5,027,810	24,622,565	204.20
Hill	62,791	N/A	N/A	N/A	---	896,699	est. 191.26
Liberty	12,031,315	N/A	1,209,950	N/A	---	8,207,060	est. 149.25
McCone	4,249,756	315,560	802,075	104,364	419,924	2,053,507	204.50
Musselshell	29,850,587	1,983,553	5,605,832	518,386	2,501,939	21,575,870	115.96
Petroleum	2,251,274	134,683	174,558	17,243	151,926	1,051,679	144.46
Pondera	10,476,644	674,642	1,884,999	312,227	986,869	5,317,055	185.60
Powder River	117,725,041	3,912,493	12,562,075	998,400	4,910,893	61,367,299	80.03
Prairie	3,632,427	262,213	180,482	21,629	283,842	1,470,495	193.03
Richland	171,347,983	14,724,123	26,976,984	3,901,455	18,625,578	113,264,864	164.44
Roosevelt	59,496,666	4,209,904	8,072,272	986,985	5,196,889	38,394,584	135.36
Rosebud	42,908,938	1,821,866	4,975,341	380,800	2,202,666	22,797,109	96.62
Sheridan	111,256,959	5,403,906	16,320,843	1,012,046	6,415,952	77,225,510	83.08
Stillwater	547,958	26,785	41,106	6,716	33,501	186,286	179.84
Teton	3,597,621	239,645	629,498	106,590	346,235	1,904,570	181.79
Toole	28,564,385	2,156,305	4,739,745	621,677	2,777,982	18,082,811	153.63
Valley	47,988	7,034	9,597	1,629	8,663	?	?
Wibaux	49,469,650	2,012,937	2,734,744	253,795	2,266,732	22,715,020	99.79
Yellowstone	789,305	52,459	113,527	22,456	74,915	323,708	231.43
TOTAL	$936,583,324	$53,782,949	$118,142,466	$12,377,935	66,160,884	546,772,198	(121.10)

THE ROLE OF OIL AND NATURAL GAS PRODUCTION
On Montana's 1982 Total Taxable Valuation By Counties

	Total Valuations 1982	Oil & Gas Valuations for Tax Year 1982	Percentage of Oil & Gas Values To County Totals
Beaverhead	15,344,893	---	---
Big Horn	123,926,603	1,104,409	0.89%
Blaine	33,607,352	19,042,297	56.66%
Broadwater	7,131,171	---	---
Carbon	27,321,290	11,844,851	43.35%
Carter	6,517,742	556,340	8.35%
Cascade	89,478,909	---	---
Chouteau	28,682,598	1,344,229	4.69%
Custer	18,320,534	33,538	0.18%
Daniels	8,035,300	---	---
Dawson	30,044,542	7,152,477	23.81%
Deer Lodge	13,208,378	---	---
Fallon	118,324,761	104,085,931	87.97%
Fergus	22,219,949	---	---
Flathead	80,100,515	---	---
Gallatin	56,944,405	---	---
Garfield	6,521,008	357,812	5.49%
Glacier	44,961,426	26,965,570	59.97%
Golden Valley	4,244,653	113,916	2.68%
Granite	5,307,536	---	---
Hill	44,742,259	11,781,607	26.33%
Jefferson	10,877,316	---	---
Judith Basin	9,768,278	---	---
Lake	26,271,591	---	---
Lewis & Clark	54,722,048	---	---
Liberty	21,520,242	11,319,958	52.60%
Lincoln	32,594,458	---	---
Madison	14,207,766	---	---
McCone	11,515,997	2,053,507	17.83%
Meagher	5,731,829	---	---
Mineral	4,642,772	---	---
Missoula	124,354,808	---	---
Musselshell	29,303,866	21,575,870	73.63%
Park	17,827,180	---	---
Petroleum	2,882,322	1,051,679	36.49%
Phillips	32,895,804	12,550,312	38.15%
Pondera	23,698,059	7,091,115	29.92%
Powder River	73,082,837	61,413,695	84.03%
Powell	11,474,947	---	---
Prairie	6,227,709	1,470,495	23.61%
Ravalli	21,801,175	---	---
Richland	144,666,368	113,404,778	78.39%
Roosevelt	67,517,948	38,394,584	56.87%
Rosebud	163,639,478	22,797,109	13.93%
Sanders	19,356,835	---	---
Sheridan	92,393,166	77,225,510	83.58%
Silver Bow	47,571,109	---	---
Stillwater	13,966,974	1,387,423	9.93%
Sweetgrass	7,307,647	---	---
Teton	17,885,883	2,416,632	13.51%
Toole	45,257,723	27,204,351	60.11%
Treasure	4,401,696	---	---
Valley	29,389,187	310,939	1.06%
Wheatland	5,691,701	---	---
Wibaux	28,964,457	22,715,020	78.42%
Yellowstone	196,095,144	323,708	0.17%
Total State	$2,204,492,144	$609,089,665*	27.63%

*Oil and gas value is 36.7% of total taxable valuation in producing counties, which is $1,488,117,932.

Note: Montana's total taxable value is only 13.8% of the state's 1982 market value of $15,952,480,208, yet oil and gas are taxed at 100% of their net proceeds while other properties enjoy greatly reduced percentage classifications.

