

MINUTES OF THE MEETING
TAXATION COMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

APRIL 3, 1987

The meeting of the House Taxation Committee was called to order at 8:05 a.m. on April 3, 1987 in room 312B of the State Capitol by Chairman Jack Ramirez.

ROLL CALL: All members were present, except Rep. Gilbert who was excused.

DISPOSITION OF SENATE BILL 335:

Rep. Williams made a motion that Senate Bill 335 BE CONCURRED IN. The motion CARRIED unanimously.

CONSIDERATION OF SENATE BILL 390:

AN ACT TO REVISE THE PROPERTY TAX ASSESSMENT OF PARCELS OF LAND 20 ACRES OR MORE IN SIZE AND ELIMINATE CLASS NINETEEN FOR PROPERTY ASSESSMENT PURPOSES, ETC.

Sen. George McCallum, Senate District #26, sponsor of SB 390, said the bill changes the eligibility of land for valuation as agricultural property when there is a change in ownership or the property is reappraised under 15-7-111, MCA. He advised this legislation applies retroactively to the taxable year beginning on January 1, 1987, for property meeting the definition of commercial parcels. Sen. McCallum explained that properties under the residential definition will not be affected until January 1, 1988.

PROPOSERS OF SENATE BILL 390:

Gregg Groepper, Administrator, Property Assessment Division, Department of Revenue, stated that to qualify for the agricultural definition, land would have to meet the \$1,500 income test. He said the bill ensures that commercial property owned by industrial concerns would meet that income requirement in order to be classified as agricultural. Mr. Groepper advised that the legislation grandfathers agricultural property that would not be reclassified until it is sold. He went on to explain that after sale, the land would be reclassified at its market value unless it could be shown that the owner is able to generate \$1,500 income through raising and marketing an agricultural product.

OPPONENTS OF SENATE BILL NO. 390:

Robert Holding, Montana Association of Realtors (MAR), read from prepared text (Exhibit #1), in opposition to SB 390, and submitted MAR amendments (Exhibit #2), which he said would help to ensure equal taxation.

Bill Walker, a Helena Real Estate Broker, said the bill would place an additional burden on property owners of Montana, and stated a transfer of ownership without a change in use was not a fair way to consider property taxation. He commented that would-be sellers are facing a distressed market, and any prospective buyer is going to face higher taxes. Mr. Walker explained that the bill would also apply to transfer of ownership between family members, where there was no change in the use of the land. He urged adoption of MAR amendments.

William Spilker, also a Helena Real Estate Broker, spoke in opposition of repealing the class nineteen property classification. He said this bill would have an adverse impact on land values, and that he objected to changing the status of property at the time of transfer. Mr. Spilker stated he was specifically against language on page 3, lines 9-11 of the bill. He said the restriction was extreme, and that the grandfather clause would be in effect only until 1988. Mr. Spilker concluded the bill is a poor attempt to solve this problem, and asked for consideration of the amendments.

Chairman Ramirez advised that SB 390 would go to a subcommittee along with Rep. Brandewie's bill, which also addresses the same issue.

In response to inquiries from Rep. Raney, Mr. Groepper stated it was possible to reclassify land at the time of change in ownership or use. He said there was nothing in this legislation to amend language concerning market value, the statutes, adding that at the time of sale, a property would revert back to a market value comparable to similar property. Mr. Groepper stated the department is using 1982 market values on land throughout the state. He explained that the price of a property would be considered to ensure that a market transaction took place which would also be used in compiling the value of the land, when applicable. Mr. Groepper said the purchaser of such property would have to farm and generate \$1,500 worth of income to receive the lower tax assessment rate.

CLOSING ON SENATE BILL 390:

Sen. McCallum stated an inequity exists for acreage between 19.9 and 20.0 acres, and said that would be appraised by 1991, when appraisals for agricultural and suburban tracts are considered.