WELL COMPLETIONS: A CURRENT OIL INDUSTRY ENIGMA

Boom year 1981 didn't turn into bust year 1982 like the flick of a light switch. The goodness of '81 bulged slightly into '82 as the fevered activity pace backed up and hefty 1981 drilling budgets were being used up.

How many of the early 1982 well completions bend back to the 1981 flash is one question. But the dilemma of when a drilled well really becomes a completion tallied into the statistics of one period or another has been with the industry for some time, magnified into a major debate by the dramatic drilling turnabout only shortly after 1982 unfolded. The experts are scratching their heads over 1982.

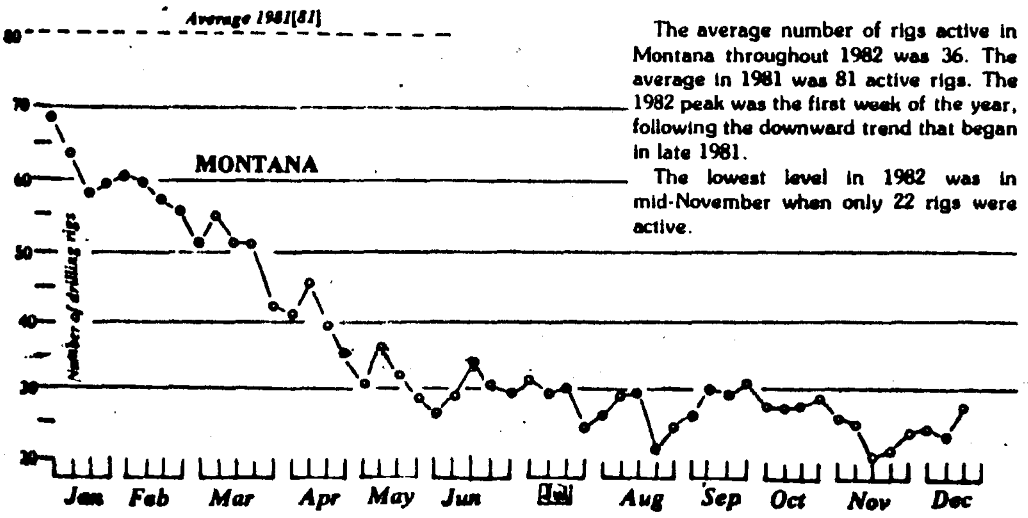
Respected Montana chronicler Roy Boles, publisher of the Montana Oil Journal, says 913 for Montana. Petroleum Information, which covers the Rocky Mountains region from Denver, says an estimated 1,188. And the Oil & Gas Journal, in its January 31 issue, uses a 1982 estimate of "1,241 wells drilled in Montana last year with only 860 planned this year."

But the whole numbers game gets to the point of begging the question, as the attached editorial remarks of OGJ Economics Editor Robert Beck note in the January 31 issue. As he points out, you can't have well completions without rigs, so the figures are suspicious.

The year total figures are not all that important anyway. What is significant are the jobs and business sector dollar flows lost as 1982 ebbed on. The heavy traffic from 1981 spilled over into 1982, and first-half figures are heavier. But the fall-off is plain in the way the 1982 active rig count plunges through the year (see chart below). The 1982 rig drop meshes with the corresponding loss of jobs as the months peel off (chart in packet). The 1982 trend tells the story of where we are at now, and it leaves no doubts.

Something else is worth mentioning about well figures. Over 68% of the 913 completions reported by Montana Oil Journal for 1982 were not in the deeper-well, higher-yield Williston Basin. A number of them are shallow, quick-sunk Hi-Line wells with smaller reservoirs. Every well helps in jobs and tax revenues, but one should not mistake these easier punches for the kind of sustained job and production activity which comes from deeper play in the Williston or which could develop from the mammoth formations of the western Montana Overthrust and Disturbed Belt areas.

Rig Count, Plotted Weekly, 1982



CENEX

1982 ESTIMATED NET PROCEEDS TAX (Actual specific sample wells)

	PETROLEUM COUNTY				SHERIDAN COUNTY				RICHLAND COUNTY			
	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS
Gross barrel price (1)	$ 32.00	100%	$ 32.00	100%	$ 32.53	100%	$ 32.69	100%	$ 32.73	100%	$ 32.84	100%
Lifting costs per barrel (2)	6.56	20.50	4.88	15.25	3.20	9.84	5.04	15.42	2.48	7.58	1.97	6.00
Windfall profit tax per barrel (3)	7.03	21.97	6.82	21.31	2.82	8.67	2.88	8.81	10.78	32.94	11.15	33.95
Amortization of capital expenditures (2)	.05	.16	.22	.69	6.05	18.60	4.12	12.60	1.64	5.01	2.52	7.67
Amount used to calculate net proceeds	$ 18.36	57.37%	$ 20.08	62.75%	$ 20.46	62.89%	$ 20.65	63.17%	$ 17.83	54.47%	$ 17.20	52.38%
Times mill levy (2)	.14446		.14446		.10522		.09937		.13001		.14957	
Net proceeds tax/barrel	$ 2.65	8.28%	2.90	9.06%	$ 2.15	6.61%	$ 2.05	6.27%	$ 2.32	7.09%	$ 2.57	7.83%
Severance tax per barrel at 5% of gross value	1.60	5.00	1.60	5.00	1.63	5.00	1.64	5.00	1.64	5.00	1.64	5.00
Resource indemnity tax/bbl at .5% of gross	.16	.50	.16	.50	.16	.50	.16	.50	.16	.50	.16	.50
Production tax/bbl at .02%	.01	.02	.01	.02	.01	.02	.01	.02	.01	.02	.01	.02
Total Production Taxes	$ 4.42	13.80%	$ 4.67	14.58%	$ 3.95	12.13%	$ 3.86	11.79%	$ 4.13	12.61%	$ 4.38	13.35%

(1) March, 1982, sales
(2) Based on Calendar year 1981
(3) Tier II - Stripper-
30% rate - Independents
60% rate - Majors

(3) Tax Tier III - 27.5 rate

(3) Tax Tier I -
50% rate - Independents
70% rate - Majors

1982 ESTIMATED NET PROCEEDS TAX

	DAWSON COUNTY				FALLON COUNTY				RICHLAND COUNTY			
	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS
Gross bbl price	34.76	100.00	34.43	100.00	34.41	100.00	34.19	100.00	36.32	100.00	36.25	100.00
Lifting costs/bbl	6.71	19.30	6.18	17.95	4.02	11.68	6.28	18.37	8.96	24.67	10.64	29.35
Windfall profit tax/bbl	12.14	34.93	11.42	33.17	12.57	36.54	11.42	33.40	3.79	10.44	3.75	10.34
Capital amortization	.15	.43	.06	.17	4.98	14.47	.64	1.87	3.05	8.40	5.35	14.76
Net Proceeds	15.76	45.34	16.77	48.71	12.84	37.31	15.85	46.36	20.52	56.49	16.51	45.54
Times mill levy	.22821		.27563		.096696		.108806		.130010		.130010	
Net proceeds tax/bbl	3.60	10.35	4.62	13.42	1.24	3.60	1.72	5.03	2.67	7.35	2.15	5.93
Severance tax/bbl @ 5% of gross value	1.74	5.00	1.72	5.00	1.72	5.00	1.71	5.00	1.82	5.00	1.81	5.00
RIT tax/bbl @ .5% of gross	.17	.50	.17	.50	.17	.50	.17	.50	.18	.50	.18	.50
Production tax/bbl @ .02%	.01	.02	.01	.02	.01	.02	.01	.02	.01	.02	.01	.01
Total Production Taxes	5.52	15.87	6.52	18.94	3.14	9.12	3.61	10.55	4.68	12.87	4.15	11.44

(Actual specific samples of Shell Oil Co. wells)

1982 ESTIMATED NET PROCEEDS TAX

	PRAIRIE COUNTY				LIBERTY COUNTY				DAWSON COUNTY			
	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS	$ PER BBL	% OF GROSS
Gross bbl price	34.44	100.00	34.54	100.00	33.93	100.00	34.18	100.00	34.44	100.00	34.73	100.00
Lifting costs/bbl	4.13	11.99	5.26	15.22	5.33	15.82	2.50	7.31	4.13	11.99	7.79	22.43
Windfall profit tax/bbl	12.58	36.52	11.82	34.22	7.90	23.31	8.08	23.63	12.58	36.52	11.55	33.25
Capital amortization	.53	1.53	.60	1.73	-0-	-0-	-0-	-0-	.53	1.53	.58	1.67
Net Proceeds	17.20	49.94	16.86	48.81	20.70	61.00	23.60	69.04	17.20	49.94	14.81	42.64
Times mill levy	.197089		.198089		.12707		.12707		.27563		.27563	
Net proceeds tax/bbl	3.40	9.87	3.34	9.66	2.63	7.75	3.00	8.77	4.74	13.76	4.08	11.74
Severance tax/bbl @ 5% of gross value	1.72	4.99	1.73	5.00	1.70	5.01	1.71	5.00	1.72	4.99	1.74	5.01
RIT tax/bbl @ .5% of gross	.17	.49	.17	.49	.17	.50	.17	.49	.17	.49	.17	.48
Production tax/bbl @ .02%	.01	.02	.01	.02	.01	.02	.01	.02	.01	.02	.01	.02
Total Production Taxes	5.30	15.39	5.25	15.20	4.51	13.29	4.89	14.31	6.64	19.28	6.00	17.28

(Actual specific samples of Shell Oil Co. wells)

EXHIBIT 3
3-18-83

OIL AND GAS LEASE SALES ON STATE LANDS IN MONTANA

1983 (March 1 -- one sale only)	$336,840.46
1982	$3,120,749.35
1981	$17,071,727.14
1980	$28,914,371.46
1979	$8,413,346.80
1978	$4,908,035.12
1977	$2,486,807.15
1976	$1,428,650.19
1975	$669,073.16
1974	$1,591,293.66
1973	$1,233,502.09