CONSIDERATION OF SENATE BILL 383:

Senator Del Gage, Senate District #5, sponsor of SB 383, said the bill introduces incentives, by exempting net proceeds for new wells drilled after December 31, 1986. He said SB 383 does nothing for existing wells or on-line production up to that date. Senator Gage elaborated on the incentive programs offered in Alberta, Canada, where \$2 billion is used for incentives, including reimbursement for drilling costs, and on incentives offered in Wyoming. He said these are the programs Montana is competing against for drilling and exploration dollars. Senator Gage gave an overview of the bill, expounding on section 10 which pertains to interim production and section 11 which defines new production and the interim period.

Senator Gage proposed to amend page 43, section 28, changing the effective date from January 1, 1987 to April 1, 1987. He explained that the fiscal note is based upon five quarters instead of four, adding that if the figures presented with the bill were cut in half, they would reflect a more realistic revenue picture.

PROPONENTS OF SENATE BILL 383:

William Ballard, Balcron Oil Company, Billings, stated only 2% of the total area available for exploration had been tapped in Montana. He provided information comparing Montana and Wyoming wells drilled between 1979 and 1986, their average daily production (Exhibit #3). He added that the production level of his company could double and triple, from the proposed incentives. He said each well drilled creates about 53 jobs, aside from development and administration.

Bill Voit, Vice President, Independent Petroleum Producers, Rocky Mountain States, spoke on the incentives being offered by Wyoming, and said his organization has 22 working rigs in Wyoming, six in Montana. He urged support of this legislation as an incentive for exploration and drilling in Montana.

Jim Brenner, North American Resources, called the legislation an incentive to work, noting that high taxes and economic climate in the state do not make it profitable for the oil industry to grow in the state. He stated Alberta's successful drilling assistance program is similar to SB 383, adding that even with the drop in oil prices, the same number of wells were drilled in 1986, as in 1985, under that program. He asked that the legislation not be considered a break

for the oil industry but as a work incentive/job promotion bill.

Les Fuglevand, Can-American Drilling Fluids stated there were 35 to 40 companies that supplied drilling companies in the state, but now only 6 remain with some employees working on a part-time basis. He said others are leaving the state to find employment, making a dismal future for the few companies that are left. He said because of the tax structure in Mt, companies can realize a better rate of return in other states. Mr. Fuglevand asked that SB 383 be considered a jobs bill to create long-term, high-paying employment.

Jerome Anderson, Shell Oil, said that should SB 383 pass, oil companies would see property tax relief whereby only \$17,000 of their expenses would be property tax, while \$280,000 would still be paid in other taxes.

Doug Abelin, Montana Oil and Gas Association, advised that the oil industry is the 13th highest taxpayer in Glacier County, and pays \$112,000 in taxes. He stated these small producers are suffering as a result of the net proceeds tax.

PROPOSERS OF SENATE BILL 383:

Ward Shanahan, Chevron
John Augustine, Conoco-Dupont
Stuart Doggett, Montana Chamber of Commerce
Senator Larry Tveit
Don Lee, Montana Oil and Gas Association
Janelle Fallan, Independent Petroleum Association of Mountain States
Conrad Burns, Yellowstone County Commissioner

All stated their support of SB 383.

OPPOSERS OF SENATE BILL 383:

Hershel Robbins, Montana Association of Oil, Gas & Coal Counties, Inc., stated the one year moratorium and loss of funding proposed by SB 383, would contribute to unresolved problems for counties, which cannot absorb further loss of revenue. He questioned how abandoned or plugged wells, oil price escalation, and revenue loss would be addressed by the moratorium.

Gordon Morris, Montana Association of Counties (MACO), stated his association doesn't disagree with the incentives, but is concerned about the impact such a moratorium would have on counties. He said SB 377 provides for an incentive

HOUSE TAXATION COMMITTEE
APRIL 3, 1987
PAGE 5

of \$3.25 million dollars, which has more merit than SB 383. Mr. Morris asked what the industry was doing in support of a sales tax.