OIL AND GAS LEASE SALES

Date of Sale	Acres Sold	Tracts Sold	Average Per Acre	Revenue from Sale
September 12, 1972	89,050.49	197	$ 1.76	$ 159,924.08
December 5, 1972	88,002.74	185	2.15	189,760.45
March 6, 1973	191,104.94	397	3.22	614,599.48
June 5, 1973	191,914.62	375	1.57	301,174.49
September 11, 1973	133,573.93	304	1.75	233,620.16
December 4, 1973	40,837.11	102	2.06	84,107.96
March 5, 1974	212,964.97	508	3.17	675.014.86
June 4, 1974	151,120.56	302	2.75	416,247.33
September 10, 1974	79,968.45	186	4.32	345,248.20
December 3, 1974	51,696.97	109	2.99	154,783.27
March 4, 1975	53,108.74	112	2.08	110,444.58
June 3, 1975	91,541.37	239	2.88	263,957.13
September 9, 1975	56,282.77	117	1.85	104,197.06
December 2, 1975	72,205.14	147	2.64	190,474.39
March 2, 1976	59,099.57	133	3.63	214,337.11
June 1, 1976	82,062.29	194	2.93	240,416.42
September 14, 1976	111,827.38	252	4.98	556,704.69
December 7, 1976	62,883.18	158	6.63	417,191.97
March 1, 1977	17,077.84	34	5.95	101,684.37
June 7, 1977	169,847.63	379	4.99	847,115.72
September 13, 1977	69,193.84	171	8.55	591,597.64
December 6, 1977	101,408.76	214	9.33	946,409.42
March 7, 1978	172,754.97	401	8.47	1,463,309.67
State Lands	145,473.92	342	7.90	1,149,666.60
Prison	27,281.05	59	11.50	313,643.07
June 6, 1978	243,090.73	620	5.57	1,355,378.41
September 12, 1978	102,121.40	213	13.46	1,375,028.02
December 5, 1978	91,306.08	211	7.82	714,319.02
March 6, 1979	146,051.13	354	5.17	755,279.48
June 5, 1979	79,065.70	181	14.53	1,148,758.21
September 11, 1979	128.471.16	283	16.80	2,158,297.71
December 4, 1979	263,978.90	553	16.48	4,351.011.40
March 4, 1980	120,230.06	236	22.58	2,715,300.04
June 3,4, 1980	435,271.61	1016	34.86	15,173,583.92
September 9,10,	393,060.59	829	19.13	7,519,620.31
December 2, 1980	254,272.10	560	13.89	3,532,867.19
March 2,3, 1981	369,776.95	936	12.64	4,675,543.59
June 2, 1981	111,529.32	236	16.93	1,888,446.51
Sept. 1, 1981	287,540.02	659	34.17	9,825,164.76
Dec. 8, 1981	44,183.83	115	15.44	682,572.28
March 2, 1982	19,315.64	43	31.93	616,889.32
June 1, 1982	60,986.54	128	10.86	662,687.73
Sept. 14, 1982	55,802.02	127	25.84	1,442,390.31
Dec. 7, 1982	45,443.36	110	8.77	398,781.99
March 1, 1983	34,216.58	92	9.84	336,840.46

EXHIBIT 2
3-18-83

HOW TOUGH TIMES HAVE EVAPORATED OIL EXPLORATION DOLLARS FOR JOBS AND EXPENDITURES IN MONTANA COMMUNITIES

A very dramatic downturn during 1982 in Montana's oil industry has had its telling effects on the state's economy in terms of investment capital spent on exploration and drilling activities. After a boldly robust 1981, Montana's 1982 in new drilling activity turned out to be worse than anyone else's compared proportionately to the activity levels the previous year. From the 1981 peak to the middle of 1982, over 2,500 petroleum industry jobs fell by the wayside. And with that big drop came the related plunge in exploration expenditures which go into the small business mainstreams in communities around the Big Sky Country.

A good barometer for reading this downturn is the total footage of drilling and its cost in a year. Preliminary figures from 1982 indicate that the total dollars spent drilling in Montana were nearly 40% less than in 1981.

	Total Footage Drilled	Total Costs	Costs Per Foot
1981	6,401,574 feet	$629.66 million	$98.38
1982	4,306,621 feet	$382.46 million	$88.80
% '82 different from '81	32.72% less	39.26% less	

At the same time stiffer competition in goods and services during the 1982 downturn was reducing drilling costs (and thus the dollars going into the Montana dollar flow), the total footage being drilled in Montana was falling dramatically as the state's active rig count dipped lower proportionately from 1981 than the national average and also any other state. Lower oil prices and demands blended with Montana's high oil severance (state) and net proceeds (county) taxes and the fact that her geological prospects generally are not regarded as highly as in a number of places to plop the Big Sky Country at the bottom of activity.

EXHIBIT 4
3-18-83

Oil group seeks parity in counties' taxation

By KEITH HAUGLAND
Tribune Staff Writer

CUT BANK — An association representing oilmen in Glacier and Toole counties says the tax burden in those two counties has shifted unfairly to the industry.

The association is seeking support for legislation that will equalize the burden.

The report, completed by the Montana Oil and Gas Association, states net proceeds taxes paid by the oil and gas industry in Glacier County has increased from 35.1 percent of the county's tax base in 1971 to 58.4 percent in 1980.

In Toole County, revenues from net proceeds taxes accounted for 48.3 percent of the county's tax base in 1980 — up more than double from a 15.8 percent share in 1971.

Net proceeds taxes are levied against the selling price of oil and natural gas — less some, but not all, production costs.

The report claims oil and gas producers and royalty owners also pay 88.9 percent of the taxes for real property in Glacier County.

Of the money received from the sale of every barrel of oil and every cubic foot of natural gas, between 32 and 47 percent is paid in taxes — either state or federal — the report said.

Some of the taxes paid by the oil and gas industry, such as the federal Windfall Profits tax and some taxes which are earmarked for various state agencies, are based on gross income — before any expenses are deducted, the report stated.

If there are any profits after paying the various taxes, state and federal income taxes must be paid, the report said.

Other sectors of the economy, oilmen say, pay taxes which are based on a percentage of assessed value. The assessed value, the report states, is many times an arbitrary value that has little relationship to the market value of property or a product.

The oil and gas industry, on the other hand, pays net proceeds taxes which are levied against the gross profit of oil and gas at the wellhead, the report said.

The agriculture industry in Glacier County, the report continued, pays property taxes on land based on assessed values established in 1963 by the state legislature.

Quoting state Department of Revenue figures, the report states the assessed value of irrigated farm land is $36.27 per acre; non-irrigated land, $30.08; wild-hay land, $11.88; and grazing land, $4.97 per acre.

The values assigned to each category of agricultural land has almost no relationship to present market values, the report states.

Major companies like utilities and railroads also pay taxes on a percentage of the value of their properties, the oilmen say. The value of each company is computed by combining income, stocks and property owned by the company statewide. The total is then allocated back to the county.

Then a preset percentage, established by the legislature, is used to determine the taxable value. After the taxable value has been established, it is multiplied by the county's mill levy to determine the amount of property tax owed.

The percentage used for cooperative utilities, such as Glacier Electric, Marias Electric and Sun River Electric, is 3 percent.

Non-cooperative electrical utilities such as Montana Power and Montana-Dakota utilities pay 12 percent of their assessed value.

Burlington Northern's taxes are determined after taking 15 percent of assessed value to determine taxable value.

Cooperative telephone companies pay taxes from 3 percent of their assessed values while non-cooperative phone companies from 15 percent of assessed value.

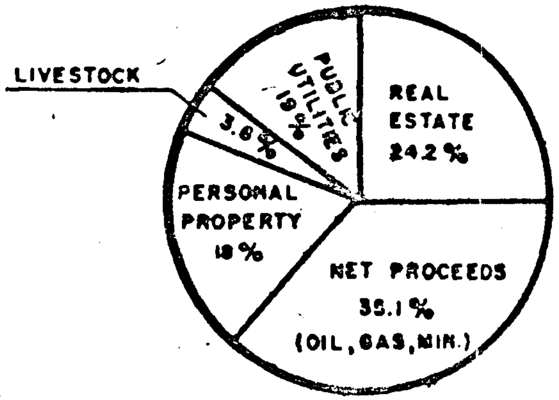
The oil and gas industry has none of these advantages, the oilmen claim.

If the oil and gas industry were to pay taxes based on net sales or actual market values, the industry would account for no more than 25 percent of Glacier County's tax base, the report states.

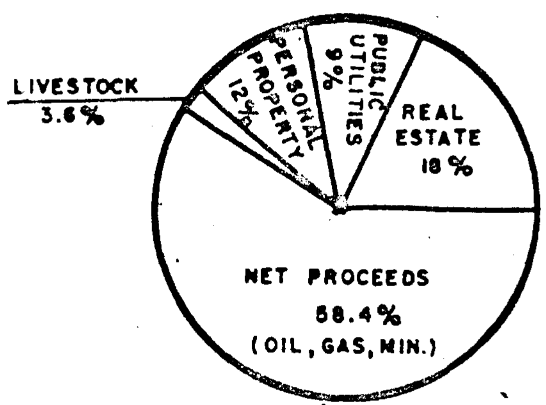
"We're not asking for anything more than parity with other county taxpayers," the report concludes.