CLOSING ON SENATE BILL 383:

Senator Gage said the bill was designed to create jobs and asked that the exemption remain at 12 months, instead of being amended back to 24 months.

ADJOURNMENT: There being no further business before the Committee, the meeting was adjourned at 10:25 a.m.


Jack Ramirez, Chairman

jr/gmc/4

DAILY ROLL CALL
 HOUSE TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 7/15/87

NAME	PRESENT	ABSENT	EXCUSED
REP. RAMIREZ	1		
REP. ASAY	1		
REP. ELLISON	1		
REP. GILBERT			1
REP. HANSON	1		
REP. HARP	1		
REP. HARRINGTON	1		
REP. HOFFMAN	1		
REP. KEENAN	1		
REP. KOEHNKE	1		
REP. PATTERSON	1		
REP. RANEY	1		
REP. REAM	1		
REP. SANDS	1		
REP. SCHYE	1		
REP. WILLIAMS	1		

STANDING COMMITTEE REPORT

APRIL 3

19 87

Mr. Speaker: We, the committee on HOUSE TAXATION

report SENATE BILL NO. ~~334~~ 335

- do pass
- do not pass

- be concurred in
- be not concurred in

- as amended
- statement of intent attached

Representative Jack Ramirez, Chairman

22

THIRD

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4387
SB 390

MONTANA
ASSOCIATION
OF REALTORS®

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HELENA, MONTANA 59601
TELEPHONE: (406) 443-4032
IN MONTANA CALL TOLL FREE
1-800-421-1864

Position Paper

SB 390

Background In the 1985 Session of the Montana Legislature, HB 431 imposed \$1,500 gross income criteria on real property agricultural classification which resulted in an unconscionable increase in taxes on properties which are commonly called Suburban Tracts. Suburban Tracts are properties divided for future sales as residential sites. These properties, while they do not generate the required \$1,500 gross income from agriculture are not being used as residential property (Class 4) inasmuch as they are unimproved.

In the June 1986, Special Session of the Legislature, SB 20 was passed to allow the agricultural classification of tracts larger than 20 acres which did not meet the \$1,500 gross income criteria. This bill created a basic tax inequity which SB 390 attempts to address. That inequity exists when two parcels side by side, having the same use and value, are taxed at different rates because one is a 19 acre parcel and one is a 20 acre parcel.

Unfortunately, SB 390 creates the same inequity based on the "time of transfer" of the property. Under the provisions of SB 390 two parcels of land, side by side, having the same use and value, will be taxed inequitably at different rates based on the date the property was sold.

Additionally, SB 390 creates a different valuation for those properties in that they are valued at the sale price rather than by using comparable sales. Distressed sales will result in an artificially low value being assessed.

The MONTANA ASSOCIATION OF REALTORS® recommends that the improvements and one acre be classed and taxed as Class 4 property and the remainder of the parcel be classified and taxed as agricultural property. In that way, the suburban property owner is shouldering his fair share of the tax burden. There are no artificial values created which result in inequitable taxation and there are no size categories which also result in an unequal tax burden. In our opinion, the legislature should vigorously resist any valuation and/or classification procedures which create unequal taxation of real property.

SB 390 as written discourages the transfer and subsequent future development of land since there are significant adverse tax consequences to a potential purchaser. Not every transfer of ownership of a parcel contemplates the immediate development of that property. In those cases, the use does not change but the rate of tax does. The property may indeed remain open space even though it no longer can be classed as agricultural land. A property owner who may wish to transfer property through gift to family members will be unable to do so without significant tax consequences.

We urge this committee to adopt amendments which will help insure equal taxation. SB 390 in its current form should not become part of Montana law.