Glacier County

1971

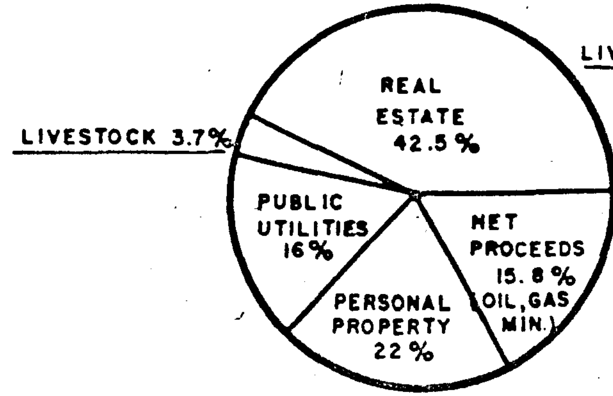


1980

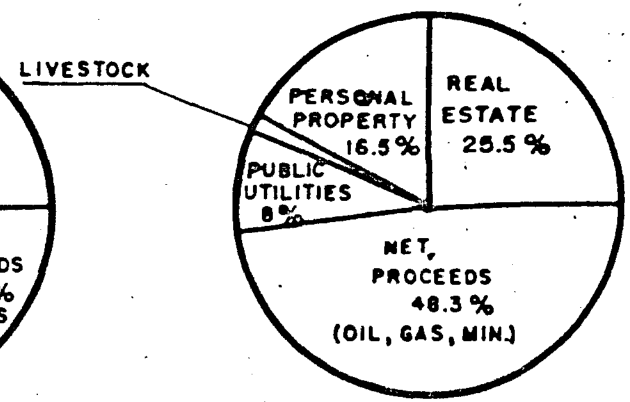


Toole County

1971



1980



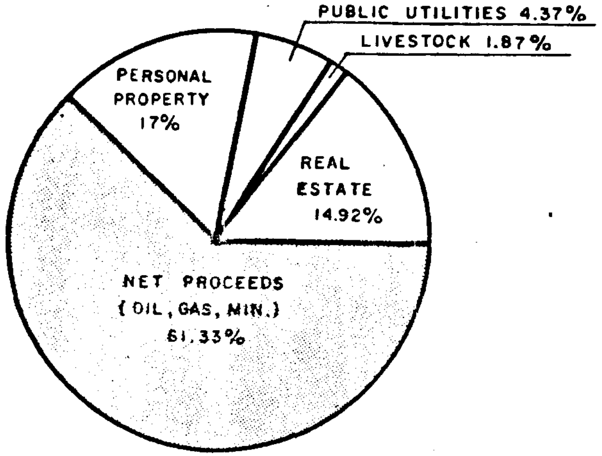
NOTE!
1980 LEGISLATURE
DECREASED LIVESTOCK TAX
DOUBLED OIL SEVERANCE TAX

DATA: STATE DEPT. REVENUE

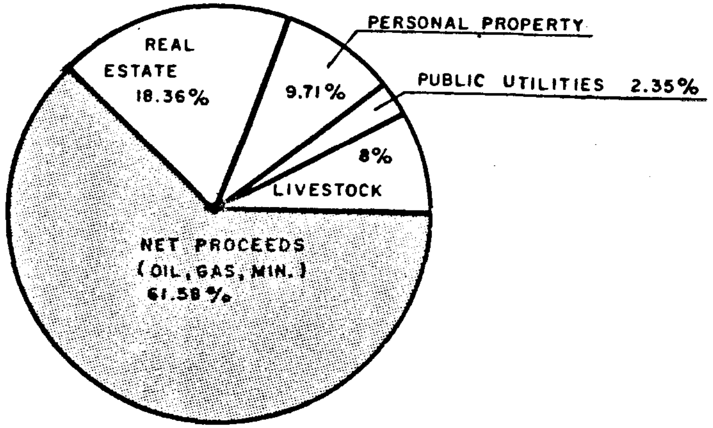
BRANCH, J.L.
MONTANA OIL & GAS ASSOC.

WHO PAYS THE TAXES

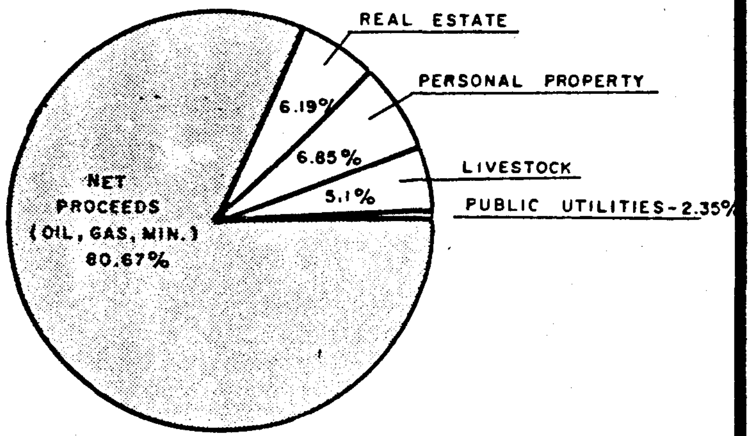
Richland County
1980



Sheridan County
1980



Powder River County
1980



NOTE:
1980 LEGISLATURE
DECREASED LIVESTOCK TAX
DOUBLED OIL SEVERANCE TAX

DATA: STATE DEPT. OF REVENUE

J.L. BRANCH, M.S.

MONTANA OIL AND GAS ASSOC.

TOOLE COUNTY ASSESSOR COMPARISON VALUATIONS

TAX YEARS 1981 & 1982

TOOLE COUNTY

	1981 ASSESSED VALUE	1981 TAX. VALUE	1981 %	1982 ASSESSED VALUE	1982 TAX. VALUE	1982 %
AGRICULTURE LAND	16,939,753	5,082,000	.126	17,016,973	5,105,171	.113
NON-AGRICULTURE	44,208,319	3,764,544	.093	44,661,109	3,809,233	.084
PERS. PROPERTY	67,981,687	6,202,472	.154	62,888,145	5,576,309	.123
INTRA*COUNTY UTILITY	119,470	16,157	.0004	19,915	2,899	.00006
COOP UTILITY	141,848	4,258	.0001	82,101	2,464	.00005
STATE ALLOCATIONS	25,276,163	3,050,254	.076	30,563,884	3,561,515	.079
NET PROCEEDS	22,188,791	22,188,791	.55	27,190,622	27,190,622	.60
TOTALS	176,856,031	40,308,476		182,422,749	45,248,213	

INCLUDED IN ABOVE TOTALS

1981	TAXABLE	1982	TAXABLE
CATTLE (14,145)	232,307	CATTLE (12,185)	227,125
HORSES (432)	9,699	HORSES (431)	9,707
SHEEP (2225)	3,812	SHEEP (2004)	2,345
PIGS (3268)	9,077	PIGS (3,891)	10,801
POULTRY & BEES	850	POULTRY&BEES	897
GRAIN	439,853	GRAIN	410,971
INVENTORY	214,344	INVENTORY	229,669
OILFIELD MACH.	68,463	OILFIELD MACH.	793,549
AGR,MACHINERY	2,474,375	AGR. MACHINERY	2,405,715
OFFICE FURN. & FIXTURES	191,876	OFFICE FURN & FIX.	197,907

HUGE INCREASE IN OILFIELD MACHINES ATTRIBUTED TO SEVERAL NEW GATHERING SYSTEMS AND COMPRESSORS FOR 1982

Mont.
20.52% 15 RIP,
5 sev.
.2
1 1/2 r+I

Color
2.5% sev,
5%
4% on shallow oil.
Max 5

Utah:
2% Severance

Wyo
4% stripper
6% regular
25% OCP

5 1/2%

EXHIBIT 5
3-18-83

SB 159
For House Taxation Committee
March 18, 1983

Mr. Chairman and Members of the Committee:

My name is Mac Roberts from Helena. I am here in support of SB 159 on behalf of myself as a local oil landman. I also have been asked to speak on behalf of the Independent Petroleum Association of the Mountain States (IPAMS), which comprises 1,800 members throughout the Rocky Mountain States, most of which do business in Montana.

* Montana's drilling rig activity has sharply declined during the last 12 months--proportionately the most anywhere in this country--partially due to the declining market price of oil and also due to state and county production taxes placed directly on oil.
* State production taxes here range as high as 15% in some counties, well above the 11.87% average for the state, with the potential of them going even higher during the next year if the additional 1% severance tax is allowed to go into effect April 1. Those higher counties are where most of the drilling activity has been in the past few years.
* North Dakota's Senate this week passed a moratorium on a 6½% state production tax, which would reduce that state's total tax burden back to only the 5% severance tax.

Mr. Chairman, I work in the land business for many companies wishing to come to Montana to search for oil. There are many of my counterparts throughout the state who have had companies willing to come into Montana. But because of the great expense of taxes and the reality of long-term pay-out possibilities, other states offer better potential for their investment dollars.

As a small producer, I have been forced myself to look at states such as Kentucky, where the total state tax burden is in the range of 8% and my investors can recapture their risk capital sooner. Montana is my home, and it hurts for me to have to look elsewhere.

Mr. Chairman and Members of the Committee, I request that we give the oil industry a signal that we here in Montana want those exploration dollars within our borders and the jobs for Montanans that come with them. In 1982, Montana workers and small businesses lost a lot of those dollars from their economic flow as the total footage drilled and related activity fell off markedly.

The oil business in Montana depends a lot on the small operators to drill the wildcat finds, which also takes in a lot of dry holes, and also to put together the drilling deals which bring millions of out-of-state dollars to Montana. That's the kind of building of Montana that we need to continue to do so that guys like myself can stay and so we can keep the exploration jobs going.

I ask that you recommend passage of SB 159 and give that positive signal so our industry can afford to operate in Montana and not go elsewhere.

Thank you.

WITNESS STATEMENT

Name STEVEN L. GILLETTE

Committee On TAXATION

Address 3207 QUINELLA DR. RR 2

Date 18 MARCH 1983

Representing SILVER STINGER WELDING

Support X

Bill No. SB 159

Oppose

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. HAVE BEEN TOTALLY UNEMPLOYED FOR 24 MONTHS NOW.

2. OIL EXPLORATION & DRILLING IS CURRENTLY DYING IN MONTANA.

3. I NEED INCREASE IN ACTIVITY THAT MY BUSINESS & MY WIFE & I CAN SURVIVE.

4. WISH TO CLARIFY THAT OILCOMPIES, MY FELLOW WELDERS & I HAVE A PROBLEM - BEING EVERYONE HAS IDEA THAT WE ARE MADE OUT OF MONEY & WILLING TO SPEND IT WITH NO FORE THOUGHT - TOTALLY UNTRUE

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

FORM CS-34
1-83

VISITOR'S REGISTER

HOUSE Taxation COMMITTEE

BILL SB 413 DATE 3-18-83

SPONSOR Senator Gage

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
Don Allen	Helena	Mt. Petroleum Assn	✓	
John Manning	Sidney	Shell Oil Co.	✓	
[illegible] Hill	Helena	Richland Cty	✓	
Carl Rieckmann	Billings	Mont. Pet. Assoc.	✓	
Dave Loen		OBPP	✓	
WM (Bill) Vaughey	Havre	Self (an Indep. O&G Prod)	✓	
[illegible] Roberts	Helena	IPAMS	✓	
[illegible]	Helena	Oil Gas & Coal Co	X	
Gary Elenburg	Havre	Elenburg Expl.	✓	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

FORM CS-33

VISITOR'S REGISTER

HOUSE Taxation COMMITTEE

BILL SB 159 DATE 3-18-83

SPONSOR Senator Keating

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
[illegible]	Helena	IAAMS	X	
[illegible]	[illegible]	Shell Oil Co	X	
[illegible]	Billings	"J" Drlg Fluids	X	
[illegible]	Havre	ELENBURG EXPL.	X	
[illegible]	BILLINGS	SILVER [illegible]	X	
David Sexton	Helena	MEA		X
[illegible]	Helena	Mt Petroleum Assn	✓	
Tuke Hill	Helena	Richland Cty.	✓	
Dave Goss	Billings	Billings Chamber of Commerce	✓	
John [illegible]	[illegible]	Shell Oil Co.	✓	
Carl Rieckmann	Billings	Mont. Pet. Assn.	X	
F.H. BOLES	HELENA	MONT CHAMBER	X	
John W Braunbeck	Helena	Montana IOGA Mont. LP Gas Assn	X	
[illegible]		[illegible]		✓
[illegible]	Helena	Northeast Montana Land Mineral Owners	X	
Jerry L. Brand	Shelby	Brand Oil & Gas	X	
[illegible]	Shelby	Western Natural Gas Co.	X	
WM (BILL) VAUGHEY	HAVRE	SELF (AN INDEPENDENT OIL & GAS PRODUCER)	✓	
Jarel M Stoker	Billings	Independent O & G P.	X	
[illegible]	Sen Dist 32		X	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