43-71
SB-10

Suggested Amendments to

SB 390

- Page 1, Line 17 After the word "land" insert the words "or class nineteen property"
- Page 1, Line 18 - 20 Restore the stricken language and strike new language
- Pages 1 and 2 Strike subsections (a), (b), and (c) in their entirety
- Page 3, Line 11 After the word "for" insert the word "all"
- Page 4, Line 21 Restore the numbers "15-6-149" and delete the numbers "15-6-148"
- Page 5, Line 12 Restore the numbers "15-6-149" and delete the numbers "15-6-148"
- Page 6, Line 19 Delete the words "Sections 15-6-149" and insert the word "Section"
- Page 6, between Lines 18 and 19 Insert Section 3 as follows:

Section 3: Section 15-6-149, MCA, is amended to read:

15-6-149 Class nineteen property - description - taxable percentage (1) class nineteen property includes parcels of nonproductive real property containing less than 20 acres that are ~~precluded-from-being~~ not developed for residential, commercial or industrial purposes ~~because-of-subdivision-or-zoning-laws,-regulations-or-ordinances-or-that-are-precluded-from-being-so~~ developed and includes land in excess of that described in Subsection 2 of this section.

(2) Improvements to and land not to exceed one acre of class nineteen property are taxed as class four property

(3) Class nineteen property is taxed at 2% of its market value

BALCRON OIL COMPANY

BILLINGS, MONTANA 59104

W. W. BALLARD

W. R. CRONBLE

March 31, 1987

House Taxation Committee

Geologically speaking, Montana is a tremendous area in which to explore for oil and gas. In the 70 year history of the industry in this state, we have produced 1.2 billion barrels of oil and about 2.2 trillion cubic feet of gas, and this production came from exploration efforts in about 2% of our potentially productive area. Although we have experienced periods of increased activity, Montana has never gone through a true "oil boom" as have other areas with similar potential. Our lack of development is principally due to our taxation policies relative to those of other states and provinces. North Dakota and Wyoming as well as the rest of the producing states in the west, and the province of Alberta, have passed tax incentives during 1987 which are aimed at increasing exploration activity in their area. Unless we do likewise, the Montana independent will again be faced with attempting to bring exploration money into the State under very adverse circumstances.

Montana Oil and Gas Commission statistics show that we have lost 280,346 barrels of oil per month during 1986 as compared to 1985. This loss is due to normal decline and very low drilling activity (see charts). In addition, this year has seen the abandonment of 379 stripper wells for economic reasons. This will be a significant loss to the State in future tax revenue.

Senate Bill 383 will not affect revenue from existing wells. It will, however, cause new wells to be drilled which will provide net proceeds revenue for most of their productive life. This is a positive fiscal impact! New drilling creates new production, new jobs, (see table) and therefore new revenue to the State. All Montanans will benefit by passage of this bill.

W. W. Ballard

W. W. Ballard

BALCRON OIL COMPANY

BILLINGS, MONTANA 59104

W W BALLARD

W R CRONBLE

JOBS CREATED BY ONE NEW DRILLING OPERATION

Drilling Phase

Surveyor and rod man	2
Cat operator	1
Drilling crew	13
Water haulers	2
Geologist	1
Petroleum engineer	1
Mud engineer	1
Loggers	3
Cementers	2
Testers	1
	<hr/>
Total	27

Completion Phase

Pipe salesman	1
Roustabout crew	4
Petroleum engineer	1
Cementers	2
Completion crew	3
Acid crew	1
Frac crew	10
	<hr/>
Total	22