[illegible] HD 54 support X

FORM CS-33

STATE OF MONTANA

FISCAL NOTE

REQUEST NO. 138-83

Form BD-15

In compliance with a written request received January 18, 19 83, there is hereby submitted a Fiscal Note for Senate Bill 159 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA). Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

Senate Bill 159 reduces the oil severance tax to 3 percent and provides an immediate effective date and an applicability date.

ASSUMPTIONS:

1) The projections of oil severance tax receipts and distribution prepared by the Office of Budget and Program Planning are the basis for comparison.

FISCAL IMPACT:

	FY 1984	FY 1985
Oil Severance Tax Collections		
Under Current Law	$ 59,377,000	$ 65,462,000
Under Proposed Law	29,688,500	32,731,000
Estimated Decrease	$(29,688,500)	$(32,731,000)
General Fund		
Under Current Law	$ 56,374,000	$ 62,179,000
Under Proposed Law	28,187,000	31,089,500
Estimated Decrease	$(28,187,000)	$(31,089,500)
Distribution to Producing Counties		
Under Current Law	$ 3,003,000	$ 3,283,000
Under Proposed Law	1,501,500	1,641,500
Estimated Decrease	$(1,501,500)	$(1,641,500)

FISCAL NOTE 5:AA/1

David M Lewis

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 1-21-83

STATE OF MONTANA

REQUEST NO. 431-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 16, 19 83, there is hereby submitted a Fiscal Note for Senate Bill 413 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA). Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

A bill for an act allowing only 70 percent of the windfall profits taxes withheld and paid by an operator to be deducted in computing net proceeds taxes on oil and gas; providing a method to adjust the deductible percentage upon request; providing limitations; and providing a retroactive applicability date.

ASSUMPTIONS:

!) Estimated statewide taxable valuation for FY84 is $2,246,035,000 and $2,299,731,000 for FY85.
2) Total windfall profits tax deductions for productions years 80, 81, 82 are estimated to be $566,886,000.
3) Total windfall profits tax deductions for production year 83 are estimated to be $172,899,000.
4) The average county mill levy is 123.5 mills. (Includes 46 mills for foundation program and the university system.)
5) The average percent used in computing the windfall profits tax diduction will be 70% and no adjustments will be made under Section 2, Sub. 2.

FISCAL IMPACT:

	FY84	FY85
40 Mill Levy - Foundation Program		
Under Current Law	89.841M	91.989M
Under Proposed Law	89.841M	100.867M
Estimated Increase	0.000M	8.878M
6 Mill Levy - University System		
Under Current Law	13.476M	13.798M
Under Proposed Law	13.476M	15.130M
Estimated Increase	0.000M	1.332M

LOCAL IMPACT:

Based on an average mill levy of 77.5 mills, local government would recieve an additional $17.2 million in net proceeds property tax revenues.

David M Lewis

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-18-83

LONG-RANGE IMPACT:

Because this legislation applies retroactively to production years beginning on or after January 1, 1980, the fiscal impact for FY85 includes the adjustments for previous years. Subsequent fiscal impact beyond the 1985 biennium, will be approximately $6.0 million for the foundation program, university system and local governments.

The revenue anticipated will be reduced or increased by the amount of adjustments to the deduction allowed under Section 2, Sub 2 when these adjustments are actually known.

FISCAL NOTE 15: M/2

SB 413

STANDING COMMITTEE REPORT

March 22, 19 83

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration SENATE Bill No. 159

Third reading copy (Blue)
color

A BILL FOR AN ACT ENTITLED: "AN ACT TO DELAY THE 1 PERCENT INCREASE IN THE OIL SEVERANCE TAX; AMENDING SECTION 15-36-101, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND AN APPLICABILITY DATE."

Respectfully report as follows: That SENATE Bill No. 159

~~DO PASS~~ BE NOT CONCURRED IN

DAN YARDLEY, Chairman.

STATE PUB. CO.
Helena, Mont.

COMMITTEE SECRETARY

STANDING COMMITTEE REPORT

March 22, 1983

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration SENATE Bill No. 413

Third reading copy (Blue
color)

A BILL FOR AN ACT ENTITLED: "AN ACT ALLOWING ONLY 70 PERCENT OF THE WINDFALL PROFITS TAXES WITHHELD AND PAID BY AN OPERATOR TO BE DEDUCTED IN COMPUTING NET PROCEEDS TAXES ON OIL AND GAS; PROVIDING A METHOD TO ADJUST THE DEDUCTIBLE PERCENTAGE UPON REQUEST; PROVIDING LIMITATIONS; AMENDING SECTIONS 15-23-603 AND 15-23-605, MCA; AND PROVIDING A RETROACTIVE APPLICABILITY DATE."

Respectfully report as follows: That SENATE Bill No. 413

~~XXXXXX~~S BE CONCURRED IN

DAN YARDLEY,
Chairman.

STATE PUB. CO.
Helena, Mont.

COMMITTEE SECRETARY