Producing Operations

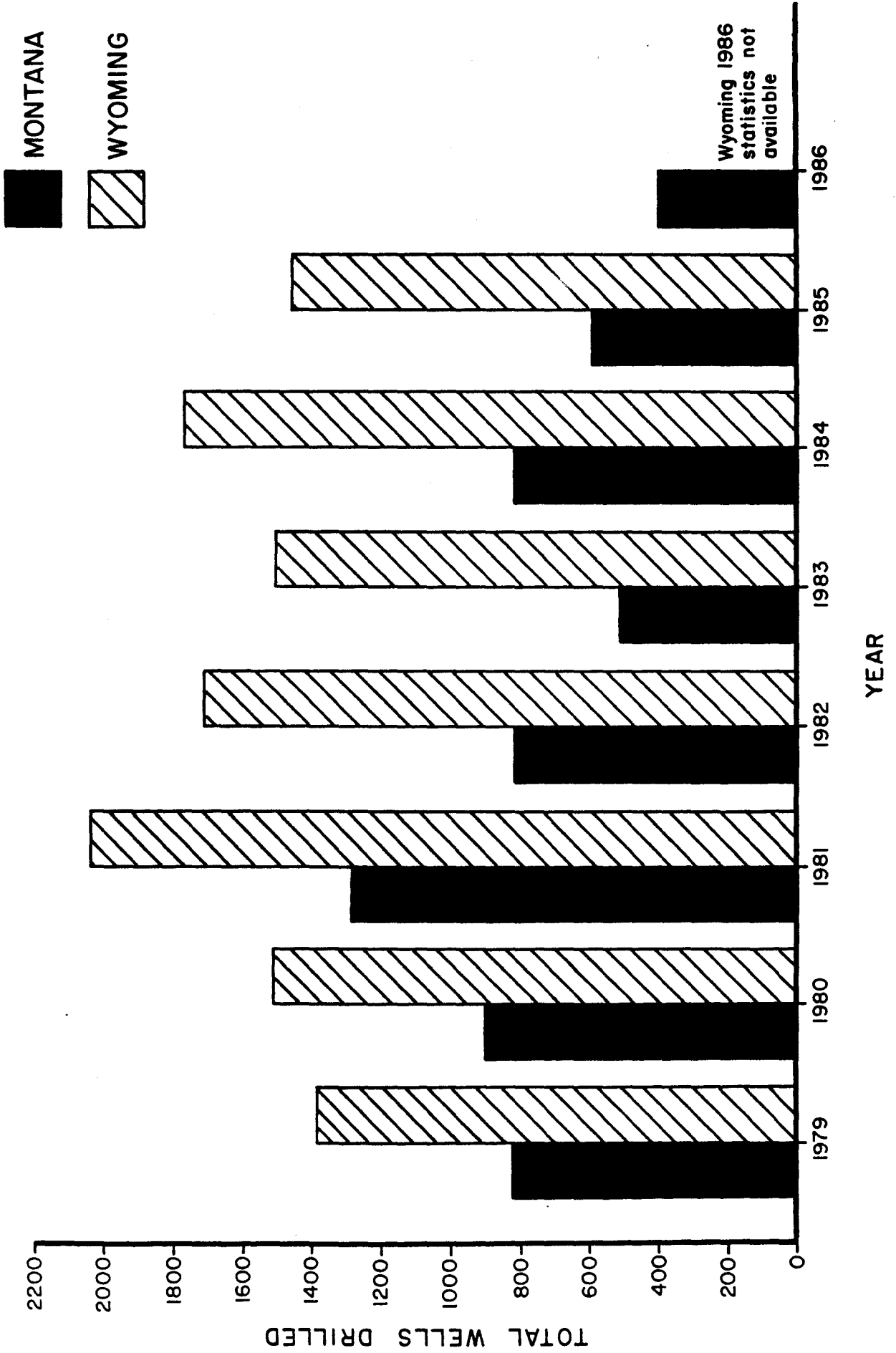
Pumper	1
Workover crew	3
	<hr/>
Total	4

Total New Jobs 53

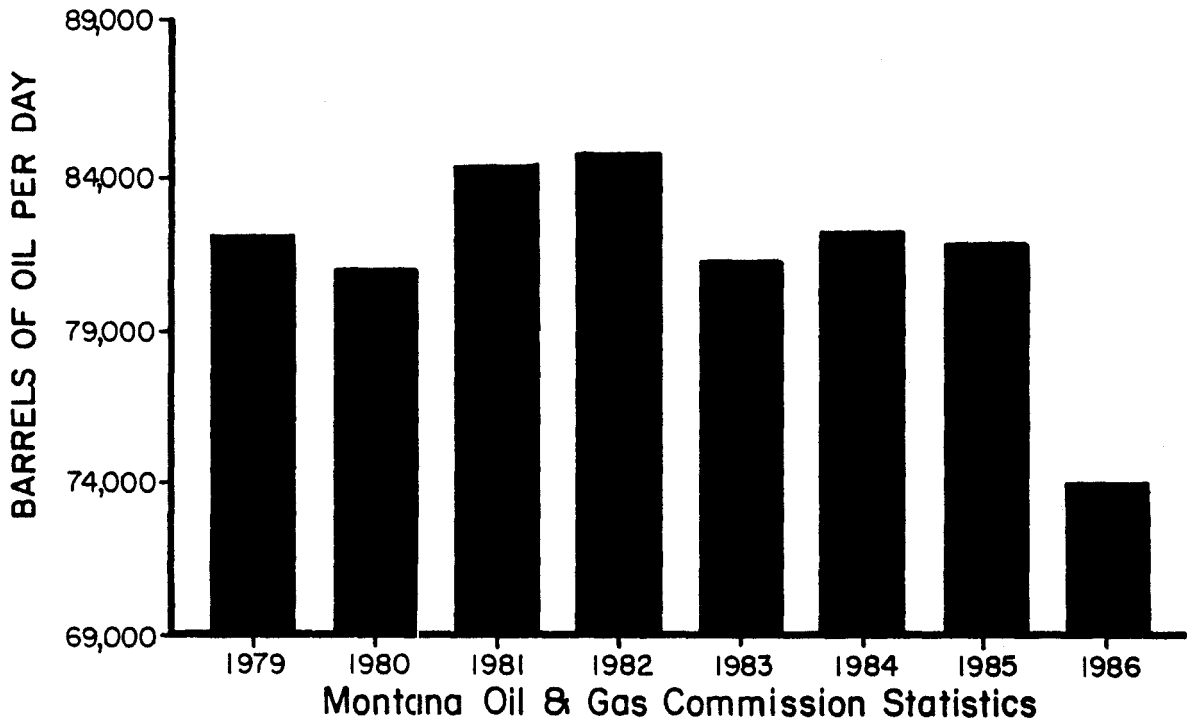
(Above list does not include landmen, geologists, seismic crews, geophysicists, accountants, secretaries, etc. that are involved with developing the prospects and doing the necessary paper work after completion.)

MONTANA and WYOMING

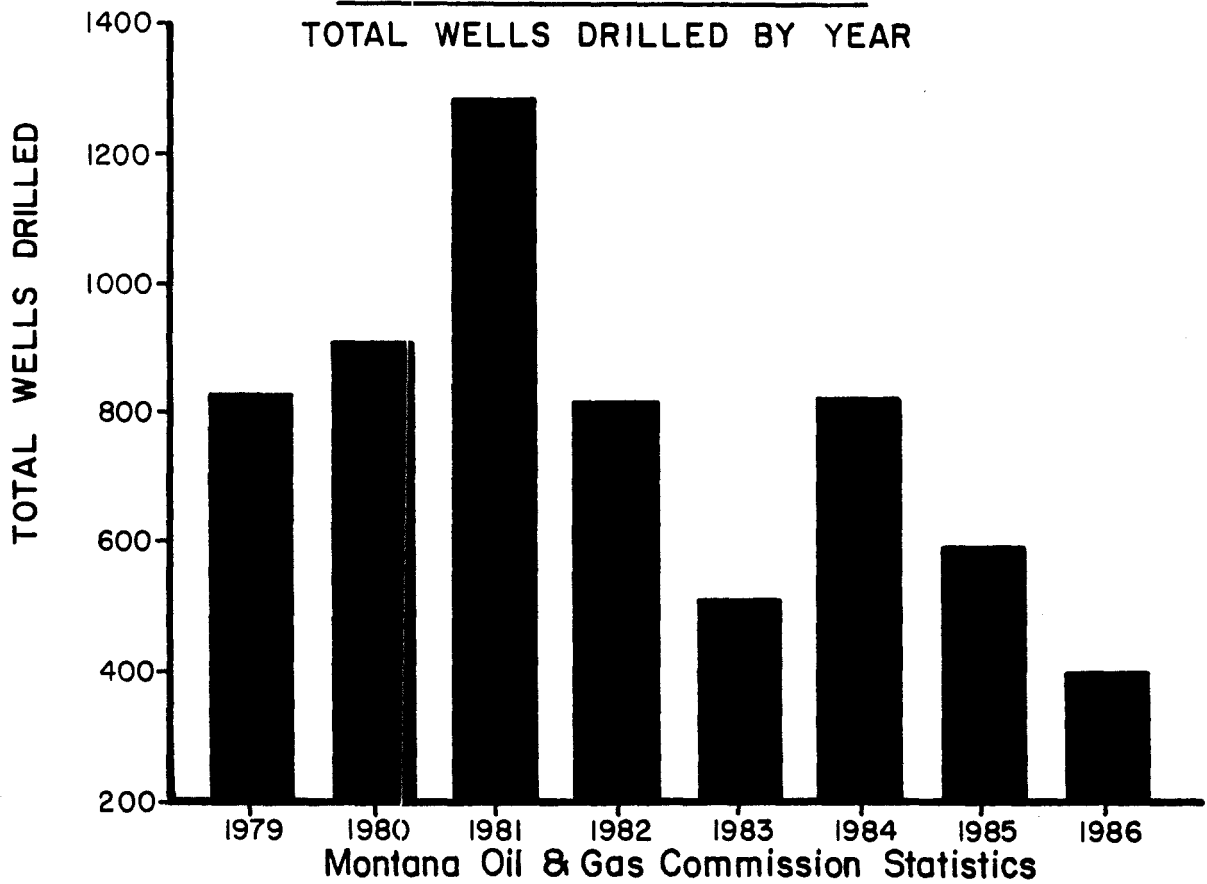
TOTAL WELLS DRILLED BY YEAR



STATE OF MONTANA
AVERAGE DAILY PRODUCTION BY YEAR



STATE OF MONTANA
TOTAL WELLS DRILLED BY YEAR



VISITORS' REGISTER

House Taxation COMMITTEE

BILL NO. HJR 56

DATE April 15, 1937

SPONSOR Gilbert

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Janelle Fallow	Helena	X	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

House Taxation COMMITTEE

BILL NO. SB 383

DATE April 3, 1987

SPONSOR Gage

NAME (please print)	RESIDENCE	SUPPORT	OPPOSE
Oil & Gas Counties Roundup, MT.			<input checked="" type="checkbox"/>
WARD SHONAHAN	CHEURON	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Gordon Morris	MHC		
Stuart Doyell	mt. Chamber of Commerce	<input checked="" type="checkbox"/>	
Harold Ude	CEVIX	<input checked="" type="checkbox"/>	
W.W. Ballard	Balclutha	<input checked="" type="checkbox"/>	
Jim Binner	North America Resources	<input checked="" type="checkbox"/>	
Paul Morrison	Keystone Natural Gas	<input checked="" type="checkbox"/>	
Dick R. Lee	Montana Oil & Gas Assoc.	<input checked="" type="checkbox"/>	
Rene Abelin	Montana Oil & Gas Assoc.	<input checked="" type="checkbox"/>	
Leslie Fulwood	Gas Drilling Fluids	<input checked="" type="checkbox"/>	
Brian D. Hattel	Western Natural Gas	<input checked="" type="checkbox"/>	
John Augustine	Conoco-DePue	<input checked="" type="checkbox"/>	
W.M. Hughes Jr	INDIAN PET ASSOC. NEW STER	<input checked="" type="checkbox"/>	
Janette Fallon	Mt Petroleum	<input checked="" type="checkbox"/>	

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